



BUSINESS OPINION SURVEY

Balkan Barometer 2018



This project is funded
by the European Union



Regional Cooperation Council

SEE2020
SOUTH EAST EUROPE 2020



ISSN 2490-2586, Year IV, Number 4.



Good. Better. Regional.

Publisher: Regional Cooperation Council
Trg Bosne i Hercegovine 1/V, 71000 Sarajevo
Bosnia and Herzegovina
Tel: +387 33 561 700; Fax: +387 33 561 701
E-mail: rcc@rcc.int
Website: www.rcc.int

Authors: Group of authors - GfK
Editor: Maja Pinjo Talevska (RCC)
Consulting editor: Vladimir Gligorov, PhD (WIIW)
Layout: Stefan Gajić Design
Print: Printline, Sarajevo, Bosnia and Herzegovina
ISSN: 2490-2586
Circulation: 100

This document is prepared and developed in cooperation between Regional Cooperation Council and the GfK
This survey has been funded by the Regional Cooperation Council.
The responsibility for the content, the views, interpretations and conditions expressed herein rests solely with the authors and can in no way be taken to reflect the views of the GfK, the views of the RCC or of its participants, partners, donors or of the European Union.

©RCC2018 All rights reserved. The content of this publication may be used for non-commercial purposes, with the appropriate credit attributed to the RCC.

SEE 2020 SERIES

Balkan Barometer 2018

Business Opinion Survey

Analytical report

Group of authors - GfK

©RCC2018 All rights reserved. The content of this publication may be used for non-commercial purposes, with the appropriate credit attributed to the RCC.

Regional Cooperation Council Secretariat (RCC)
Sarajevo, 2018

Content

Foreword	19
Introduction	21
Main Findings	23
Regional Overview	27
Balkan Business Sentiment Index.....	30
Perceptions of the General Environment and Economic Trends	34
Business Trends in SEE	40
Business Environment in SEE	45
Legal and Regulatory Framework	61
Accessibility of Loans.....	83
Corruption	86
Trade and Investment	100
Innovation and Technology	124
Skills Needs	140
Employment Practices	142
Investments in Employees	154
Focus on Large Companies	160
Focus on Exporters	172
Appendix	184
Conclusions and Recommendations	186
Notes on Methodology	187
Sample Structure	189

LIST OF FIGURES

Figure 1: Growth of GDP and growth of gross minimum wage (2010-2016 average) 27

Figure 2: Growth of monthly gross wages and gross minimum wage (2010-2016 average).....28

Figure 3: Growth of Unit Labour Cost and gross minimum wage (2010-2016 average)28

Figure 4: Balkan Business Sentiment Index 31

Figure 5: Balkan Business Sentiment Index - comparison 2014/2015/2016/2017..... 32

Figure 6: How has the general economic situation in your place of living changed over the past 12 months? Has it deteriorated, remained unchanged or improved?34

Figure 7: How do you expect the general economic situation in your place of living to develop over the next 12 months? Will it mostly deteriorate, remain unchanged or improve?.....35

Figure 8: How do you expect the number of people employed in your company to change over the next 12 months? Will it decrease, remain unchanged or increase?.....36

Figure 9: Do you believe that your economy is a good place to invest?..... 37

Figure 10: How has your business situation developed over the past 12 months? Has it deteriorated, remained unchanged or improved? 37

Figure 11: How important is the quality of regional cooperation in the SEE to your business?.....38

Figure 12: Do you think EU membership would be/is a good thing, a bad thing, or neither good nor bad for your company?.....39

Figure 13: How has demand for your company's products/services changed over the past 12 months? Has it deteriorated, remained unchanged or improved?40

Figure 14: 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?..... 41

Figure 15: How has your company's total employment changed over the past 12 months? Has it decreased, remained mostly unchanged or increased?42

Figure 16: Could you please tell me what percentage (%) of your

company's total investment in 2017 went to each of the following?43

Figure 17: How have your labour and other costs (e.g. energy, etc.) changed over the past 12 months? Have they decreased, remained mostly unchanged or increased?.....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?45

Figure 19: Can you tell how problematic are these different factors for the operation and growth of your business? Can you please rate each?46

Figure 20: How do you perceive the following factors related to transparency and predictability of government conduct, based on your experience or of other investors that you have heard of? (NEW QUESTION)48

Figure 21: How do you perceive the following factors related to transparency and predictability of government conduct, based on your experience or of other investors that you have heard of? (NEW QUESTION)48

Figure 22: In the process of obtaining licenses for your business, how much of an obstacle were the following factors? (NEW QUESTION)50

Figure 23: In the process of obtaining licenses for your business, how much of an obstacle were the following factors? (NEW QUESTION) 51

Figure 24: How have the following characteristics of the business environment in your economy changed over the last 12 months? (NEW QUESTION)53

Figure 25: How have the following characteristics of the business environment in your economy changed over the last 12 months? (NEW QUESTION)55

Figure 26: 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?58

Figure 27: For your business purposes, how would you rate the combination of availability, quality and affordability of electricity, gas and water supply in your economy?..... 59

Figure 28: In your opinion, which infrastructure upgrades would have the highest positive impact on your business?.....59

Figure 29: Would the removal of mobile phone roaming charges when travelling to SEE have a positive impact on your business?.....60

Figure 30: How much do you feel the Government takes into account the concerns of businesses?61

Figure 31: What percentage of total annual sales would you estimate a typical company in your line of business reports for tax purposes?62

Figure 32: What percentage of the actual wage bill would you estimate a typical company in your area of business reports for tax purposes?63

Figure 33: 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?.....64

Figure 34: 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?.....64

Figure 35: 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?65

Figure 36: To what extent do you agree with the following statement Requests for information held by a government agency are granted in a timely manner?66

Figure 37: To what extent do you agree with the following statement - The information provided is pertinent and complete?.....66

Figure 38: To what extent do you agree with the following statement - Requests for information held by a government agency are granted at a reasonable cost?67

Figure 39: In the past three years, has your company decided not to take part in a public tender or a public procurement procedure?68

Figure 40: Was it for any of the following reasons?68

Figure 41: What is the share of the public procurement market in your company’s last year overall turnover? (NEW QUESTION)69

Figure 42: Have you been contacted for any reason by some public procuring entities over the previous 3 years? (NEW QUESTION).....70

Figure 43: Over the past three years, how often have public procuring entities been in contact to consult you on the following? (NEW QUESTION)70

Figure 44: Over the past three years, how often have public procuring

entities been in contact to consult you on the following? (NEW QUESTION)71

Figure 45: Have you used guidelines or manuals produced by the national procurement authority in the past three years? (NEW QUESTION).....73

Figure 46: In general, how useful were the guidelines and manuals you used for solving your practical problems? (NEW QUESTION)73

Figure 47: When participating in public procurements, have you used the standard forms or models provided by the national procurement authority in the past three years? (NEW QUESTION)74

Figure 48: How would you rate the usefulness of the standard forms or models? (NEW QUESTION)75

Figure 49: Have you or somebody else from your company attended any training on public procurement in the past three years? (NEW QUESTION).....75

Figure 50: How would you rate the usefulness of the training in general? (NEW QUESTION).....76

Figure 51: Have you contacted the national procurement authority for advice or other support in the past three years? (NEW QUESTION)76

Figure 52: Were the answers provided generally helpful? (NEW QUESTION)77

Figure 53: Could you please tell me how satisfied you are with each of the following in your place of living - Public services for businesses?.....78

Figure 54: Could you please tell me how satisfied you are with each of the following in your place of living - Digital services currently provided by the public administration for businesses?78

Figure 55: To what extent are you satisfied with how the government consults and involves the private sector when developing new laws and regulations relevant for doing business?.....79

Figure 56: Which regulations do you consider to be an obstacle to the success of a business?.....80

Figure 57: Has your company had any cases in arbitration courts in the last 36 months?81

Figure 58: How many cases in civil or commercial arbitration courts have involved your company either as a plaintiff or as a defendant in the last 36 months?82

Figure 59: What proportion of your company's working capital and new fixed investment has been financed from each of the following sources, over the past 12 months?.....83

Figure 60: Has your company taken a loan from a bank in the past 12 months?.....85

Figure 61: How many days did it take to agree the loan with the bank from the date of application?85

Figure 62: You said that you company's loan application was rejected, what was the main reason for that?85

Figure 63: Thinking about officials, to what extent would you agree with the following statements?.....86

Figure 64: Thinking about officials, to what extent would you agree with the following statements?87

Figure 65: Thinking now of unofficial payments/gifts that companies like yours would make in a given year, could you please tell me how often they would make payments/gifts for the following purposes?.....88

Figure 66: Thinking now of unofficial payments/gifts that companies like yours would make in a given year, could you please tell me how often they would make payments/gifts for the following purposes? (Results by economies).....89

Figure 67: 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. (Results at the SEE level)94

Figure 68: 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. (Results by economies)94

Figure 69: In different societies, there are different views on the most effective ways to get action to stop serious wrongdoing. Which one of these do you think is the most effective way in your society?98

Figure 70: Has your company invested abroad, or plans to do so in the next 12 months? (NEW QUESTION) 100

Figure 71: Where did you invest or plan to do so? (NEW QUESTION) 101

Figure 72: Which of the following reasons best describes your

company's motivation to invest abroad? Please rank your answers with 1 being most important and 5 being least important. (NEW QUESTION)..... 102

Figure 73: Which of the following reasons best describes your company's motivation to invest abroad? (Results by economies) (NEW QUESTION)..... 102

Figure 74: In the process of choosing where to invest abroad, how important were the following factors? (Results by economies) (NEW QUESTION)..... 104

Figure 75: In the process of choosing where to invest abroad, how important were the following factors? (NEW QUESTION)..... 105

Figure 76: What percentage of your company's sales are made domestically, exported to the SEE region, to the EU or to the third countries? 109

Figure 77: Why doesn't your company export?..... 110

Figure 78: What percentage of your company's inputs and supplies are...? 111

Figure 79: What percentage of your domestic sales are made to...?..... 112

Figure 80: If you have imported goods in the past 12 months, what is the average number of days to clear imports through customs? 113

Figure 81: If you have exported goods in the past 12 months, what is the average number of days to clear exports through customs?..... 114

Figure 82: If your company exports to the SEE region, what are the main obstacles to your exports? 115

Figure 83: To what extent do you agree that your company is threatened by global competition?..... 116

Figure 84: To what extent do you agree that your company is threatened by competition from the SEE region?..... 117

Figure 85: 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 SEE?..... 117

Figure 86: 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 EU countries?..... 118

Figure 87: To what extent do you think that you are informed about the regional free trade agreement (CEFTA 2006)?..... 119

Figure 88: To what extent do you agree with the statement - My company has benefited from the regional free trade agreement (CEFTA 2006)?..... 120

Figure 89: If your company is an exporter, can you tell us whether it is easier to export to the CEFTA region, or to the EU? 120

Figure 90: In your opinion, when procuring products and services, should the governments in the region give priority to local suppliers, or should they be treated the same as all other suppliers (provided price and quality is equal)? 121

Figure 91: According to your opinion, which market in the SEE region is the most open one? Please give us your opinion no matter whether you/your company had direct experience with it..... 122

Figure 92: Does your company use the Internet for...?..... 124

Figure 93: What percentage of your total sales is currently generated through online sales? (NEW QUESTION) 125

Figure 94: In the last six months, have you experienced any of the following Internet security problems? (NEW QUESTION) 126

Figure 95: Are you satisfied with your Internet connection? (NEW QUESTION) 126

Figure 96: Which feature is the most important aspect for you regarding your internet access? (NEW QUESTION) 127

Figure 97: In the past 3 years, did you cooperate with any of the universities on research and development (R&D) or technology development projects to help develop new products or services?..... 128

Figure 98: Have you introduced new or significantly improved products and/or services in the last 3 years (2015-17)? (NEW QUESTION)..... 129

Figure 99: Who developed these product innovations? (NEW QUESTION)..... 130

Figure 100: Were any of your product innovations (goods or services)...? (NEW QUESTION)..... 131

Figure 101: To the best of your knowledge, were any of your product innovations during the three years 2015 to 2017...? (NEW QUESTION)..... 132

Figure 102: Have you introduced new or significantly improved production and/or service delivery processes in the last three years (2015-17)? (NEW QUESTION) 133

Figure 103: Who developed these process innovations? (NEW QUESTION)..... 134

Figure 104: Were any of your process innovations introduced during the three years 2015 to 2017 new to your market? (NEW QUESTION)..... 135

Figure 105: During the past three years (2015 to 2017), did your enterprise receive any public and/or donor's financial support for innovation activities from the following levels of government? Include financial support via tax credits or deductions, grants, subsidized loans, and loan guarantees. Exclude R&D and other innovation activities conducted entirely for the public sector under contract. (NEW QUESTION) 135

Figure 106: What percentage of the workforce at your company has the following education levels?..... 138

Figure 107: Would you agree that the skills taught in the education system of your economy meet the needs of your company?..... 139

Figure 108: How likely would you hire young person whose educational profile completely meets the needs of your business, but without work experience?..... 139

Figure 109: Did you have vacancies over the past 12 months that have proved hard to fill?..... 140

Figure 110: Why do you think this is the case?..... 140

Figure 111: How often do you use the following when hiring new employees? Please mark each of the following methods with 1 often, 2 sometimes or 3 never. (Results at the SEE level)..... 142

Figure 112: How often do you use the following when hiring new employees? Please mark each of the following methods with 1 often, 2 sometimes or 3 never. (Results by economies)..... 143

Figure 113: 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? 145

Figure 114: Out of the total number, how many of your employees are men and how many women? 146

Figure 115: How likely would you hire a Roma person whose educational profile and experience completely meet the needs of your business? 147

Figure 116: In your opinion, do companies like yours have a gender preference in terms of hiring? (NEW QUESTION)..... 148

Figure 117: Do you have somebody from the below mentioned vulnerable groups working in your company? 148

Figure 118: How likely would you employ workers from abroad in your company? 149

Figure 119: How likely would you employ workers from the SEE region in your company?..... 150

Figure 120: You said that you would employ workers from the SEE region in your company, from which economy/economies exactly? 151

Figure 121: Do you think that employing Roma persons would affect company sales or the working environment in a positive or a negative way? (NEW QUESTION) 151

Figure 122: Over the past 12 months, has your business funded or arranged any training and development for staff in the organization, including any informal on-the-job training, except training required by the law? 152

Figure 123: Thinking about skills requirements in your company, does your company regularly review the skill and training needs of individual employees?..... 155

Figure 124: How would you assess the readiness of employees in your company to acquire additional qualifications in order to advance and get promoted?..... 155

Figure 125: In your opinion, what are the most effective ways to increase the number of women in the labour market? 156

Figure 126: In your opinion, what is the main reason why people prefer to work in the public sector? 157

Figure 127: Why does someone rather choose to work in the private sector? 158

Figure 128: Have you heard of the Regional Cooperation Council? (NEW QUESTION)..... 158

Figure 129: Is the shareholder equity of your company foreign to some extent?..... 184

Figure 130: Can you please tell me where the capital comes from

(country of origin)? 184

Figure 131: Sample structure by respondent's position 189

Figure 132: Sample structure by largest shareholder 189

Figure 133: Sample structure by number of employees 189

Figure 134: Sample structure by business area 190

Figure 135: Sample structure by ownership 190

LIST OF TABLES

Table 1: Obstacles for business operation and growth (for each economy).....46

Table 2: Regulations considered to be an obstacle to the success of the business (for each economy).....80

Table 3: Obstacles for exporting to the SEE region (for each economy) 115

Foreword



Welcome to the fourth installment of the Balkan Barometer, a comprehensive survey of perceptions and expectations across the South-East Europe region¹. The survey results make up a critical part of the monitoring framework for the SEE 2020 Strategy, a bold and ambitious statement of intent by the region's economies committed to improving the quality of life for their citizens.

As we had hoped, the Balkan Barometer has now very much outgrown the SEE 2020 process framework. Due to the wide range of issues surveyed, and the abundance of data available across all topics covered, the Barometer

has become a useful yardstick for regional developments used by policy makers, the media, civil society actors and the public at large.

As with most other installments of the survey, this year's Barometer is a collection of both good news and bad. Recovery continues with more economic growth but there are indications that the pace of economic development is likely to slow if structural reforms are not implemented across the SEE. Businesses largely restate their grievances with what they perceive to be a difficult operating environment, with cumbersome taxation and regulatory requirements. Some progress was made, nonetheless, in government performance across a number of indicators that should serve as a precursor for a more serious effort to reform how governments go about their business.

As has become custom, both businesses and the general public view their own situation much more favourably than that of their economy; whether the optimism, or indeed pessimism, are unwarranted or excessive remains notoriously difficult to ascertain.

Unemployment is once again the principle concern for the public at large but to a somewhat lesser extent, which is encouraging. There is broad consensus that public investment is needed in infrastructure, industrial development, agriculture and small and medium enterprise development. Anxieties over

¹ For the purposes of this report, South East Europe is used interchangeably with the term Western Balkans, and denotes Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, Serbia and The Former Yugoslav Republic of Macedonia. Croatia, originally part of the group of economies that developed the SEE 2020 framework has since joined the EU and no longer participates in the SEE 2020 monitoring process. In line with that, Balkan Barometer 2018 was not conducted in Croatia, and all existing comparisons at the regional level were made based on recalculated results not including those obtained in this economy over the previous three waves.

corruption linger but have been somewhat lessened, at least in relation to the region's business sector.

Confidence in democratic processes and institutions remains low and addressing it will require a concerted effort by governments - it is thus encouraging that some economies are making incremental but meaningful effort to engage, albeit primarily with the business sector. The regional economies' European integration ambitions received a small boost in support and popularity but realism about the pace of enlargement has increasingly started to set in.

As ever, the survey is helpful in shining a light on the many problems but also opportunities that abound in the region and its findings should help at the very least in initiating a serious discussion about what is that we want to be reading in this publication in 12 months' time.

The Balkan Barometer is a result of a substantial investment in time, effort and dedication by a number of committed professionals. I would like to acknowledge their contributions in hopes that you will find the report engaging, but above all, useful and informative.

Goran Svilanovic, PhD
Secretary General
Regional Cooperation Council

Introduction

This year's Balkan Barometer is the fourth instalment of the annual public opinion survey commissioned by the Regional Cooperation Council to gather and interpret data spanning a number of thematic areas and topics. The Barometer, as in previous years, examines both the region's perceptions of today, and its expectations for tomorrow, giving voice to the SEE's business community as well as its citizens at large.

As with previous editions, the 2018 Balkan Barometer features a number of new questions that have been added in response both to developments in the SEE, as well as global trends that are already making their way across the region. Since its first instalment in 2014, the Barometer has undergone numerous changes to stay relevant, with topical questions added and removed to further help interpret trends across the region and through time.

With its ever-evolving baseline, the Barometer continues to serve as an invaluable companion to the SEE 2020 Strategy, helping measure its impact as well as informing any changes that need to be made in implementation.

Bringing together the economies of the region under an umbrella of shared interests and ambitions, the SEE 2020 Strategy was adopted in 2013 by the Ministers of Economy of the seven participating economies (Albania, Bosnia and Herzegovina, Croatia², Kosovo*, Montenegro, Serbia and The Former Yugoslav Republic of Macedonia). The chief thrust behind the document has been the common desire by all partners to foster sustainable growth and promote employment while forging stronger social and

economic bonds both within the region and with the European Union as a whole.

The Strategy document is an all-inclusive toolbox of ambitious development policy objectives that are designed to make tangible and sustainable improvements to the quality of life in the region. As something of a mirror image of its European Union counterpart, the EU 2020 Strategy, the SEE 2020 pursues its goals via a series of inter-linked policy objectives:

- **Integrated growth: through the promotion of regional trade and investment policies and linkages that are non-discriminatory, transparent and predictable.**
- **Smart growth: by committing to innovate and compete on value added rather than labour costs.**
- **Sustainable growth: by raising the level of competitiveness in the private sector, enhancing connectivity through infrastructure development and encouraging greener and more energy efficient growth.**
- **Inclusive growth: by placing greater emphasis on developing skills, creating employment, inclusive participation in the labour market and health and wellbeing.**
- **Governance for growth: by enhancing the capacity of the public administration to strengthen the rule of law and reduce corruption, the creation of a business-friendly environment and delivery of public services necessary for economic development.**

Once again, the survey reinforces the need to redouble efforts across a number of different but interrelated fields. Confidence in public institutions has been shaken across much of the region while the relationship between

² Croatia has since left the SEE 2020 framework following its accession to the EU.

*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.

public and private sectors, while improving, requires a much more proactive engagement by the relevant governments in the region. Economic growth, such as it has been, is largely spurred on by market forces and seems to have reached its ceiling, unless the governments step up much needed structural reforms. Businesses continue to cite excessive regulation, economic instability and taxation as key barriers to further growth while repeatedly calling for more inclusion of corporate actors in policy making processes. Unfair competition has grown in prominence as a cause of business anxiety.

At the same time, the public overwhelmingly and repeatedly cites unemployment and a lagging economy as key concerns, setting out a very clear list of priorities for action by the region's policy makers.

Once again, there is growing support for more regional and European integration but lagging EU prospects in many of the region's economies have translated into more realistic, if bleaker, forecasts across all walks of life. Weaknesses in innovation, internationalisation, and entrepreneurship are a major source of concern across the SEE.

As every year, the results of the Balkan Barometer survey will be combined with statistical data collected by SEE governments and other sources in order to help assess the level of strategy implementation, and general progress made, across the region. The value added by the Balkan Barometer lies chiefly in the nature of its interaction with respondents that ultimately yields the data - while national statistics harvest official data, the Balkan Barometer allows for a conversation to take place with the people with most at stake.

Main Findings

As with the previous edition of the Business Barometer, both sentiment and expectations are on the rise, spurred on by continued economic growth experienced by all the region's economies, with the sole exception of the Former Yugoslav Republic of Macedonia. This, as in previous years, stands in stark contrast to the overwhelmingly negative sentiments expressed by the general public. Somewhat encouragingly, business expectations seem to be much more rooted in reality as they tend to be proven accurate to a much higher extent than those expressed by the general public, when examined historically. This indicates a level of foresight and market awareness by the business sector that bodes well for their future growth.

In terms of their relationship to the public sector, business actors are overwhelmingly more satisfied with services received when compared to the general public. While this indicates a stronger level of dialogue with the private sector by governments, their failure to engage more actively with the general public is disheartening.

There are notable, if incremental, improvements in the regulatory environment, both in terms of new legislation as well as system efficiency. It remains unclear, however, whether it is business performance driving reform or better regulation enabling growth. Judging by the modest pace of structural reform across the region over the past year, it is likely to be the former.

Financial markets remain healthy while the

labour market continues to struggle with skill shortages effected by a widening gap between what education providers are supplying on one hand, and what the region's economies are demanding on the other.

In terms of securing access to foreign markets, trade facilitation is a more pressing issue than trade policy (with the exception of Kosovo* for the latter). Borders remain somewhat rigid and difficult to cross, especially within the region. The tax systems are again the target of business dissatisfaction alongside minimum wage regulations. The latter is likely a management problem, as empirical data, reported in the regional overview, do not flag minimum wages as a barrier to competitiveness.

Innovation, internationalization, and entrepreneurship remain buzzwords with little institutional backing. Larger companies export to a greater extent than their smaller counterparts while innovation overwhelmingly takes the form of learning by doing, or through the introduction of superior equipment. Nonetheless, there has been some movement in product and process innovation. Meanwhile, regardless of their role in the economies, small companies attract little policy attention by the region's governments and have limited space to grow.

There is ample scope in improving the private sector's position to harness the benefits of digitalisation through targeted policy intervention and investment in digital infrastructure. The majority of firms report that the elimination of roaming charges was a beneficial

measure and a step in the right direction. The opportunities offered through the recently adopted Multi-Annual Plan for a Regional Economic Area (MAP REA) and its digital agenda⁴ should be seized by the region's policy makers, especially given that this is likely to receive EU support as well through one of the new EU's enlargement flagship initiatives.

In the section on public procurement, which warrants a separate and dedicated examination, there are some improvements although demand for information and/or support from the relevant public authorities in the application process is limited. The majority of surveyed companies do not participate in public procurements.

⁴ Digital agenda for the Western Balkans introduced by the EU's new Enlargement Strategy includes 5 years of action on: a roadmap to facilitate lowering roaming costs; support to the deployment of broadband; the development of eGovernment, eProcurement, eHealth and digital skills; capacity building in digital trust and security in parallel to efforts enhancing the digitalisation of industries; and enhanced support for the adoption and implementation of the acquis.

Regional Overview

The economic climate has continued to improve with a series of positive developments. The region's resilience to external financial and policy changes has markedly improved with the expectation that the improved business environment will persist over the medium term. Still, regulatory and policy changes are relatively slow in the coming, especially when it comes to enabling entrepreneurship and innovation.

Exports continue to drive business with the region opening up markedly over the last decade or so; nowhere is this more evident than in the case of Serbia where the share of exports in its GDP has doubled since 2009. This openness to trade has largely been characterized by a strong influence of the economies' comparative advantages. Industrial production and supporting service industries are the main drivers of expansion in continental economies that dominate the region while coastal areas are developing tourism; service exports are on the rise across the region.

Exports of both goods and services have increased markedly over the past few years; much of this growth has been driven by the region's liberalized access to major regional and global markets rather than any policy improvement (though not all the economies have joined the World Trade Organisation). At

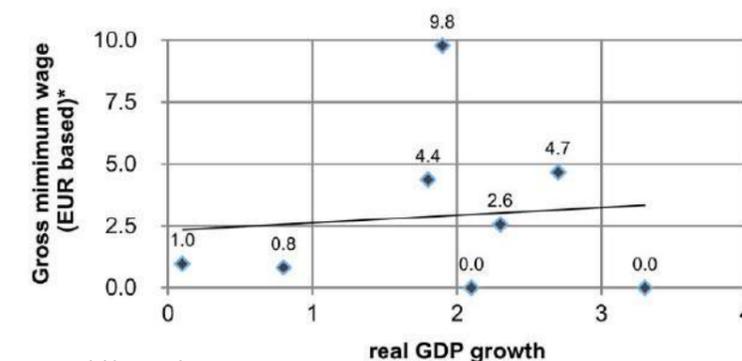
the same time, subdued domestic demand has pushed entrepreneurs to look for opportunities abroad. That has, in turn, led to some improvement in the supply of tradable goods and services, though this process is still in its nascent stage.

Sorely needed regulatory and other changes have yet to be introduced across most of the region's economies. Improvements in the financial markets, attributable to a declining presence of non-performing loans and low inflation have supported competitiveness. This has led to modest wage growth even in Serbia, where the past few years have seen a stagnation or even a decline in real wages.

There is some concern within the business community about the growth of wages, and minimum wages in particular. The following three tables correlate minimum wages with unit labour costs (a major indicator of competitiveness) and GDP growth rates. Neighbouring economies are added (data for Bosnia and Herzegovina is not always available) for better comparison.

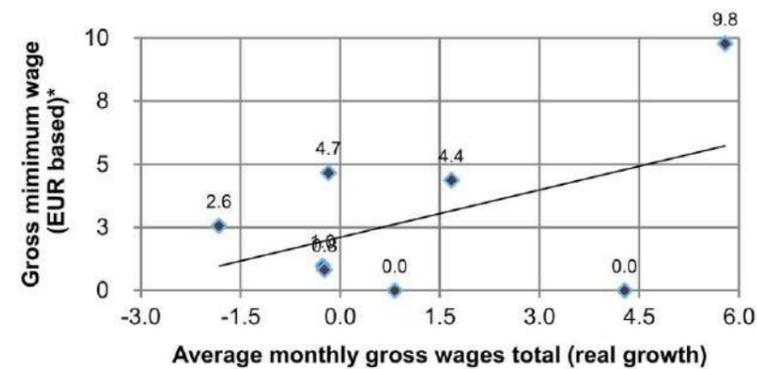
The level of wages, compared to the EU average is relatively low, while minimum wages are at around 40% of the average wage in all the economies in this sample. Figures 1-3 register the correlations. The sources are Eurostat and national statistics.

Figure 1: Growth of GDP and growth of gross minimum wage (2010-2016 average)



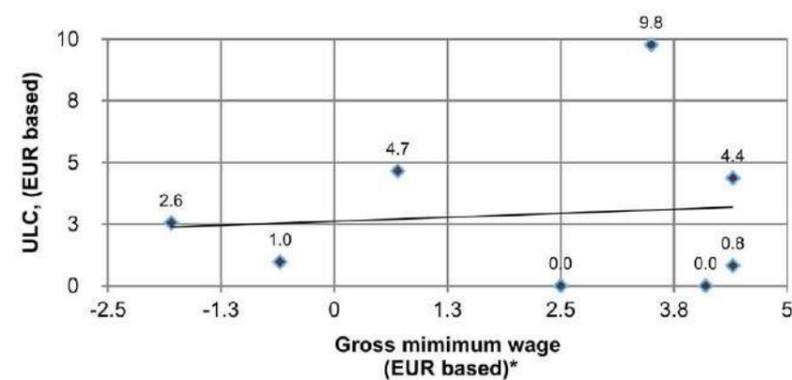
Note: Average over available period.

Figure 2: Growth of monthly gross wages and gross minimum wage (2010-2016 average)



Note: Average over available period.

Figure 3: Growth of Unit Labour Cost and gross minimum wage (2010-2016 average)



Note: Average over available period.

Overall, the level and growth of minimum wages, and of wages altogether, does not seem to have an adverse effect on competitiveness or growth. In select economies, such as Bulgaria and The Former Yugoslav Republic of Macedonia, an increase in wages appears to have been conducive to GDP growth. As this data indicates no adverse effect on competitiveness by minimum wage oscillations, the concern by the business community must

be rooted in reservations to do with wage regulation in general, rather than the size of average, or minimum, wages.

Monetary policy has largely been supportive in economies with room to adjust interest rates. Indeed, rates have been relatively low by historical standards. The region is quite euroized even where euro is not the official currency. Overall, the spreads over euro interest rates

have been as low as they have ever been. This has supported improvements in both private and public finances.

There are strong indications that the banking sector, the main investment vehicle outside of retained profits, has improved significantly even in economies that have experienced significant banking problems in the past. The issue for the sector at present is low demand for credit rather than lacking supply.

Entrepreneurship continues to be constrained and underdeveloped. Digitalization has brought about new opportunities in manufacturing and service provision in some parts of the region, but exploitation is still lagging. These are mostly small and medium sized firms that work for foreign partners. So far, however, these firms have shown limited propensity to grow and agglomerate and their prospects will depend on their ability to innovate and internationalise, not their most pronounced feature to date.

Furthermore, the relevant policy framework has been less than supportive but that has tended to be the case for all economic sectors. Compared to its more traditional industry and service counterparts, businesses in the digital economy overwhelmingly operate under smaller tax burdens. They tend not to depend on weather patterns, as do agriculture, energy and mining.

Overall, there is little in the way of coherent industrial policy in the region. Privatisation has mostly stalled, though the way it was implemented was hardly indicative of an industrial policy behind it while the institutional set up was grossly inadequate. As a result, privatisation remains highly unpopular across the region.

Some economies are trying to revitalise inherited industrial capacities, with limited

success; this continues to be the approach taken by Serbian authorities. In other cases, industrial development is pursued through foreign investment; prospective foreign partners, however, have proven reluctant to invest due to institutional and political deficiencies, as well as lingering uncertainty inherent in the regional market. Finally, spontaneous, entrepreneurial industrial development has proved slow and lacking in innovation, at least until recently. In general, small and medium size enterprises have shown limited ability to grow. With increased openness of the economies in the region, opportunities for entrepreneurship, innovation, and internationalisation have significantly improved. The key to future development will likely be found at the cross-section of smart industrial policies and an emerging entrepreneurial generation. This will require that the region remains open to the developed world for the foreseeable future.

All of this is contingent on the implementation of structural reforms, little of which are presently evident. Several economies have attempted to attract foreign investors with subsidies. That is inefficient industrial policy and one that can, at best, serve as a substitute for institutional development in the short term. If investment and entrepreneurship are to be enabled and sustained, institutional improvement and regulatory modernisation are called for. Ultimately, there is only so much that subsidies can achieve, if anything.

In summary, there is little evidence of industrial policy or structural reform in place to support entrepreneurship and innovation aimed at increasing supply to the EU and world markets. This remains the chief obstacle to development in the region and while spontaneous developments are visible they will likely face a host of institutional and policy obstacles to growth and agglomeration.

Balkan Business Sentiment Index

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

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

BBSI contains questions related to the 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.

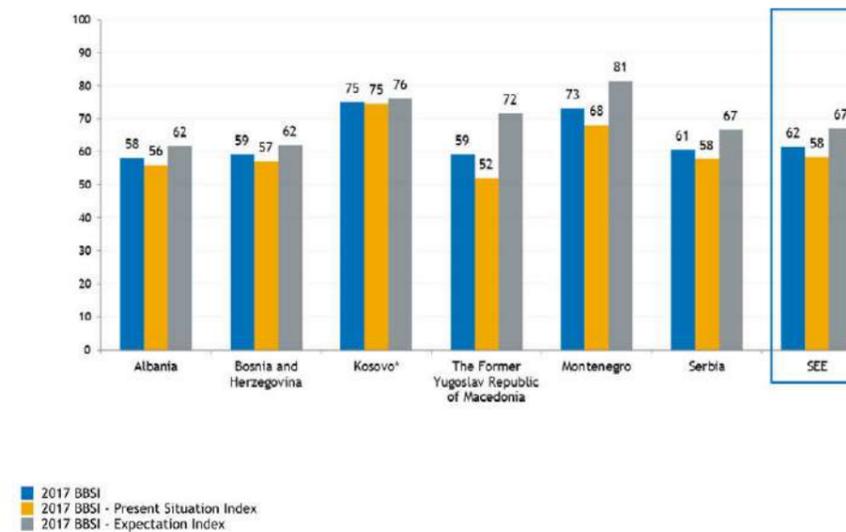
After responses are recoded, the average value is calculated for the whole SEE region as well as for each economy separately (see the Figure 4). The index values are expressed on a scale of 0 to 100.

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

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

Figure 4: Balkan Business Sentiment Index

(Scores are on a scale of 0 to 100)



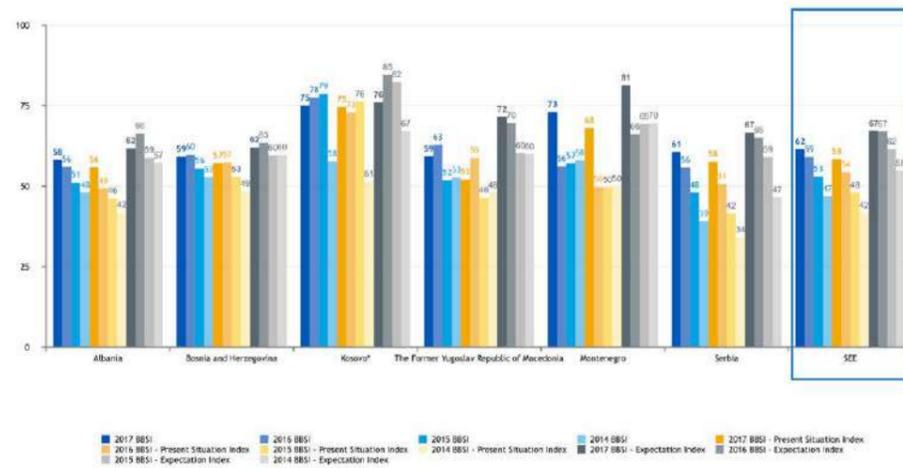
Business sentiment remains over 60 for the second year running, with estimations of both the current situation and the forecast for the future overwhelmingly positive. While expectations have been unchanged from the previous year (67), estimations of the present situation seem to bear out some of the optimism of the previous year (up to 58 from 54). Once more all of the region's economies score well above 50 on the BBSI with Kosovo* again leading the field with 75. Montenegro is now a close second in the overall index and a runaway leader in the optimism stakes, showcasing a newly found confidence in the future by the Montenegrin business community. An increase of 15 points (up from 66 in the year before) illustrates the positive outlook borne out by Montenegrin businesses across the survey. The Former Yugoslav Republic of Macedonia showcases the largest discrepancy between its estimation of the present situation (52) and its expectations for the future (72), with 20 points separating the two. Serbia is the flagbearer for the regional average across

all categories while Albania (58), Bosnia and Herzegovina (59) and the Former Yugoslav Republic of Macedonia (59) have the lowest combined scores out of the group. With the exception of Kosovo*, the overall positive sentiment is again driven by expectations rather than a glowing assessment of the present. As in the years before, the results of the BBSI stand in stark contrast to those of the BPSI (Balkan Public Sentiment Index), with businesses outscoring the public by some 20 index points.

With no major fluctuations evident in the BPSI over the past four years, there are lingering concerns as to whether the economic growth that has for some time now spurred positive sentiments in the business community will translate into tangible improvements in the quality of life for the region's citizenry. At the same time, historical evidence suggests that businesses tend to be more forward looking in their assessments while the public often dwells on the immediate past.

Figure 5: Balkan Business Sentiment Index - comparison 2014/2015/2016/2017

(Scores are on a scale of 0 to 100)



The figure above compares the results of the four survey instalments, administered for 2014, 2015, 2016 and 2017.

The overall improvement in business sentiment over the period surveyed can largely be attributed to developments in Montenegro where political and economic factors have converged to help offset some of the slightly more negative trends across the region. 2017 saw a period of sustained political stabilization in Montenegro with NATO accession a highlight. The country's regional standing has also been unburdened for most part by the type of neighbourly squabbles that tend to characterize relations in the remainder of the region. At the same time, the past year also saw significant GDP growth, an excellent tourist season and substantial progress in the construction of a new highway.

While some progress is notable with regards to the BBSI in Albania (58 in 2017 vs. 56 in 2016), Serbia is the only other economy with statistically noteworthy growth (61 in 2017 from 56 in 2016). The rest of the region saw

minor deterioration in their BBSI scores compared to last year: Bosnia and Herzegovina is down to 59 in 2017 from 60 in 2016; Kosovo* is down to 75 in 2017 from 78 in 2016; and The Former Yugoslav of Macedonia is down to 59 in 2017 from 63 in 2016.

Interestingly, businesses from Kosovo* seem to have realized that much of their earlier enthusiasm for the future was unwarranted with the expectation index for the economy declining sharply from 85 in 2017 to 76 in 2017. Looking at the survey period, Serbia is the only regional economy that has demonstrated continuous improvements in both attitudes and perceptions.

Perceptions of the General Business Environment and Economic Trends

Objective improvements in economic performance are clearly having a positive influence on business community sentiment and its expectations. Unlike public opinion, business perceptions are much more forward looking while the public tends to dwell more on past experiences. What is notable, however, is that the gap between the sentiment for the present and expectations for the future is closing which means that future improvements will be harder to come by. This will likely ramp up pressure on policy makers to pursue structural reforms, as hinted at by the results of this survey, rather than just getting out of the business' way, a recurring demand in the previous instalments of the survey.

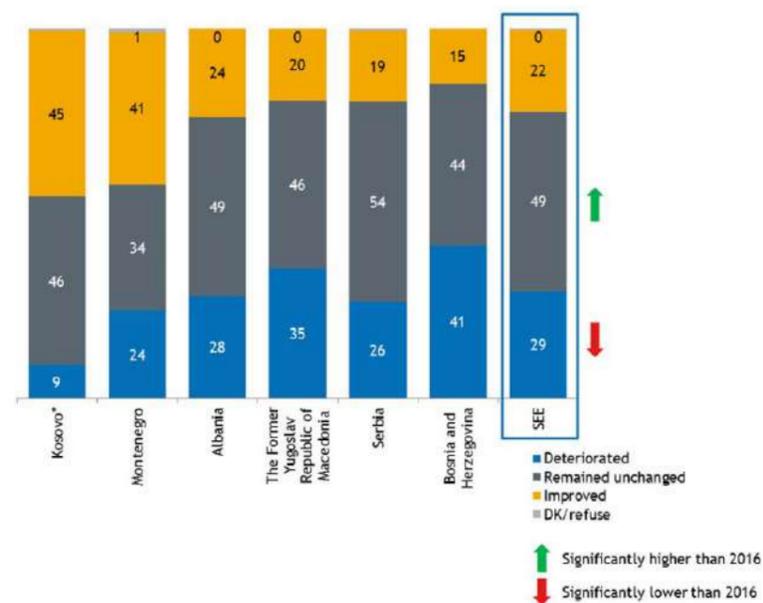
As is common, improved business performance in turn increases demand for employment.

Assuming positive trends continue, and with some policy adjustments, the region should see a continued increase in employment in the short to medium term.

Regional cooperation and EU integration are supported by a higher proportion of business people compared to the public. Though, given the significant increase in reliance on EU markets over the past few years, the level of support is still lower than expected. This is in part due to factors discussed in the latter parts of the survey, such as the concentration of export activity in larger companies, and the existence of a virtual dual economy where exporting businesses are practically detached from those businesses that rely exclusively or almost exclusively, on the domestic market.

Figure 6: How has the general economic situation in your place of living changed over the past 12 months? Has it deteriorated, remained unchanged or improved?

(All respondents - N=1203, share of total, %)



The overall impression is that, in comparison to 2016, the recent economic situation in the region shows modest signs of improvement. Although there are no significant changes in the number of executives who feel that the economic situation has improved, there is a sharp decrease in the number of respondents who report deterioration (down to 29% in 2017 from 36% in 2016) while a higher proportion of companies report stagnation (up to 49% in 2017 from 44% in 2016).

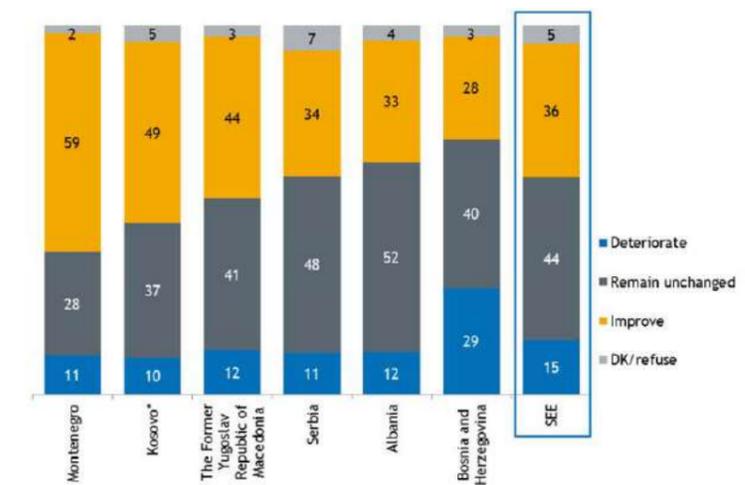
Moreover, taken within the context of previous surveys, the SEE business community clearly becomes more satisfied with each passing year. Looking at the individual economies, Kosovo*

and Montenegro appear more content with developments than their regional counterparts. As every year, company representatives from Bosnia and Herzegovina seem to be the least satisfied - some two fifths of respondents report a deterioration in the general economic environment.

Medium-sized enterprises, or those employing between 50 and 249 people, have made the greatest progress during 2017 - a third report some improvement. Companies with foreign capital also reported a greater degree of improvement than those with an exclusively domestic ownership structure.

Figure 7: How do you expect the general economic situation in your place of living to develop over the next 12 months? Will it mostly deteriorate, remain unchanged or improve?

(All respondents - N=1203, share of total, %)



As has become standard, the region's business community has an overwhelmingly positive outlook for the future. While not much different to the year before, the forecast has grown progressively brighter compared to just several years ago.

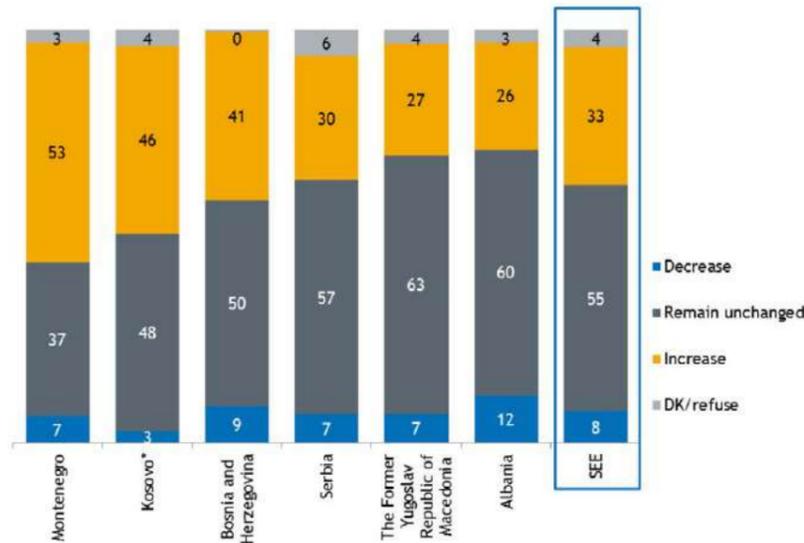
Montenegro displays the greatest optimism for the future - as many as three fifths of corporate leaders expect to see improvement. Kosovo* and The Former Yugoslav Republic of Macedonia follow with 49% and 44% respectively. Bosnia and Herzegovina, as has become

custom, is the region's leading pessimist - 29% of respondents expect further economic deterioration, while Serbia and Albania find themselves somewhere in between.

When it comes to company category as a variable, the level of optimism seems to be proportional to size. Meanwhile, managers of firms with foreign capital are more positive than their counterparts managing locally owned enterprises.

Figure 8: How do you expect the number of people employed in your company to change over the next 12 months? Will it decrease, remain unchanged or increase?

(All respondents - N=1203, share of total, %)



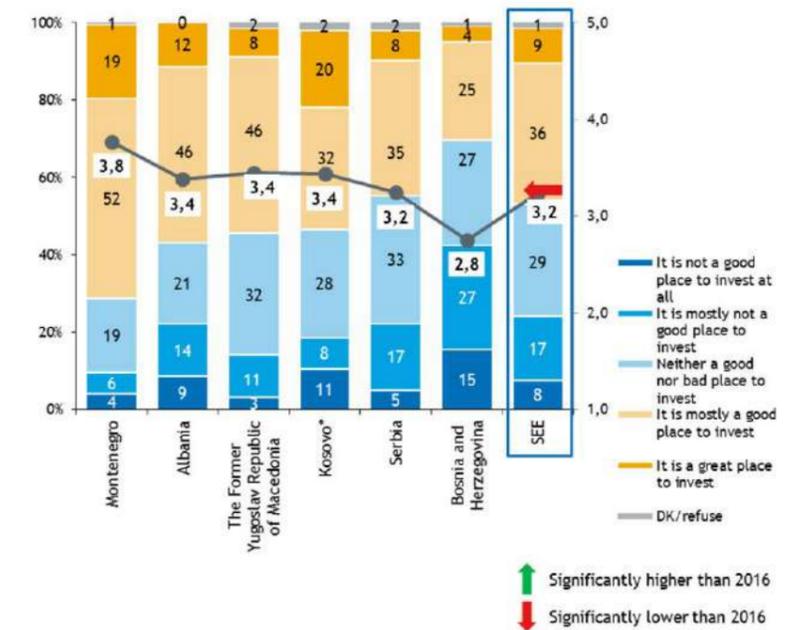
Employment projections reflect stability - 55% of respondents expect to see no change in staffing in their organizations, while a third foresees an increase in the number of employees. Responses projecting workforce increases, however, grow more numerous by the year. Montenegro has assumed the mantle of the region's leading optimist, squeezing out Kosovo*; 53% of Montenegrin companies expect to see increases in staffing compared to Kosovo*'s 46%. In a rare positive response, and in a departure from the overwhelmingly negative perception of the future, 41% of managers from Bosnia and Herzegovina foresee new hires in the coming year.

As with the previous question, enthusiasm grows in proportion to company size; about half of all respondents representing medium and large firms believe that the number of people they employ will increase over the next 12 months (23% among enterprises with 4 - 9

employees and 34% among those employing 10 - 49 people). Finally, companies active in industrial manufacturing and related areas (40%) as well as those that export their products or services (44%) are more positive with regards to their immediate hiring prospects.

Figure 9: Do you believe that your economy is a good place to invest?

(All respondents - N=1203, share of total, %)



While the majority of SEE business leaders still see their economy as a good place to invest (45%), there is a marked increase in the number of respondents who are not as confident (up to 25% in 2017 from 20% in 2016).

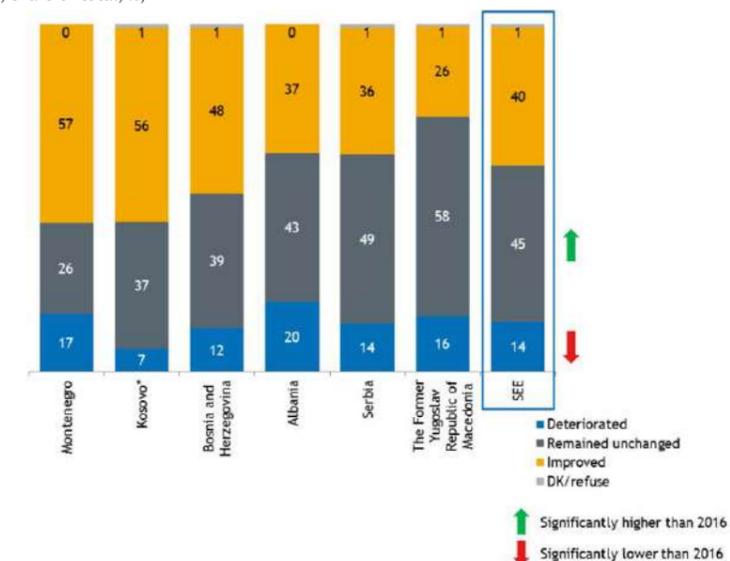
As is often the case with this survey, Montenegro and Bosnia and Herzegovina represent the two respondent extremes: while the former stands out with a staggering 71%

of executives who strongly believe in their economy's investment potential, the latter boasts 42% of respondents who disagree.

As expected, heads of larger companies (50 and more employees) would happily endorse investing in their economy. This is also true of respondents representing production-oriented companies as well as those with foreign capital.

Figure 10: How has your business situation developed over the past 12 months? Has it deteriorated, remained unchanged or improved?

(All respondents - N=1203, share of total, %)



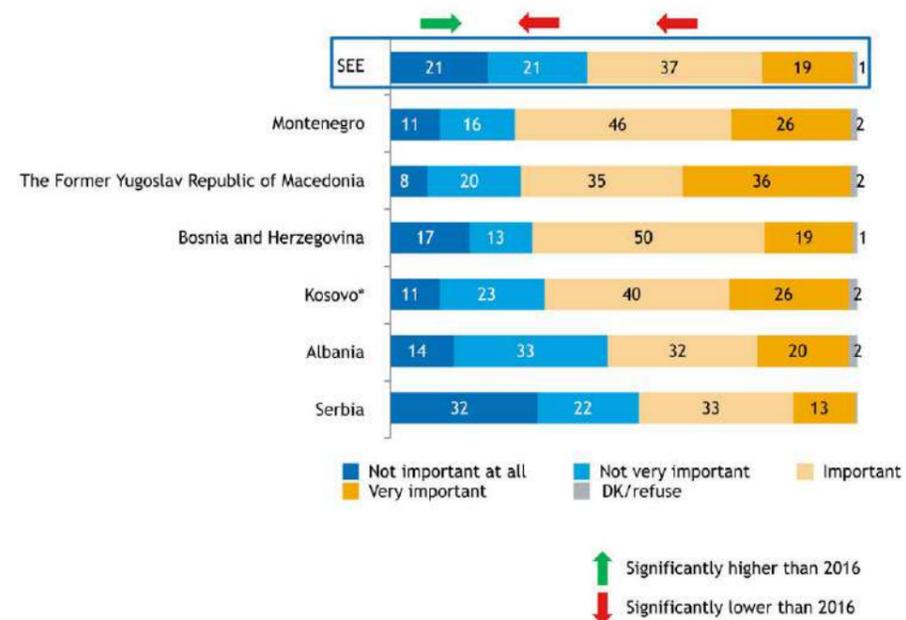
As in 2016, two fifths of company leaders report improvement in their business situation over the previous year. At the same time, there is a higher proportion of respondents who report no change (45% in 2017 vs. 41% in 2016), as well as fewer companies with deteriorating circumstances (down to 14% in 2017 from 19% in 2016). This is in keeping with the somewhat paradoxical but prevailing trend of respondents grading their own business situation much better than that of the general economy. As ever, Bosnia and Herzegovina is an excellent example: nearly half of respondents (48%) seem to be satisfied with recent developments surrounding their businesses while only 15% feel the same about the economy in

general (Figure 6).

Montenegro and Kosovo* are again the force behind the regional numbers with 57% and 56% of company leaders, respectively, reporting progress. With only a quarter of likeminded peers, The Former Yugoslav Republic of Macedonia is at the other end of the spectrum. Looking at company subgroups, agriculture-related businesses appear to have struggled more than any of their counterparts across other industries, while firms employing more than 50 people, as well as those operating abroad, more often report improvements in their business situation.

Figure 11: How important is the quality of regional cooperation in the SEE to your business?

(All respondents - N=1203, share of total, %)



While a majority of regional business leaders (56%) continue to consider cooperation with neighbouring economies useful to their business, the group has shrunk by 5% over the past year. At the same time, the number of respondents who find regional cooperation unimportant has grown significantly (up to 21% in 2017 from 12% in 2016).

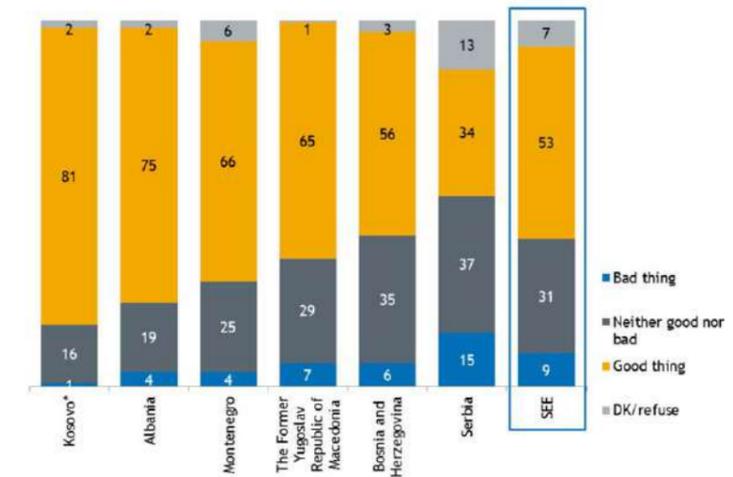
Serbia (54%) and Albania (47%) are significantly less open to the rest of the region, while more than 70% of companies in Montenegro and The

Former Yugoslav Republic of Macedonia support regional cooperation.

As in 2016, exporters attach much more importance to regional partnerships - 81% consider it helpful vs. 46% of non-exporters. Firms with foreign capital value regional cooperation much more highly (71%) than businesses that operate with domestic assets only (56%). As expected, regional cooperation is especially significant to companies employing more than 250 people.

Figure 12: Do you think EU membership would be/is a good thing, a bad thing, or neither good nor bad for your company?

(All respondents - N=1203, share of total, %)



The prospect of European Union membership elicits an identical response to last year's. The majority of corporate leaders (53%) feel that accession would have a positive impact on their company, a third are neutral, while 9% consider it potentially harmful to their business.

Observing the economies individually, their opinion on EU integration has largely remained steady. Kosovo* continues to be its greatest cheerleader (81%), followed by Albania (75%),

while Serbia continues to be most sceptical (34% are supporters, 37% are neutral and 15% are against).

As anticipated, exporters are significantly more EU friendly (73%) than their counterparts that focus exclusively on domestic markets (52%). Companies from transport, trade and tourism sectors (57%) are somewhat more positive towards prospective EU membership than their counterparts in industrial manufacturing (46%) and education (47%).

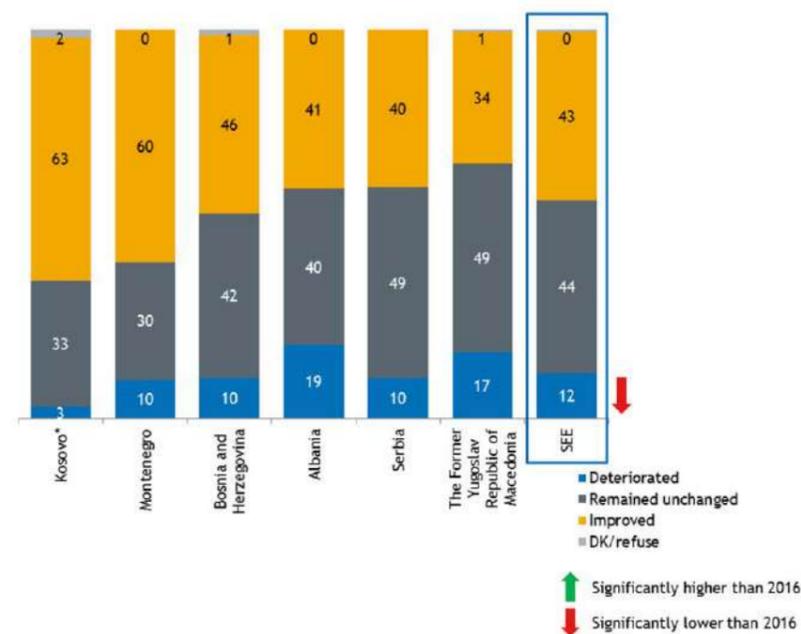
Business Trends in SEE

The economic recovery of the past couple of years has been driven largely by external demand, as reflected in responses of surveyed business leaders. That is suggestive of a future with an increased focus on supply, underscoring the need for regulatory and other structural reforms. Accordingly, the survey flags increasing costs of doing business, indicating

the presence of inflationary pressures still not sizable enough to cause a fluctuation in relevant statistics. Economic setbacks that arose from the political crisis that enveloped The Former Yugoslav Republic of Macedonia clearly had an impact on the assessment of economic activity, but not as much as feared, which is both remarkable and encouraging.

Figure 13: How has demand for your company's products/services changed over the past 12 months? Has it deteriorated, remained unchanged or improved?

(All respondents - N=1203, share of total, %)



The upward demand for products and services has remained stable over the past 12 months. More than two fifths of SEE companies (43%) report an increase in demand, while there are fewer businesses struggling with deteriorating

demand (down to 12% in 2017 from 18% in 2016). Looking at all four survey instalments, the market seems to have improved significantly over the past two years.

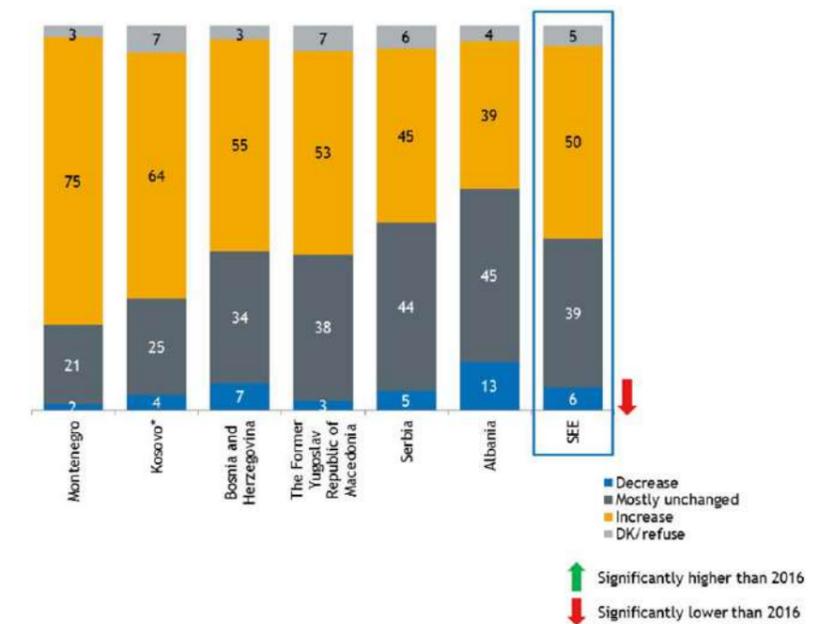
As in 2016, Kosovo* leads the field (63%), closely followed by Montenegro (60%). Economies positioned at the bottom of the spectrum last year, Albania (41% in 2017 vs. 35% in 2016) and Serbia (40% in 2017 vs. 34% in 2016), have recorded a significant growth in demand. This is in contrast to The Former Yugoslav Republic of Macedonia (34% in 2017 vs. 44% in 2016) where political instability may have caused a sizable economic downturn resulting in diminished

demand for the year.

Interestingly, demand closely mirrors company size (4-9 employees - 34%, 10-49 employees - 44%, 50-249 employees - 56%, and 250 and more employees - 71%). In addition, firms operating in heavy industry, educational and related sectors, as well as exporters, have more reasons to be satisfied with their goods' or services' market position over the past year.

Figure 14: How do you expect the demand for your company's products/services to change over the next 12 months? Will it decline, remain mostly unchanged or increase?

(All respondents - N=1203, share of total, %)



Similar to the results of the 2016 survey, half of the SEE business community foresee a growth in demand; two fifths anticipate stagnation, and a mere 6% forecast a decline.

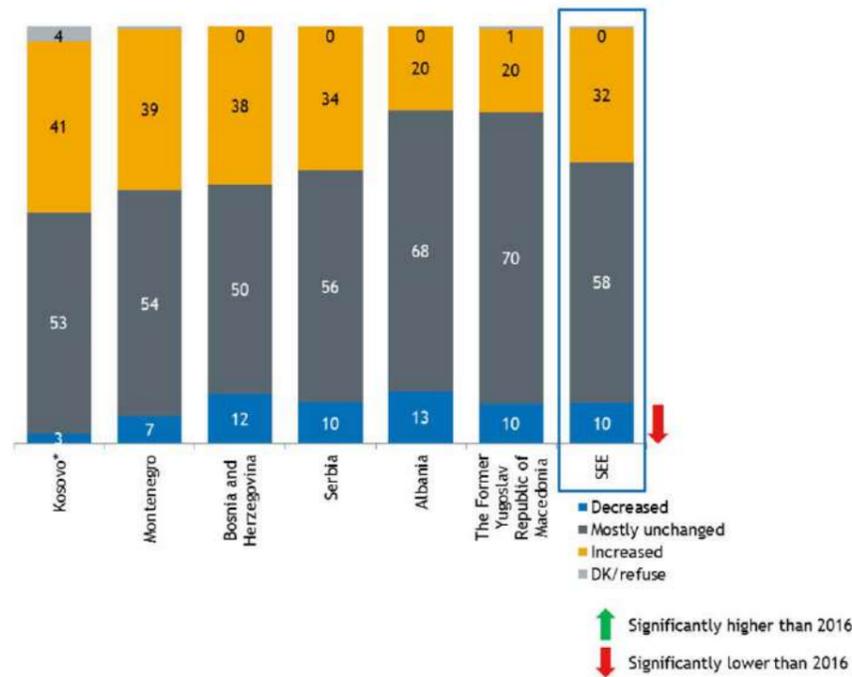
who expect to see a decline in demand (down to 39% in 2017 from 48% in 2016).

Once again, Montenegro boasts the highest number of optimistic managers - three quarters of respondents foresee further increases in demand. Albania remains at the other end of the spectrum but with fewer respondents

A detailed analysis of data shows that companies active in more than one market (58%); larger in size (4-9 employees - 42%, 10-49 employees - 50%, 50-249 employees - 62%, with 250 and more employees - 72%); and/or operating in educational/scientific/arts fields (59%), have a brighter outlook.

Figure 15: How has your company's total employment changed over the past 12 months? Has it decreased, remained mostly unchanged or increased?

(All respondents - N=1430, share of total, %)



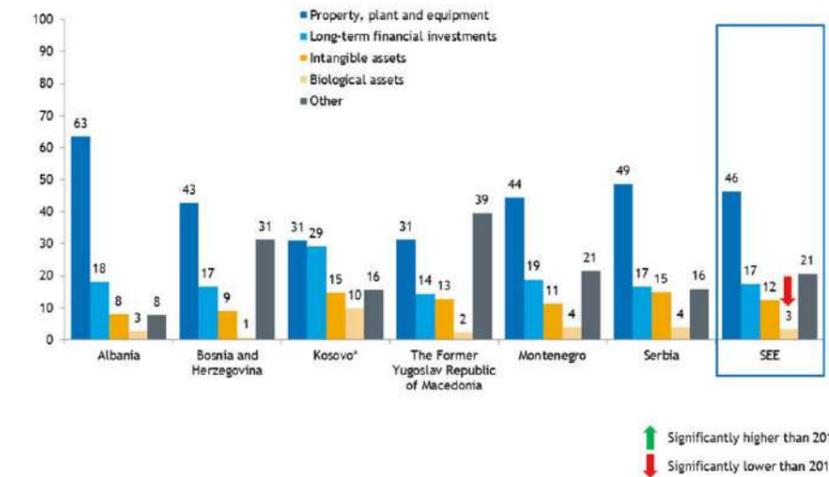
Close to three fifths of surveyed enterprises (58%) report no change in total employment levels over the past year. At the same time, a third of all participating companies have increased their workforce while one out of ten report a downsizing of their staff. This is broadly consistent with increases in demand reported by the respondents for the previous year although at a more conservative level. With some 40% of respondents from Kosovo*, Montenegro and Bosnia and Herzegovina reporting increases in their staffing levels, the three economies are clearly experiencing a period of greater prosperity. Bosnia and Herzegovina, in particular, is an interesting

case study - while this finding is broadly in line with the business community's assessment of their own companies, it is clearly at odds with the respondents' estimation of the Bosnian economy as lagging. As with the previous wave, companies from Albania and The Former Yugoslav Republic of Macedonia report fewer additions to their workforce (both at 20%).

Similar to 2016, it is the larger companies, as well as those in industry/mining/construction and exporting sectors, that have been doing most of the hiring.

Figure 16: Could you please tell me what percentage (%) of your company's total investment in 2017 went to each of the following?

(Respondents who did not mark DK/refuse - N=1079, %)



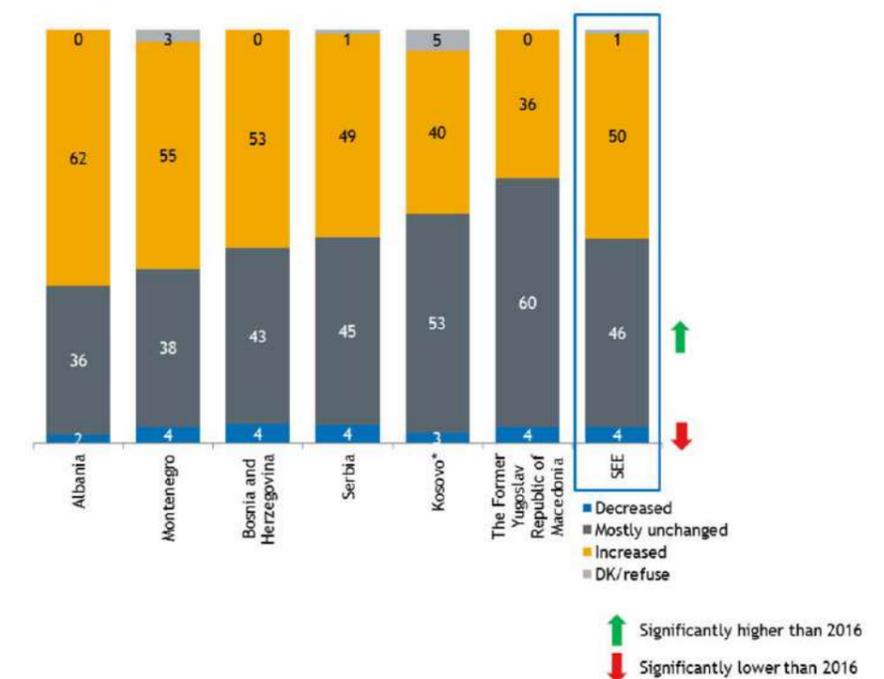
In 2017, surveyed companies primarily invested in property, plant and equipment (46%). Long-term financial investments (17%) and intangible assets (12%) are in distant second and third with much more modest budgets. As previously, investments in property, plant and equipment by Albanian companies (63%) are significantly above the regional average. Firms in Kosovo* lead two categories - long-term

financing (29%) and biological resources (10%) - with substantially higher investment levels when compared to the regional average.

Viewing companies by size, certain trends become evident; medium-sized businesses make more long-term financial investments, while large companies recognize the importance of biological assets to a far greater extent.

Figure 17: How have your labour and other costs (e.g. energy, etc.) changed over the past 12 months? Have they decreased, remained mostly unchanged or increased?

(All respondents - N=1203, share of total, %)

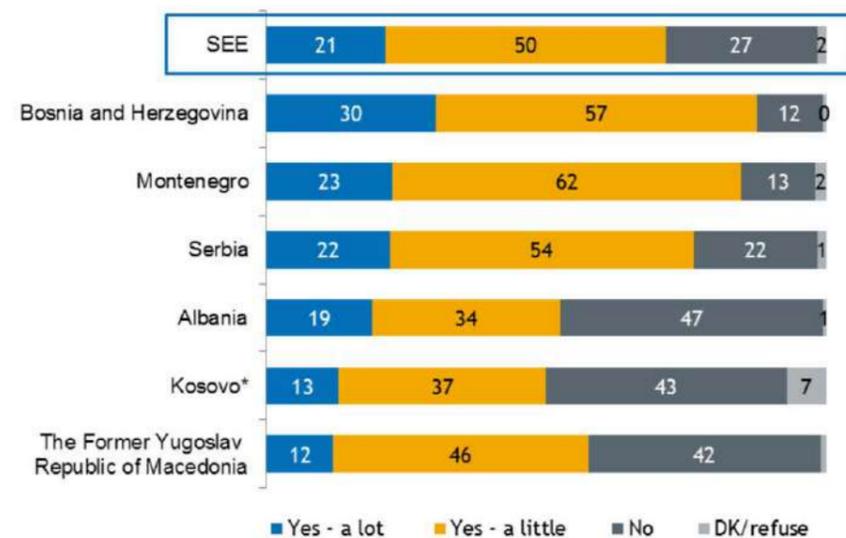


Half the companies surveyed recorded an increase in their overall costs over the past 12 months. A slightly lower number (46%) report no changes in expenses, a higher proportion than in 2016 (41%), while only 4% benefited from cost reduction (down from 7% in 2016). Businesses in Albania (62%) and Montenegro (55%) report the highest number of businesses toiling under increasing expenses. At the same time, the most significant change from last

year is recorded in Bosnia and Herzegovina where the number of respondents who report an increase in costs is up by 12% (53% in 2017 vs. 41% in 2016). In terms of positive developments, Kosovo* recorded a substantial decline in the number of companies reporting an increase in cost (down from 56% to 40%). Looking at company subgroups, representatives of larger firms are more likely to cite cost expansion compared to other businesses.

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?

(All respondents - N=1203, share of total, %)



SEE business leaders are mostly aware of their companies' environmental footprint. 71% have taken some mitigation action while a fifth feel that they've made major steps in addressing the potentially harmful effect of their operations on the environment. At the same time, however, more than a quarter of all respondents (27%) report no attempt to minimize their companies' environmental impact.

This question divides the region into two clearly delineated groups. Bosnia and Herzegovina (87%), Montenegro (85%) and Serbia (77%) make up the group of environmentally mindful

regional economies. At the other end, Albania (47%), Kosovo* (43%) and The Former Yugoslav Republic of Macedonia (42%) boast the fewest businesses that mitigate environmental hazards caused by their operation.

Similar to the last year's findings, larger companies, exporters, enterprises with foreign capital, and those active in heavy industry and educational/scientific/arts fields, invest more effort in protecting the environment, likely due to industry standards and rules governing their operation

Business Environment in SEE

While the findings in this area suggest some improvement in the efficiency of public institutions, the quality of services rendered remains lacking. This indicates a need for a more forceful push by businesses to instigate structural reforms by the region's governments.

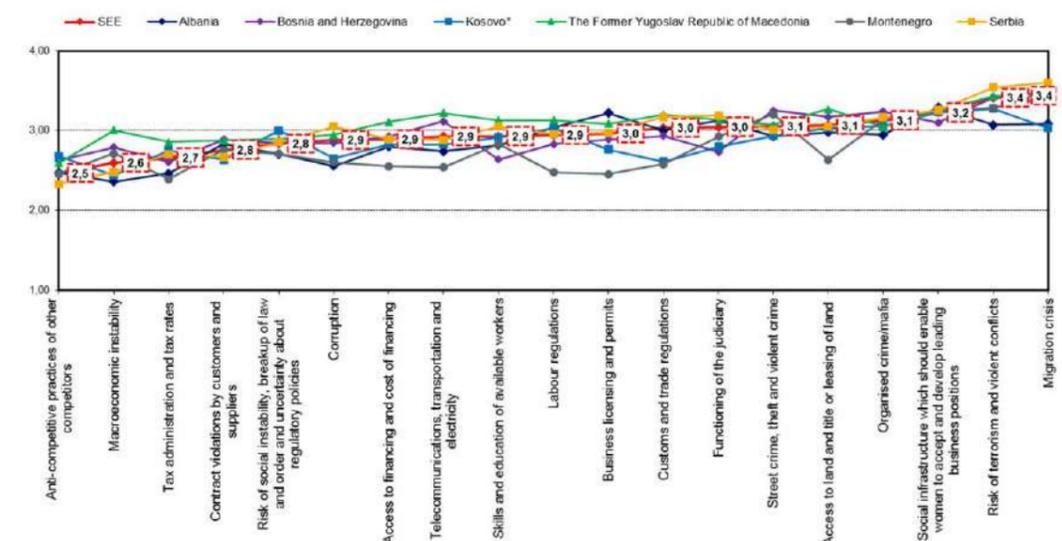
The survey provides some indication that larger companies have increased their influence on SEE governments. While amplifying the voice of the private sector in the policy-making process is a welcome development, it should be closely observed over the coming years to establish whether this could be a theoretical precursor to state capture by large commercial interests.

Speaking of the overall business and policy set up, no significant change has been reported anywhere across the region and although businesses seem reasonably content with infrastructure at present, there are signs that it may prove constraining to future growth and development. This underscores the need for developmental policies in the region that will prioritize increased public investment in all types of infrastructure.

The demand for more and better roads remains stronger than any other infrastructure need, though energy supply may prove more constraining in the future.

Figure 19: 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=1430, scores are on a scale of 1 to 4 where 1 means major obstacle, 2 moderate obstacle, 3 minor obstacle and 4 no obstacle, mean) Unit: %; Base: All respondents - N=1203



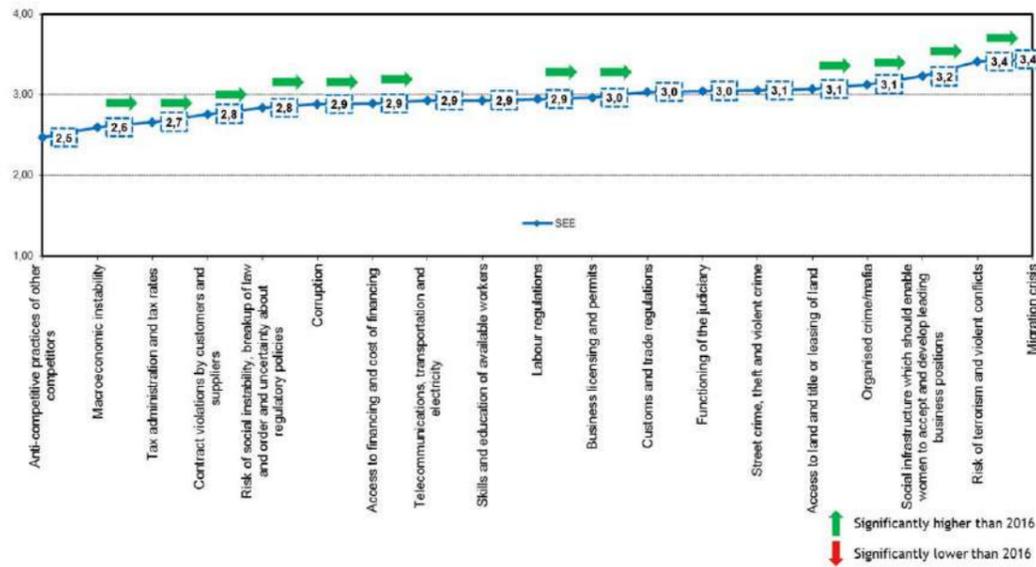


Table 1: Can you tell how problematic are these different factors for the operation and growth of your business? Can you please rate each?

(All respondents - N=1203, 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)

	Albania	Bosnia and Herzegovina	Kosovo*	The Former Yugoslav Republic of Macedonia	Montenegro	Serbia
Anti-competitive practices of other competitors	2,5	2,6	2,7	2,6	2,5	2,3
Macroeconomic instability	2,4	2,8	2,4	3,0	2,7	2,5
Tax administration and tax rates	2,5	2,6	2,8	2,9	2,4	2,7
Contract violations by customers and suppliers	2,8	2,9	2,6	2,9	2,8	2,7
Risk of social instability, breakup of law and order and uncertainty about regulatory policies	2,7	2,8	3,0	2,9	2,7	2,9
Corruption	2,6	2,8	2,7	2,9	2,6	3,1
Access to financing and cost of financing	2,8	2,9	2,8	3,1	2,6	2,9
Telecommunications, transportation and electricity	2,7	3,1	2,8	3,2	2,5	2,9
Skills and education of available workers	2,8	2,6	2,9	3,1	2,8	3,1
Labour regulations	3,0	2,8	3,0	3,1	2,5	3,0
Business licensing and permits	3,2	2,9	2,8	3,1	2,5	3,0
Customs and trade regulations	3,0	2,9	2,6	3,2	2,6	3,2
Functioning of the judiciary	3,1	2,7	2,8	3,1	2,9	3,2
Street crime, theft and violent crime	2,9	3,3	2,9	3,1	3,2	3,0
Access to land and title or leasing of land	3,0	3,2	3,0	3,3	2,6	3,1
Organised crime/mafia	2,9	3,2	3,1	3,0	3,1	3,2
Social infrastructure which should enable women to accept and develop leading business positions	3,3	3,1	3,2	3,2	3,2	3,3
Risk of terrorism and violent conflicts	3,1	3,4	3,3	3,4	3,3	3,5
Migration crisis	3,1	3,5	3,0	3,4	3,4	3,6

Major obstacles

Compared to 2016, there is a noticeable drop-off in concern by business leaders across most survey categories. For the first time in

survey history, taxes (2.7) are not the most problematic factor affecting business operations, with anti-competitive practices of other

competitors (2.5) taking the lead and macroeconomic instability a close second (2.6). Contract violations by customers and suppliers (2.8) are also frequently cited as problematic. At the other end of the spectrum, the migration crisis (3.4), risk of terrorism and violent conflicts (3.4), as well as social infrastructure focused on women (3.2) are still perceived as least problematic.

Unfair competitor practices are a common theme across all economies except for Kosovo*, with Serbian companies (2.3) perceived as especially vulnerable. Along with their counterparts from Albania (2.4) and Kosovo* (2.4), Serbian businesses (2.5) are also more likely to be concerned by macroeconomic instability, while Montenegro (2.4) and Albania (2.5) are home to companies most concerned by taxation. In addition, executives from Montenegro are more likely to be concerned by infrastructure, labour regulations, and business licenses and permits (all three 2.9), while business leaders from Kosovo* understandably worry

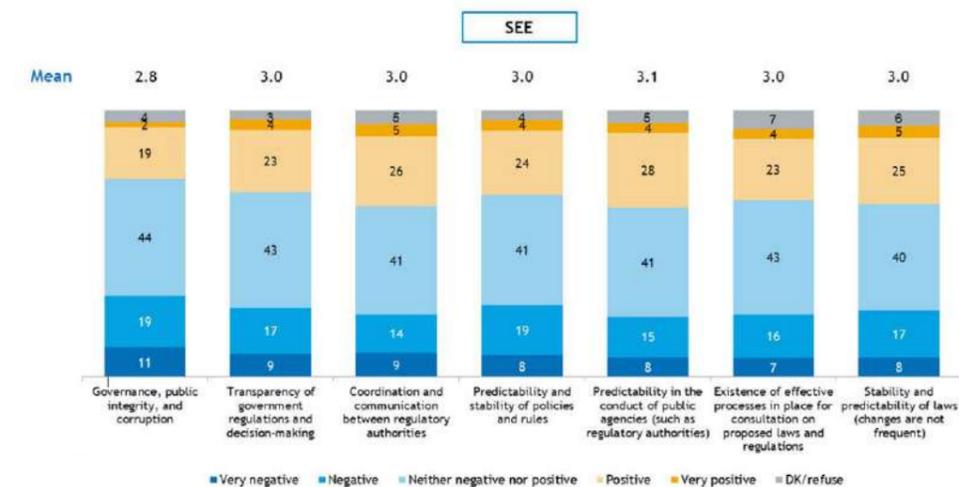
over barriers caused by existing customs and trade regulations (2.6).

Bosnia and Herzegovina and The Former Yugoslav Republic of Macedonia are singled out as the least concerned out of the group across most issues surveyed. Somewhat understandably, considering economic and political developments in the two economies, businesses from Bosnia and Herzegovina struggle with a lack of skilled and educated labour (2.6), while The Former Yugoslav Republic of Macedonia recognizes widespread corruption, and risk of social instability and accompanying consequences (both 2.9) as the most serious barriers to growth.

Compared to non-exporters, SEE enterprises operating abroad are not only more worried about customs and trade regulations, but also about tax issues, corruption, functioning of the judicial system and the macroeconomic situation.

Figure 20: How do you perceive the following factors related to transparency and predictability of government conduct, based on your experience or of other investors that you have heard of? (NEW QUESTION)

(All respondents - N=1203, scores are on a scale of 1 to 5 where 1 means very negative and 5 very positive, share of total, %)



The majority of business respondents are neutral in their rating of government performance across a series of indicators of transparency and predictability. With the overall score

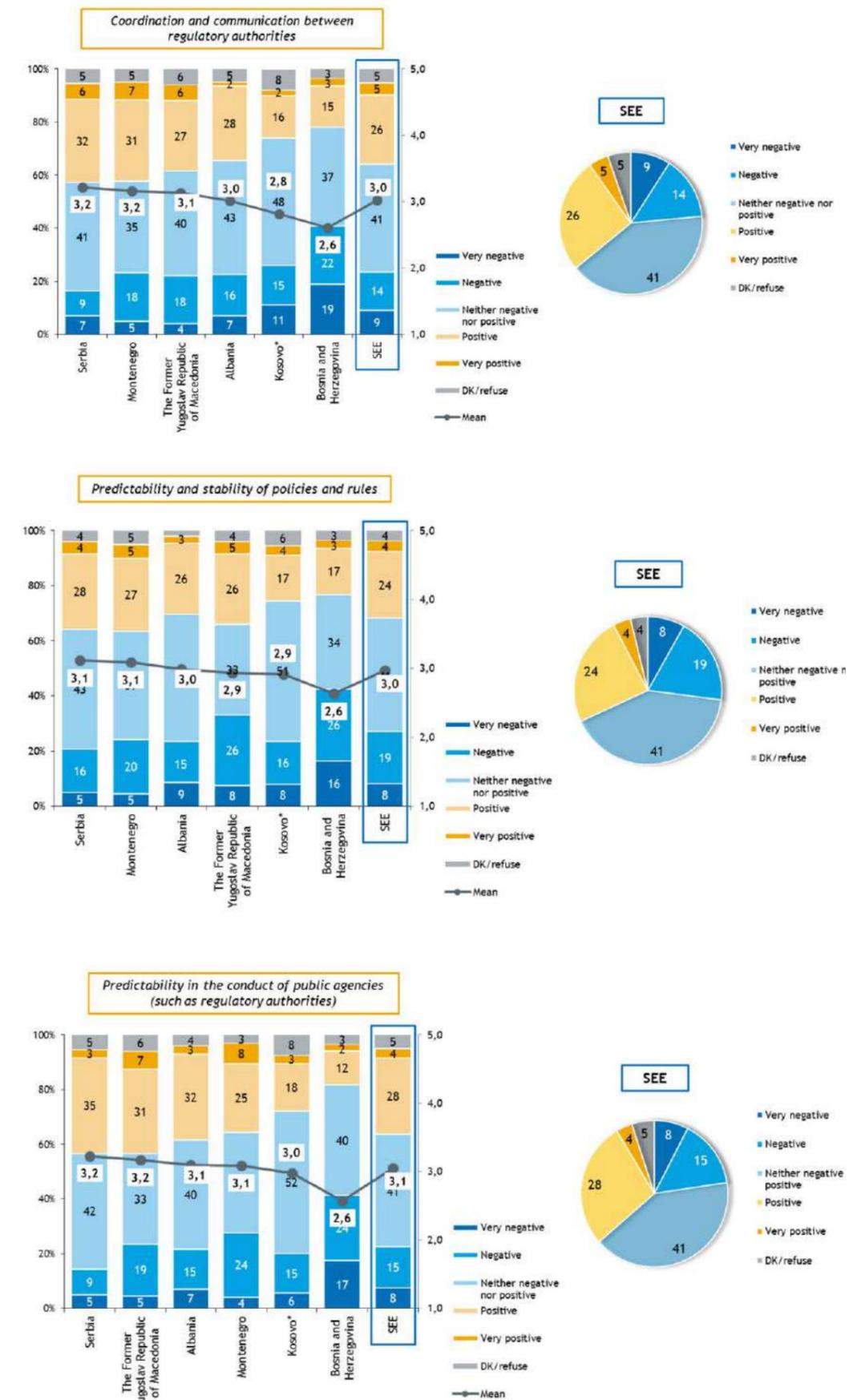
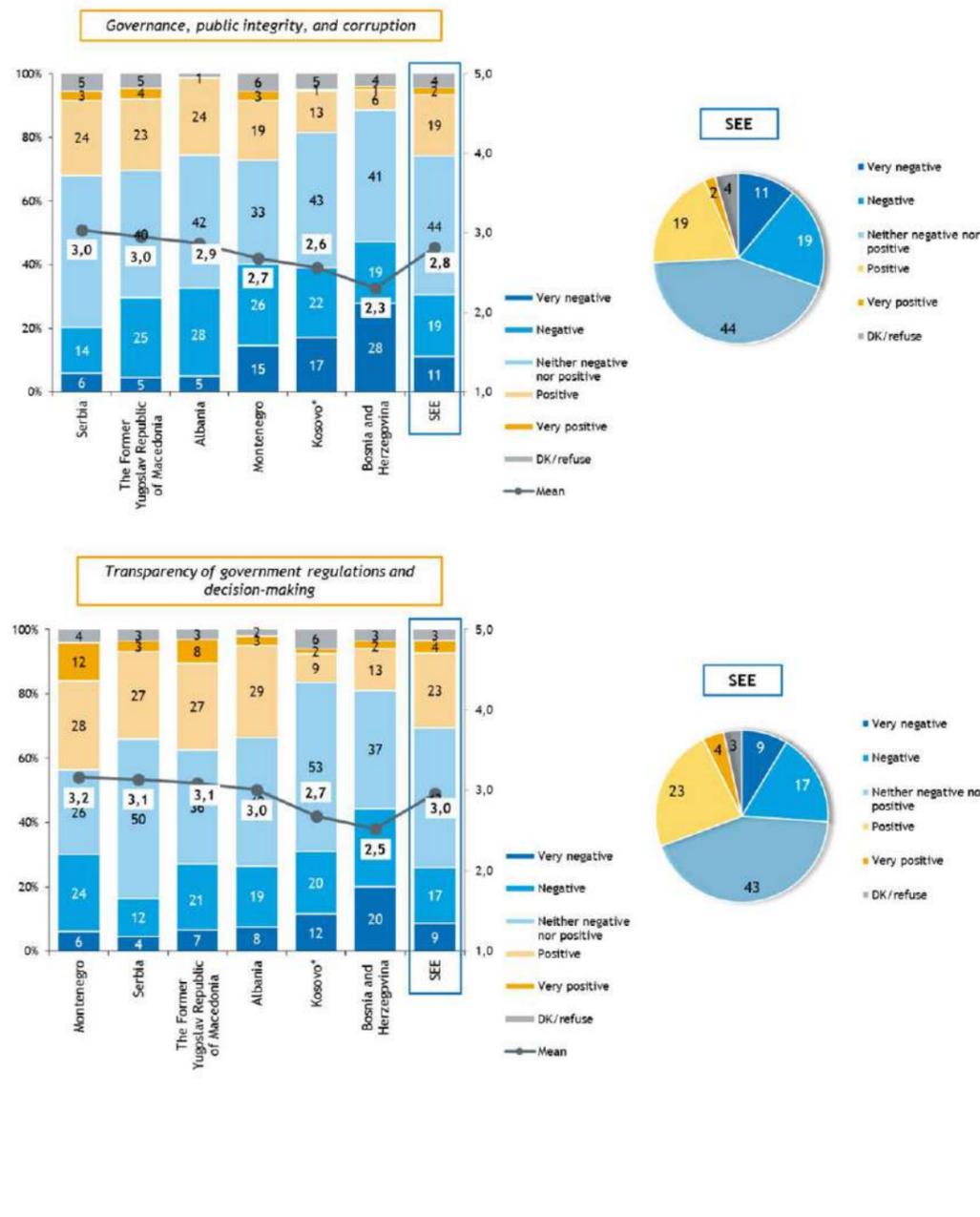
of 3.0 it appears that the region's governments have much work to do in winning over the trust of their business communities. It is especially concerning that the lowest rated

aspect of government conduct is found under the heading of governance, public integrity and corruption (2.8). Respondents across the region feel that government conduct in this realm could be improved with respondents from Bosnia and Herzegovina the leading

critics; business leaders from this economy feel especially strongly about the government's inability to combat corruption (2.3) and the non-transparency of government regulations (2.5).

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

(All respondents - N=1203, scores are on a scale of 1 to 5 where 1 means very negative and 5 very positive, share of total, %, mean)



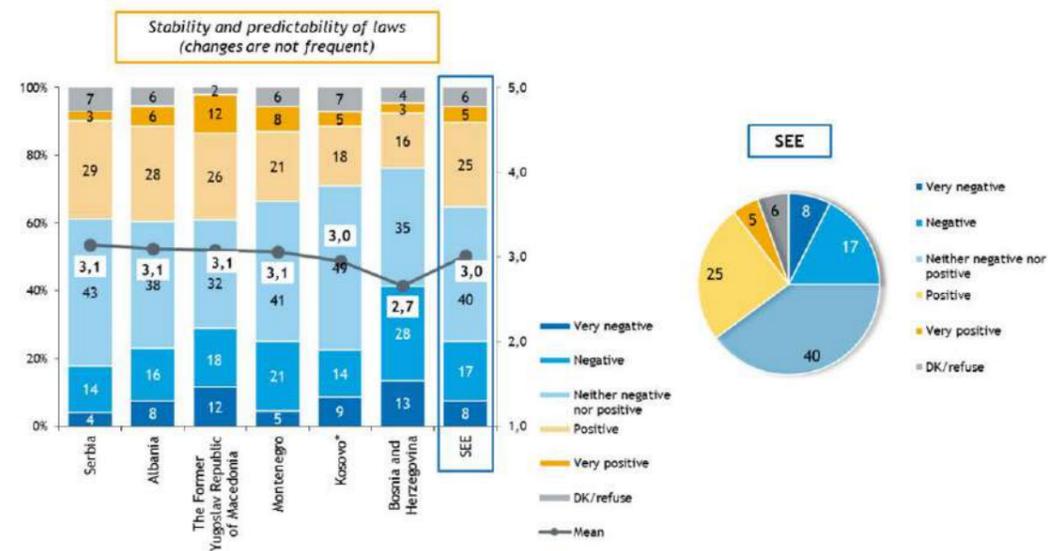
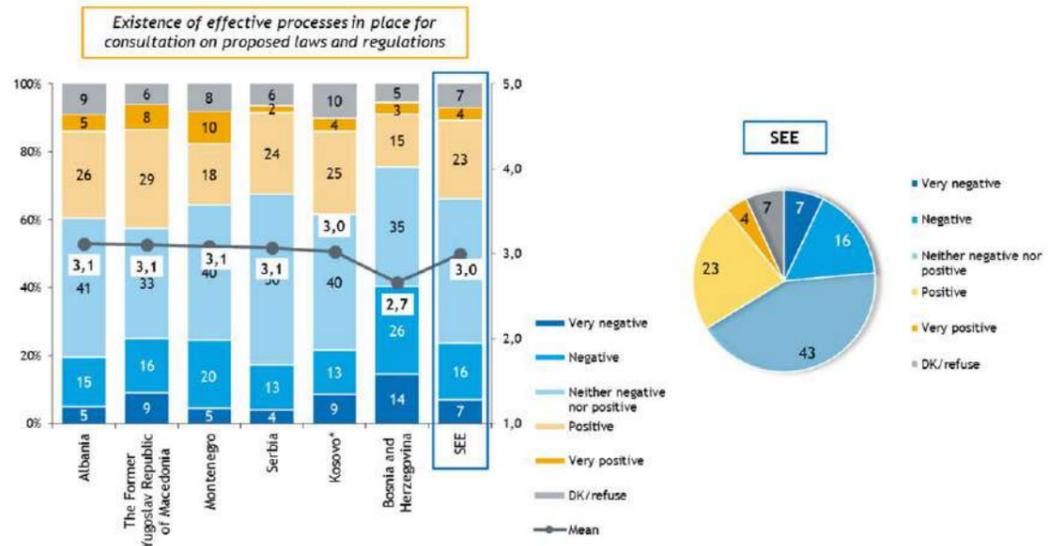
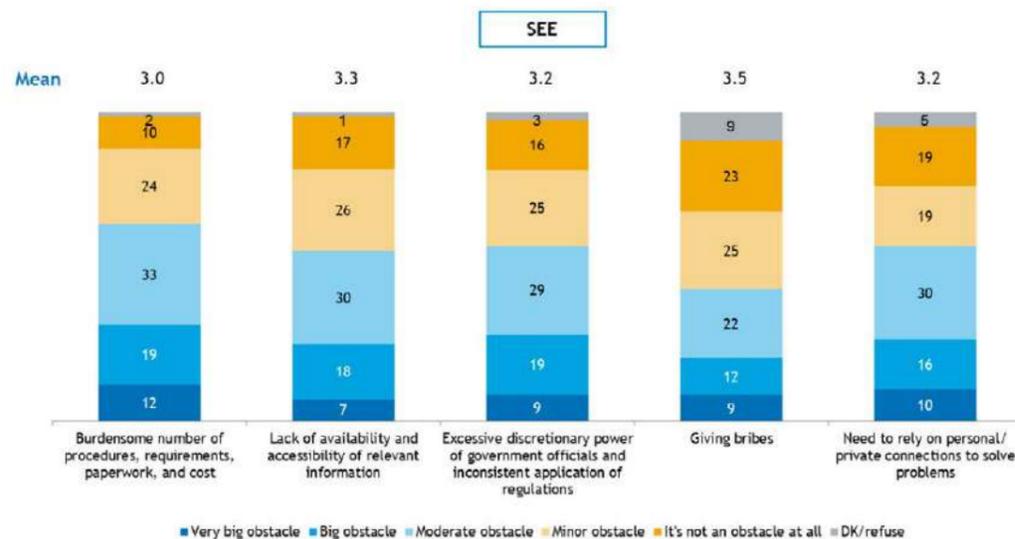


Figure 22: In the process of obtaining licenses for your business, how much of an obstacle were the following factors? (NEW QUESTION)

(All respondents - N=1203, 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, %)

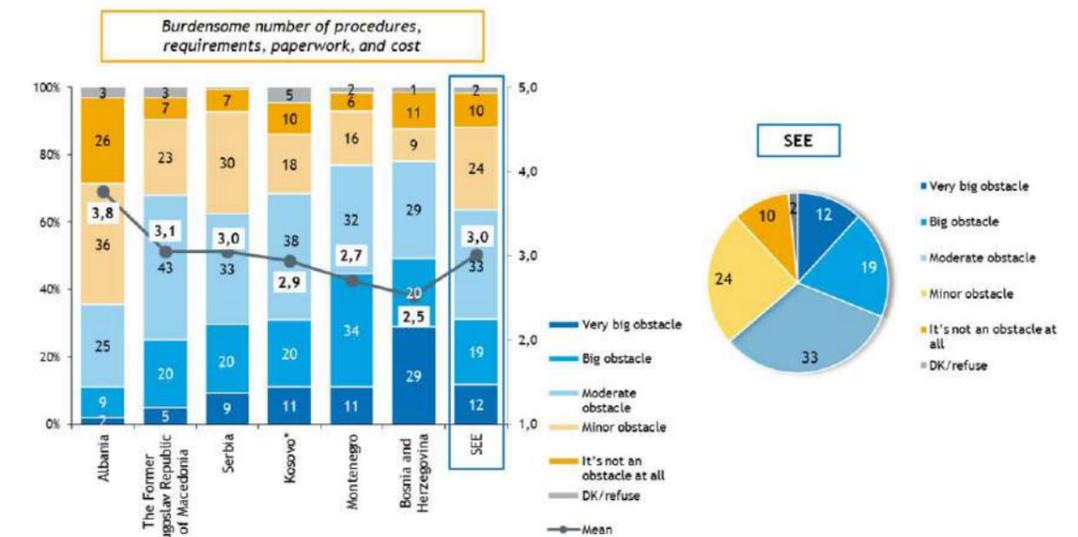


Taking into account the region as a whole, and its average scores, none of the factors listed are recognized as too excessive a barrier in obtaining a business license. The survey suggests that SEE companies feel most burdened by extensive paperwork, numerous requirements and costs (3.0), with excessive discretionary power of officials, and the need to rely on personal contacts listed as somewhat less problematic (3.2). Lack and availability of appropriate information (3.3) comes in next on the list while, interestingly, giving bribes is considered to be the least problematic of all potential obstacles on offer (3.5).

Once again, respondents from Bosnia and Herzegovina are the most scathing in their assessment of relevant government bodies. Compared to their counterparts from the region, Bosnian executives are more likely to encounter difficulties across all aspects of the licensing process. A bulky and cumbersome bureaucracy (2.5), exacerbated by excessive discretionary powers given to public officials (2.7), make up the two largest barriers to licensing. At the other end, Albania stands out with the number of business leaders who express satisfaction with the service-orientation of the registration process.

Figure 23: In the process of obtaining licenses for your business, how much of an obstacle were the following factors?

(All respondents - N=1203, scores are on a scale of 1 to 5 where 1 means very big obstacle and 5 it's not an obstacle at all, share of total, %)



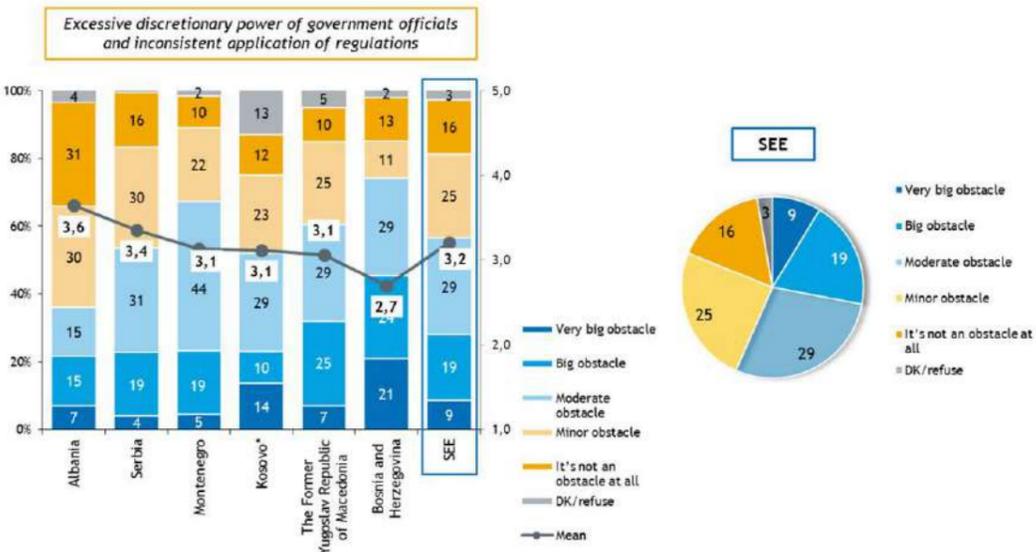
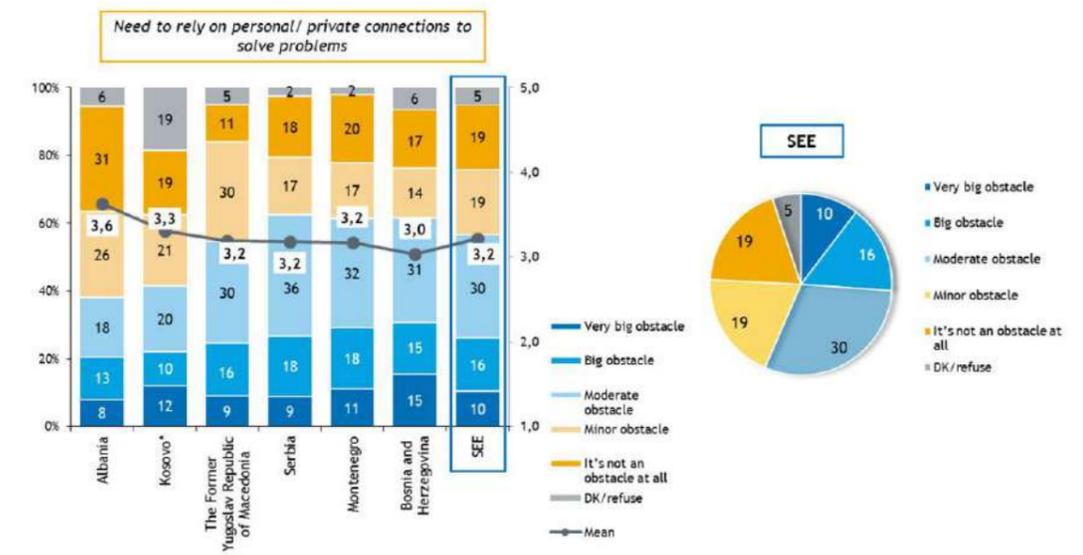
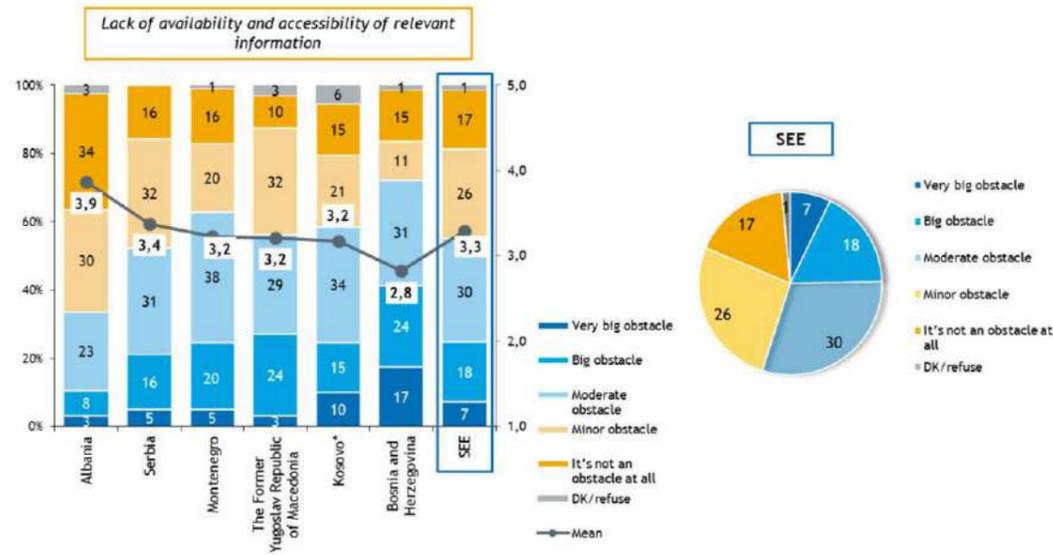
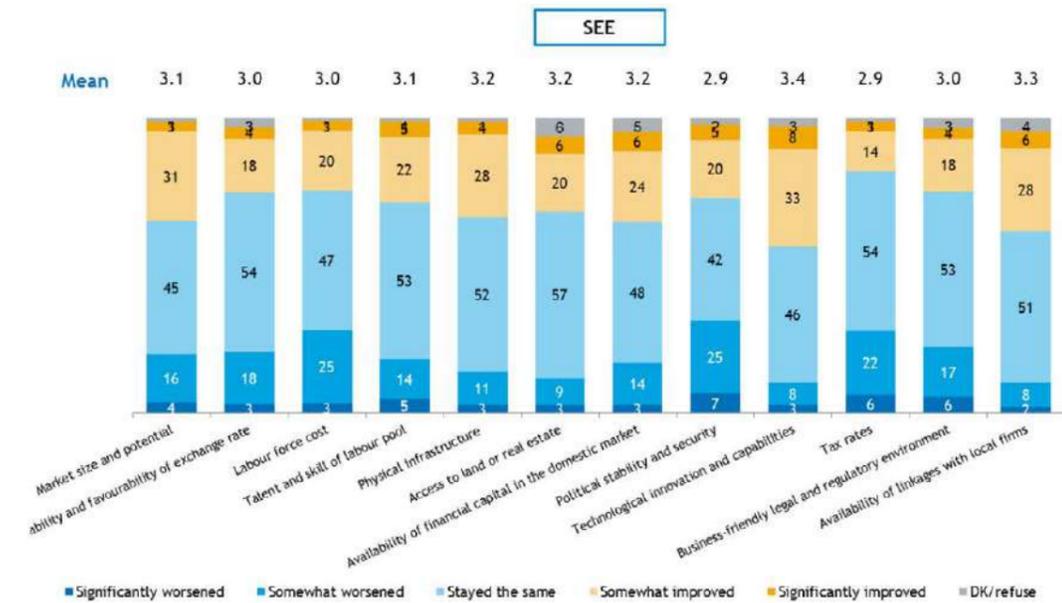
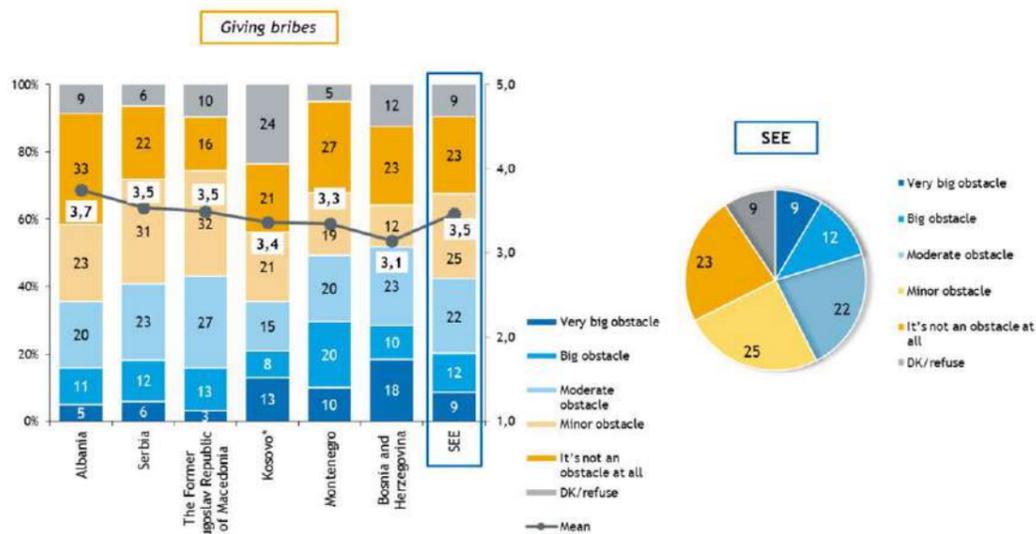


Figure 24: How have the following characteristics of the business environment in your economy changed over the last 12 months? (NEW QUESTION)
 (All respondents - N=1203, scores are on a scale of 1 to 5 where 1 means significantly worsened and 5 significantly improved, share of total, %)



There is broad consensus within the region's business community that no notable changes have taken place in their operating environments. Nonetheless, some aspects of their surroundings, such as political stability and security, as well as the taxation regime, have worsened over the past 12 months. This can in large part be attributed to the struggles of individual economies that skew the scores

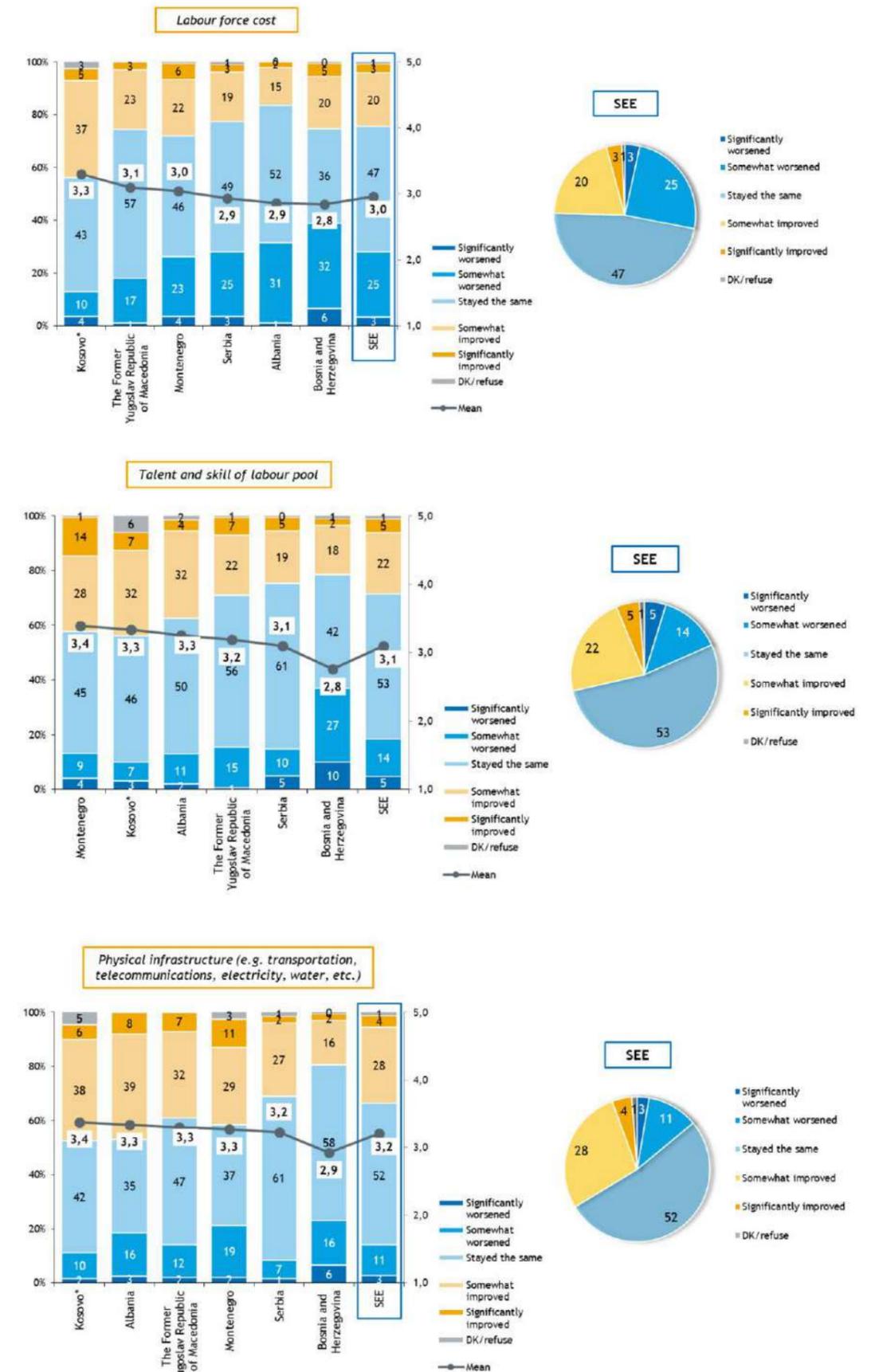
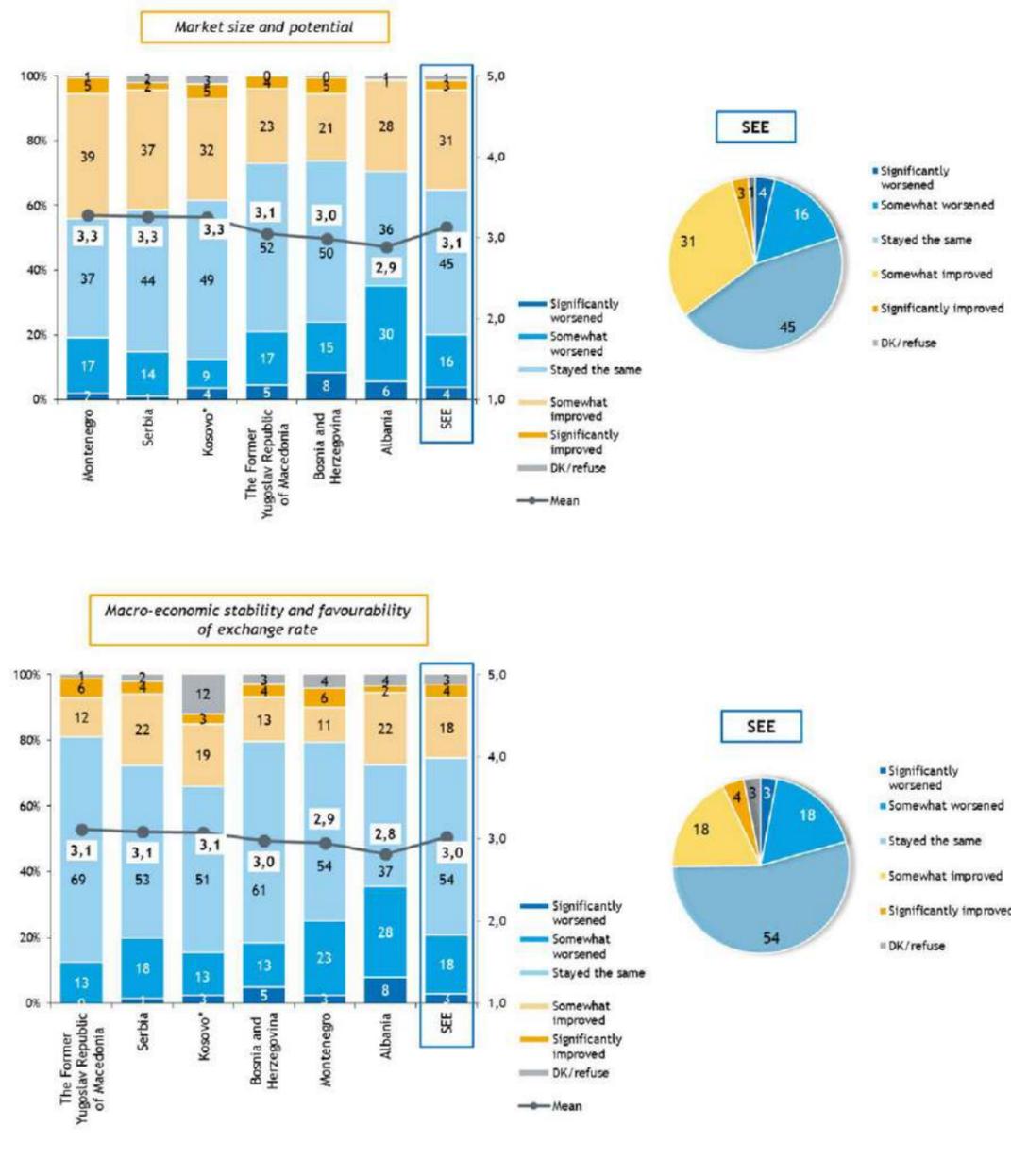
somewhat; business leaders from Bosnia and Herzegovina, for instance, are significantly more concerned about the political situation (2.6), when compared to the regional average, while their counterparts from Albania (2.5) and Montenegro (2.6) fret over what they perceive to be negative changes to their respective taxation regimes.

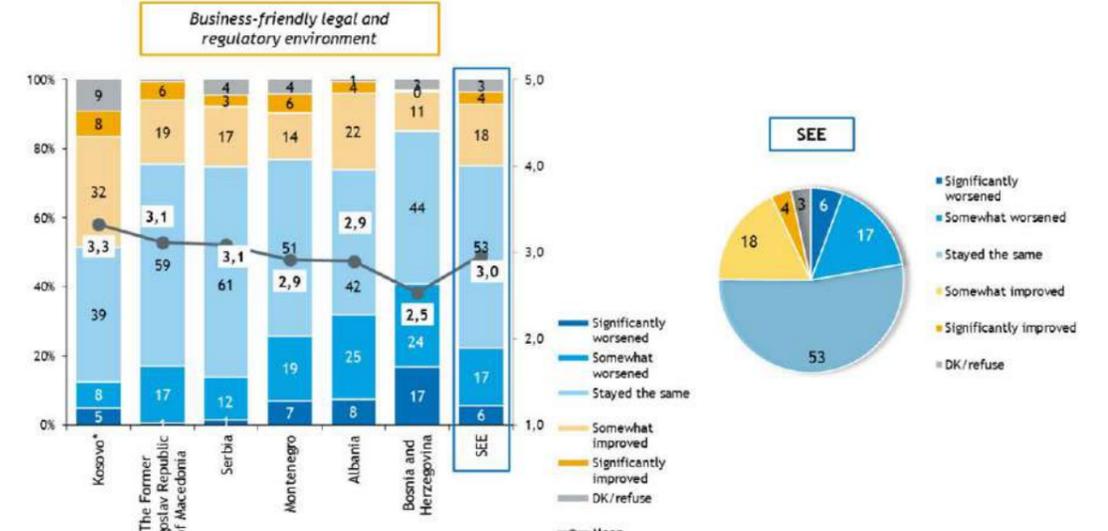
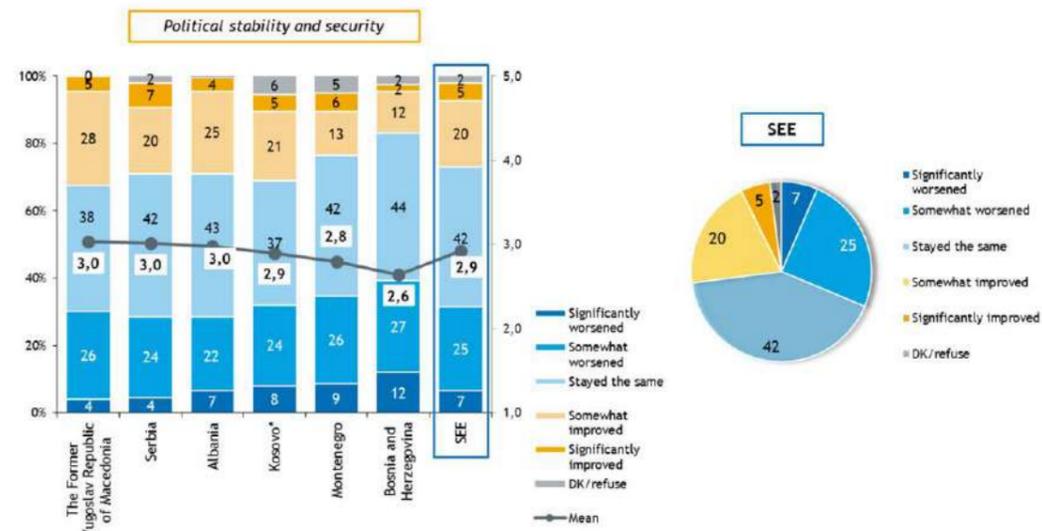
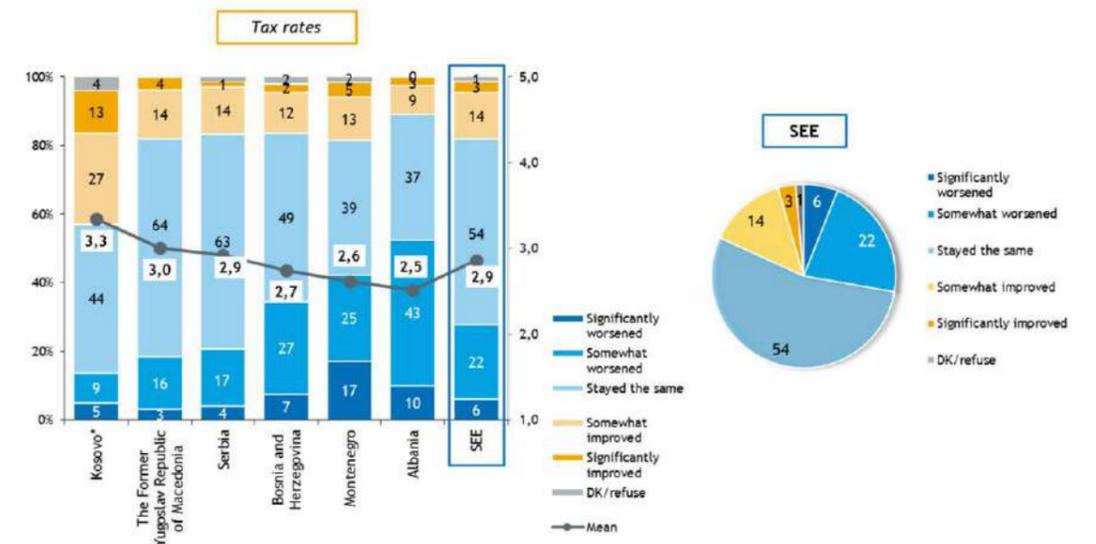
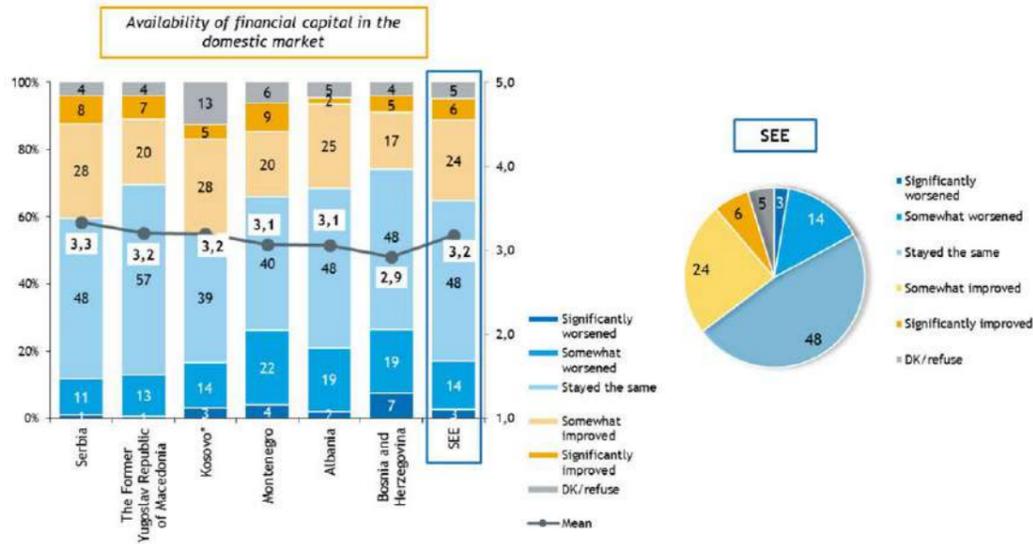
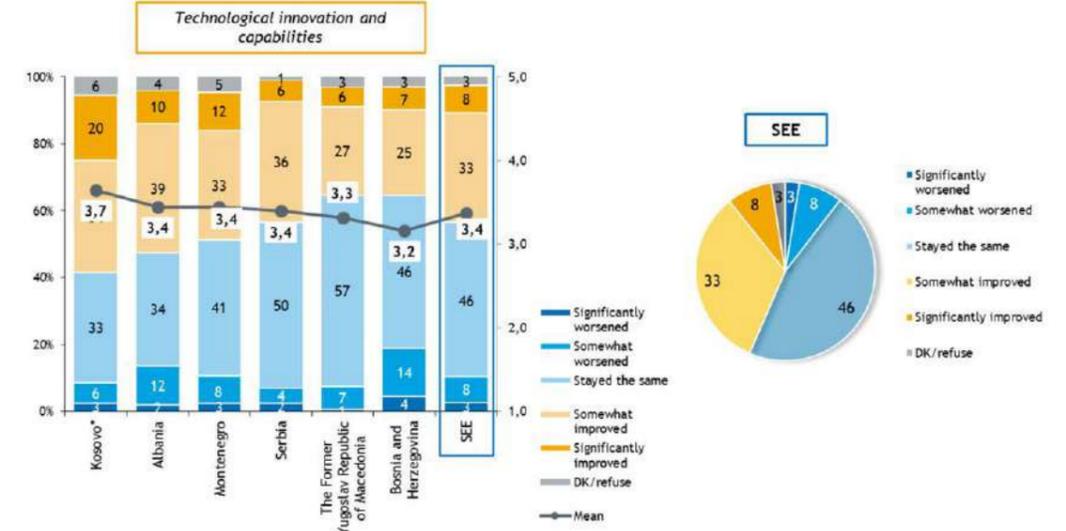
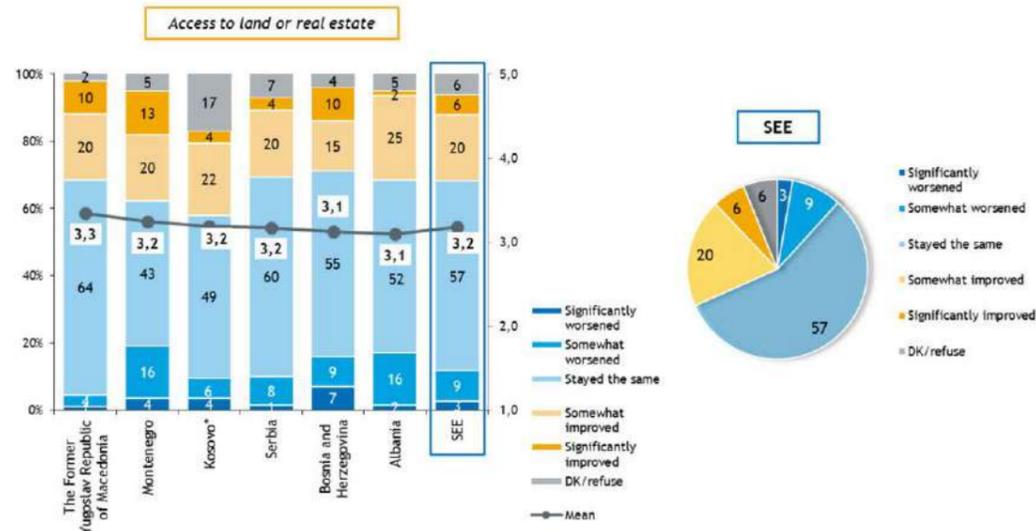
At the same time, technological innovation and capabilities (3.4) have seen the most progress, alongside business interconnectedness (3.3). In both cases, companies from Kosovo* lead the way (with 3.7 and 3.5, respectively). Overall, the business climates in Albania and Bosnia and Herzegovina seem to have suffered the most serious deterioration in the course

of 2017, while Kosovo* has seen the most improvement. Looking at company subgroups, largest firms (250 and more employees) are likelier to acknowledge improvements in market potential (3.5) and physical infrastructure (3.4), as well as a stable macroeconomic situation (3.3) and a business-friendly legal environment (3.4).

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

(All respondents - N=1203, scores are on a scale of 1 to 5 where 1 means significantly worsened and 5 significantly improved, share of total, %, mean)





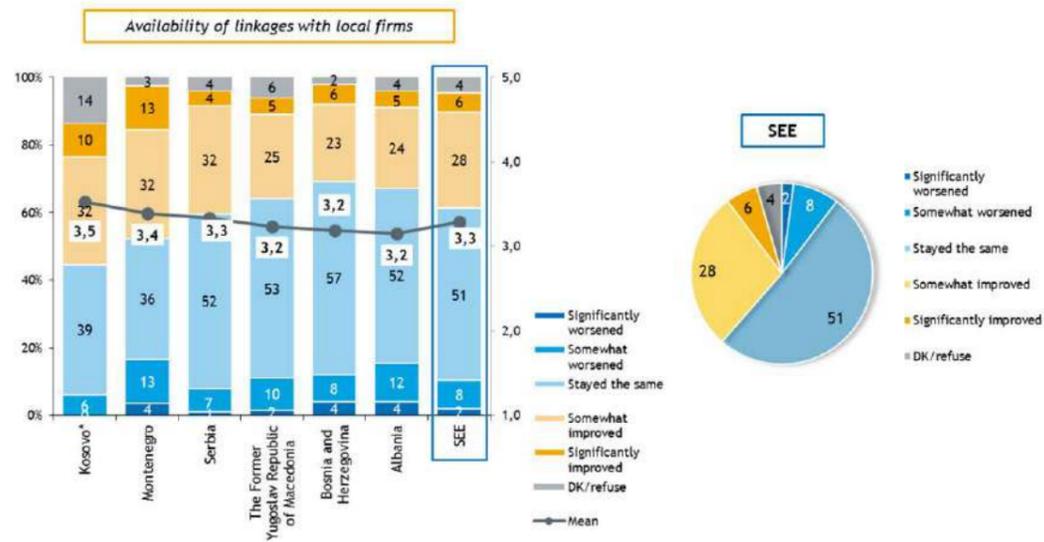


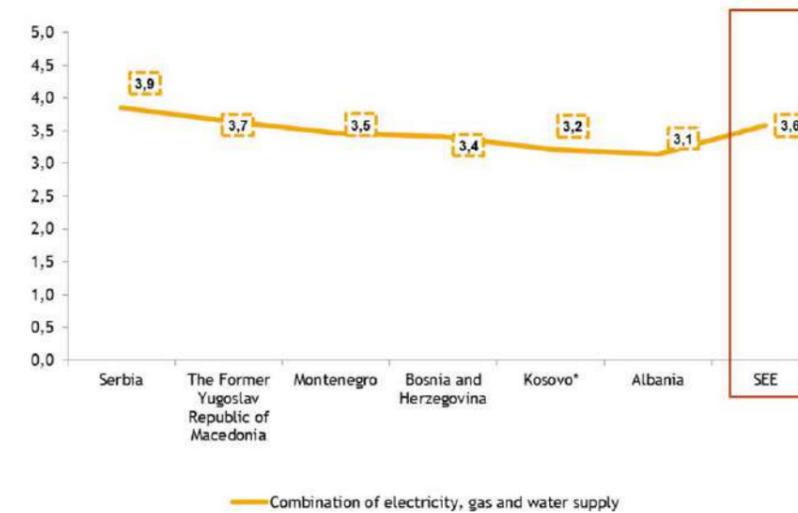
Figure 26: For your business purposes, how would you rate the combination of availability, quality and affordability of road, railroad, waterway and air transport in your economy?

(All respondents - N=1203, scores are on a scale of 1 to 5 where 1 means very poor and 5 excellent, mean)



Figure 27: 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=1203, scores are on a scale of 1 to 5 where 1 means very poor and 5 excellent, mean)



As expected, the combination of availability, quality and affordability of electricity, gas and water is rated better than roads, railroads, waterways and air transport, with the average score of 3.6. There are no major statistical deviations from previous survey instalments. Once more, Serbia stands out

with a significantly higher score than all others (3.9), with The Former Yugoslav Republic of Macedonia in second (3.7). Albania records the lowest marks out of the SEE business community (3.1). As with transport infrastructure, satisfaction with different services is in proportion to company size.

Figure 28: In your opinion, which infrastructure upgrades would have the highest positive impact on your business?

(All respondents - N=1203, share of total, %)

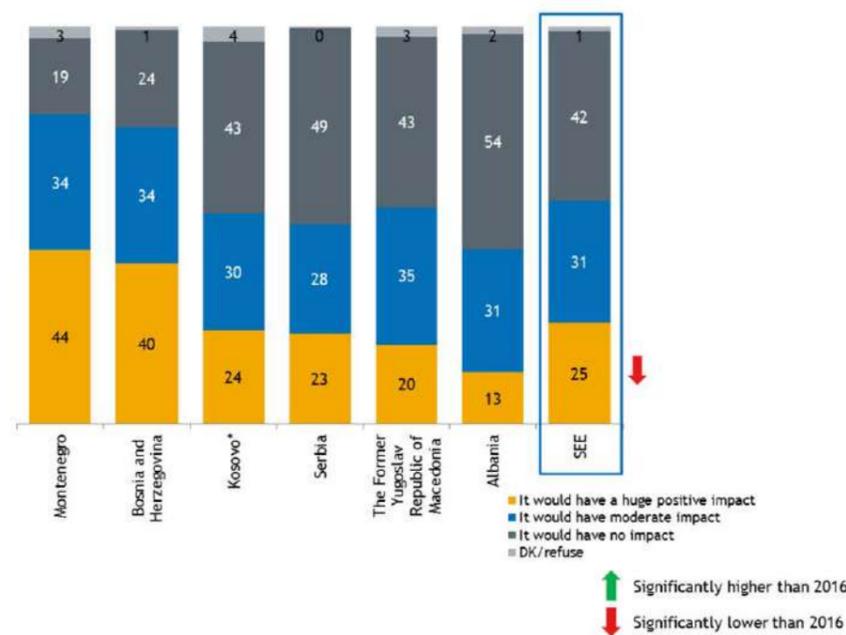
Although satisfaction with transport modes continues to grow at a slow but consistent pace since 2015, there is much room for improvement (the average score is 3.2). Companies in Serbia and Montenegro (both at 3.5) tend to be most content, with the latter economy recording the most sizable increase in satisfaction compared to the previous wave (2.9) - this is likely due to progress made in high-way construction as well as announcements

pledging the reconstruction of the existing road network.

At the other end of the spectrum is Bosnia and Herzegovina, where the business community has further downgraded last year's satisfaction rating of 3.0 to 2.7. In terms of company size, executives of larger companies more frequently cite satisfaction with available transport infrastructure.

Figure 29: Would the removal of mobile phone roaming charges when travelling to SEE have a positive impact on your business?

(All respondents - N=1203, share of total, %)



While the number of respondents who view the elimination of roaming charges as a hugely beneficial measure has decreased (down to 25% in 2017 from 30% in 2016), the majority still find it a useful development for their business (56%).

Executives from Montenegro (44%) and Bosnia and Herzegovina (40%) are much more inclined

to acknowledge the roaming charge removal's positive impact on their operations while businesses from Albania, where the measure is yet to kick in, harbour doubts about its benefit in large numbers (54%). Interestingly, there are no notable differences in perception by company subgroup.

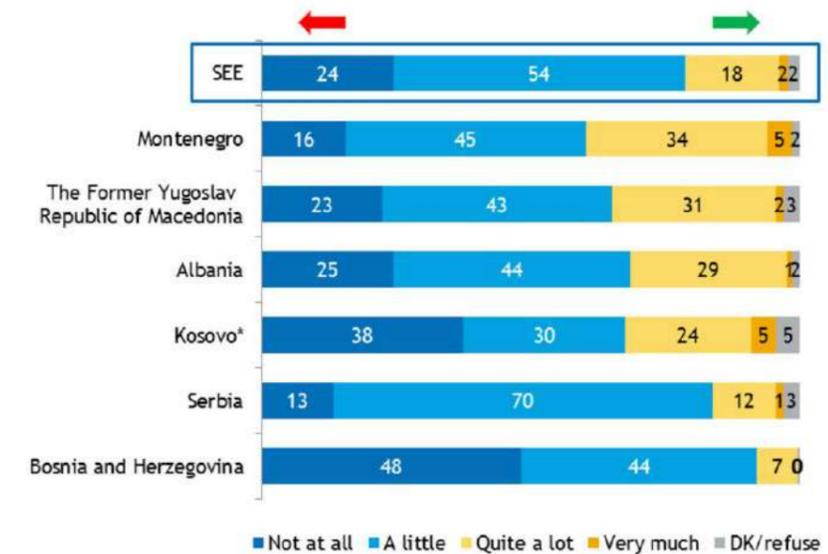
Legal and Regulatory Framework

There are some improvements in responses regarding legality, rule of law, and good governance, i.e. corruption, requiring a deeper examination now that there have been four

instalments of the survey. Given how reluctant businesses tend to be in reporting corrupt practices, the results of this section may not always reflect the full reality on the ground.

Figure 30: How much do you feel the Government takes into account the concerns of businesses?

(All respondents - N=1203, share of total, %)



↑ Significantly higher than 2016
↓ Significantly lower than 2016

Survey results suggest some measure of effort by the region's governments to improve their relationship with the business community. The proportion of companies surveyed that feel their concerns are taken into account by the relevant public authorities has grown to 18% in 2017 from 13% in 2016. Furthermore, the number of respondents who feel ignored by the government has decreased substantially in every year since 2015 (24% in 2017 vs. 31%

in 2016 vs. 40% in 2015). Nonetheless, this is still a near quarter of all respondents which should give the region's governments added impetus to pursue further improvements in this regard.

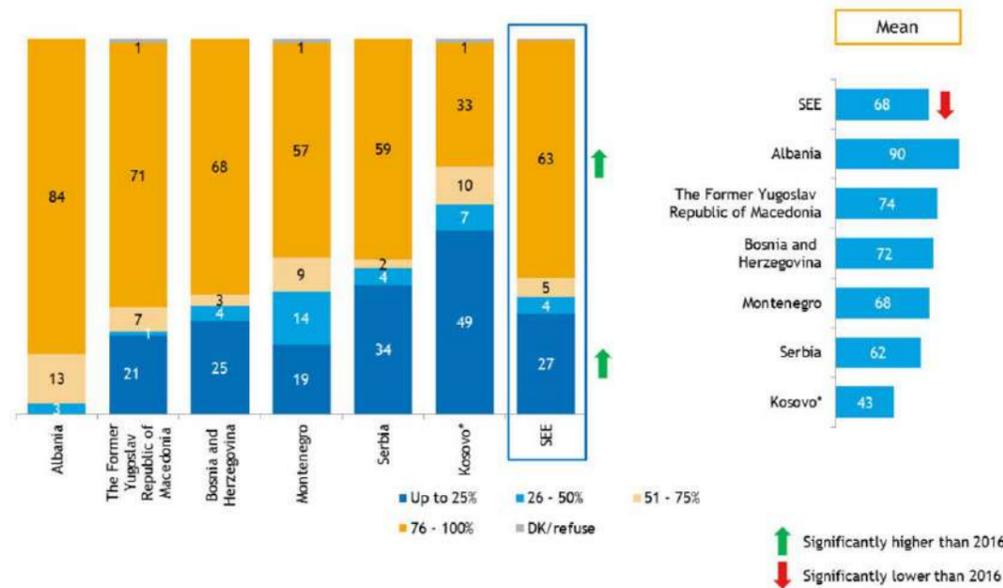
In terms of individual economies, Bosnia and Herzegovina boasts the highest proportion of businesses disappointed with their government's efficiency and responsiveness (48%).

As last year, small enterprises (up to 9 employees) feel especially marginalized in their dealings with authorities. Considering the

importance of small business to the region's economies this is cause for concern.

Figure 31: What percentage of total annual sales would you estimate a typical company in your line of business reports for tax purposes?

(All respondents - N=1203, share of total, %)



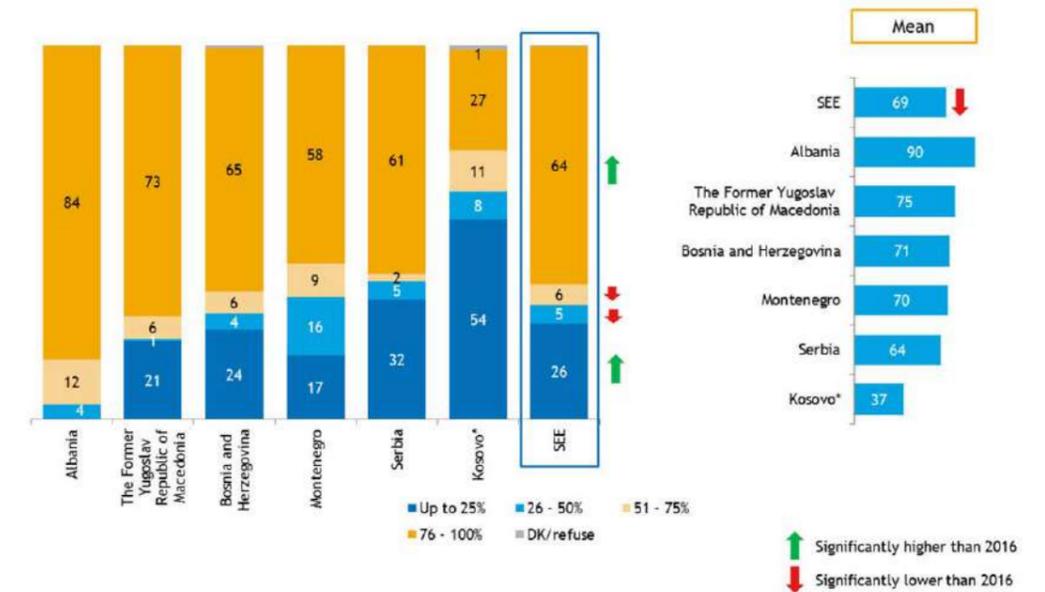
According to surveyed business leaders, a typical SEE firm will report some 68% of its total annual sales for taxation. This is, at first glance, an alarming drop in reported figures compared to the year before (85%), but also all previous years surveyed. The concern with these figures is, however, significantly offset by a newly found candour by the respondents participating in the survey; this time around there were no respondents who refused to answer this question while earlier instalments have seen numbers in this category range from 22% to 26%. Based on figures presented here, and looking at historical trends, it does appear as if the majority of the previously restrained corporate executives estimate their tax numbers in the low bracket with that particular category recording a major boost

(from 3% in 2016 to 27% in 2017). There is no obvious explanation for the sudden increase in transparency by the respondents.

In terms of individual economies, Kosovo* stands out with the highest perceived unreported turnover (57%) with Serbia in distant second (38%). At the other end, Albanian businesses believe that up to 90% of their annual sales are submitted for taxation (90%). As in 2016, larger companies, and non-exporters, are expected to report a higher percentage of their annual sales compared to their smaller counterparts and businesses that are active internationally.

Figure 32: What percentage of the actual wage bill would you estimate a typical company in your area of business reports for tax purposes?

(All respondents - N=1203, share of total, %)

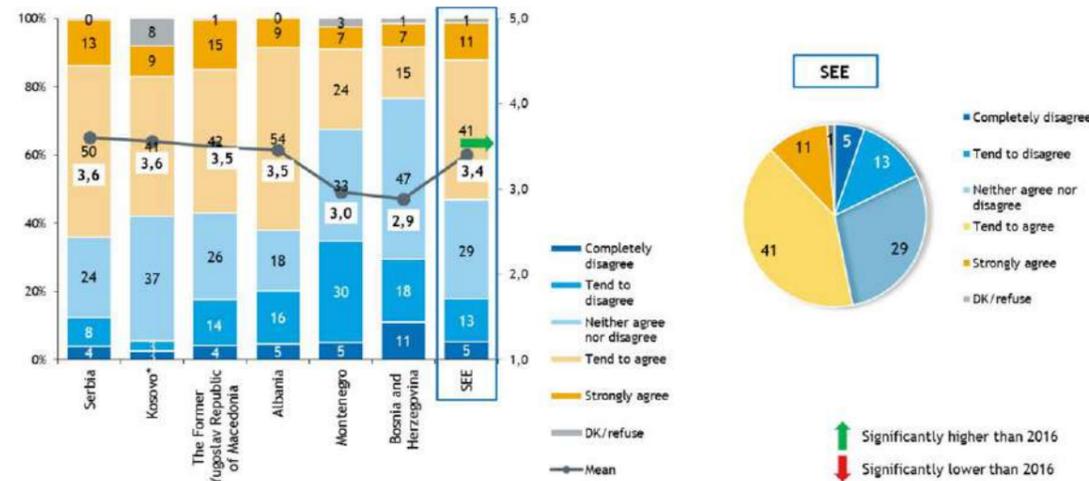


As with taxable sale estimates, there is an alarming drop off in reported actual wages by surveyed businesses (down to 69% in 2017 from 85% in 2016). Again, the number of respondents willing to provide a candid answer is telling when attempting to explain this discrepancy; the proportion of executives who agreed to answer this question in 2017 is 100% - up from 78% in the previous year. As with reported turnover, the number of respondents in the lowest bracket has jumped to 26% from just 2% in 2016. While both turnover and wage bill figures represent a major deviation compared to previous years, it is fair to assume that the 2017 figures are in fact the

most accurate representation of the situation on the ground. With estimates that more than three fifths of actual wage costs remain untaxed (63%), Kosovo* is once again at the bottom end of the scale. As with the previous question, Albania is the regional leader in tax reporting, with the wage bill costs reported at 90%, according to estimates. In terms of corporate subgroups, non-exporters feel that 71% of the actual wage bill is reported while that figure stands at 63% for exporters.

Figure 33: 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=1203, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)

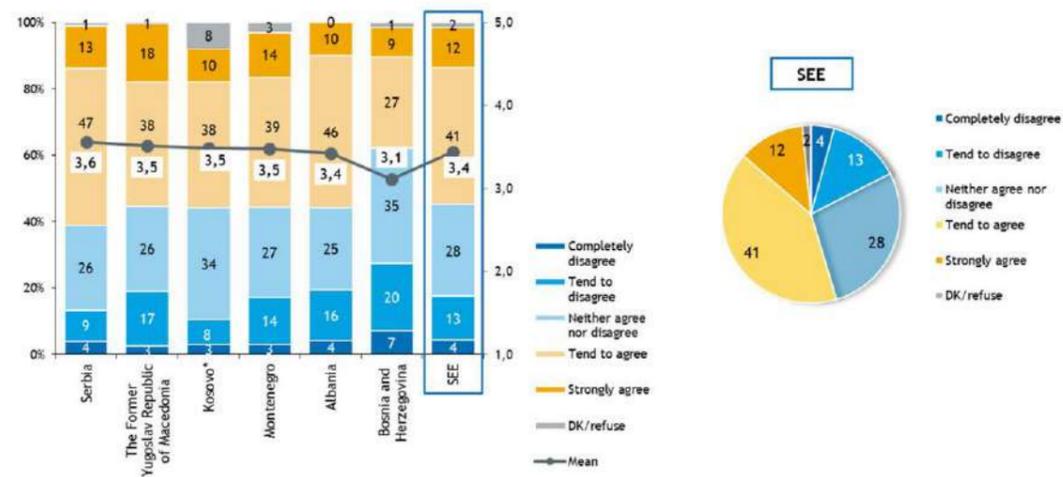


Although the relatively low rating of 3.4 leaves something to be desired, the SEE business community is growing more confident in the regulatory and legal frameworks affecting their companies' operation (from 3.2 in 2016). More than half of all respondents (52%) feel that the regulatory framework is clear, not contradictory and immutable. Businesses

surveyed in Serbia and Albania are much more likely to hold this view (both 63%) than their counterparts from Bosnia and Herzegovina (20%). Possibly due to a greater availability of legal expertise, larger companies tend to find their way around the regulatory framework with more ease than their smaller-in-size counterparts.

Figure 34: 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=1203, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)



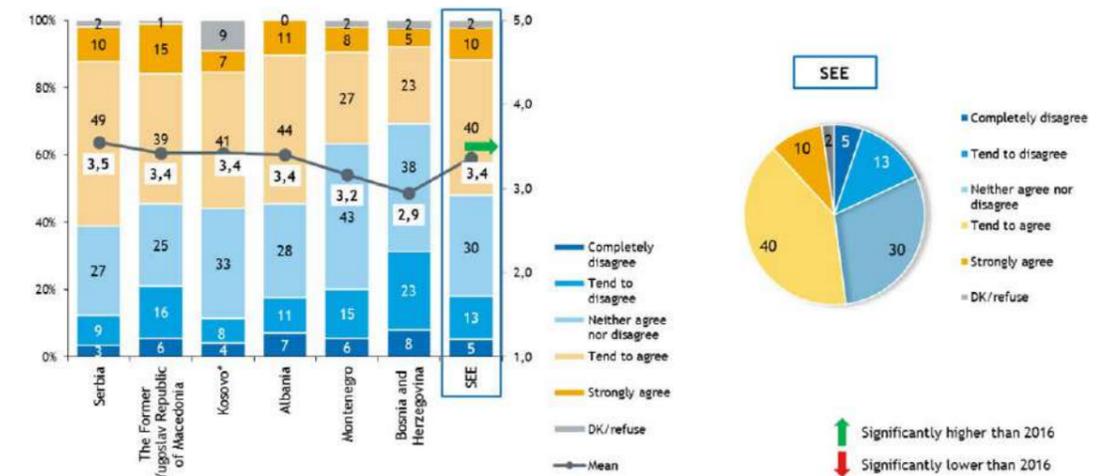
Looking at the availability of relevant information provided by the authorities, the views of survey respondents are relatively positive and largely unchanged to those held last year (3.4).

closely. In fact, business leaders from Bosnia and Herzegovina are the only ones with a markedly divergent attitude (3.1). Looking at the types of businesses surveyed, companies active in agriculture/hunting/fishing/forestry praise their relationships with relevant agencies the most.

Once again, Serbia comes out on top (3.6), with the majority of other economies following

Figure 35: 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=1203, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)



Looking at the cumulative results of this section, and the responses to this question in particular (up to 3.4 in 2017 from 3.2 in 2016), it appears that, in addition to the business population becoming better informed, public administrations across the region are investing more in their relationships with the business community.

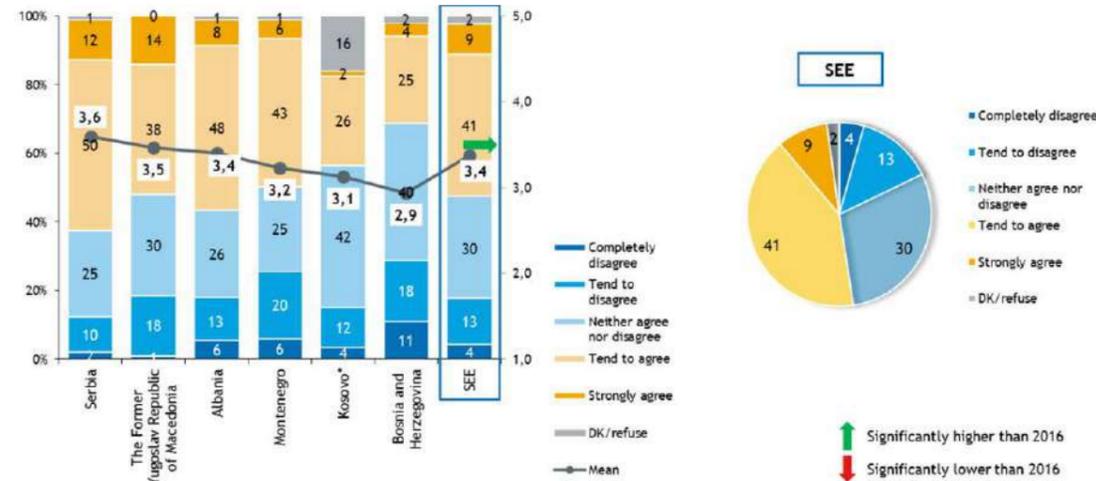
the two extremes on the spectrum.

Once more, larger enterprises tend to be more satisfied with the public administration's performance. The same is true for exporters and companies in heavy industry (3.5), as opposed to non-exporters and companies operating in service (3.3) or educational/scientific/arts sectors (3.2).

This is encouraging as it suggests a certain efficiency and consistency in the application of law, major preconditions for economic growth and stability. Looking at the region's economies separately, Serbia (3.5) and Bosnia and Herzegovina (2.9) are again representative of

Figure 36: To what extent do you agree with the following statement - Requests for information held by a government agency are granted in a timely manner?

(All respondents - N=1203, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)

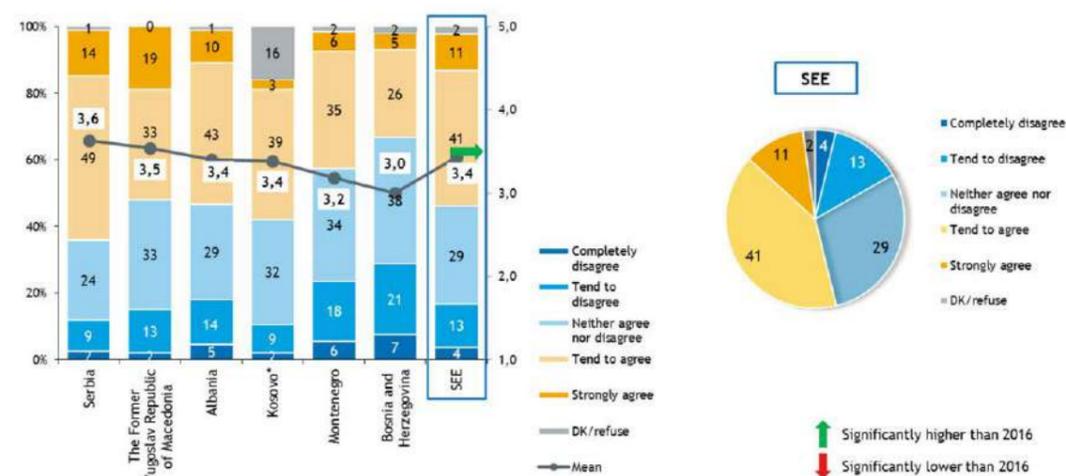


In addition to improvements in the appraisal of the quality of government performance by business leaders, there has been some, if minimal, improvement in service efficiency as well (up to 3.4 in 2017 from 3.3 in 2016). Half of all business leaders surveyed have a positive view of the government's timeliness in granting information requests while 30%

are neutral and 17% are dissatisfied. Resolving information requests takes the least amount of time in Serbia (3.6) and the most in Bosnia and Herzegovina (2.9). Larger companies, as well as business entities engaged in production activities, cite the timeliness of information granted by the government more often than others.

Figure 37: To what extent do you agree with the following statement - The information provided is pertinent and complete?

(All respondents - N=1203, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)

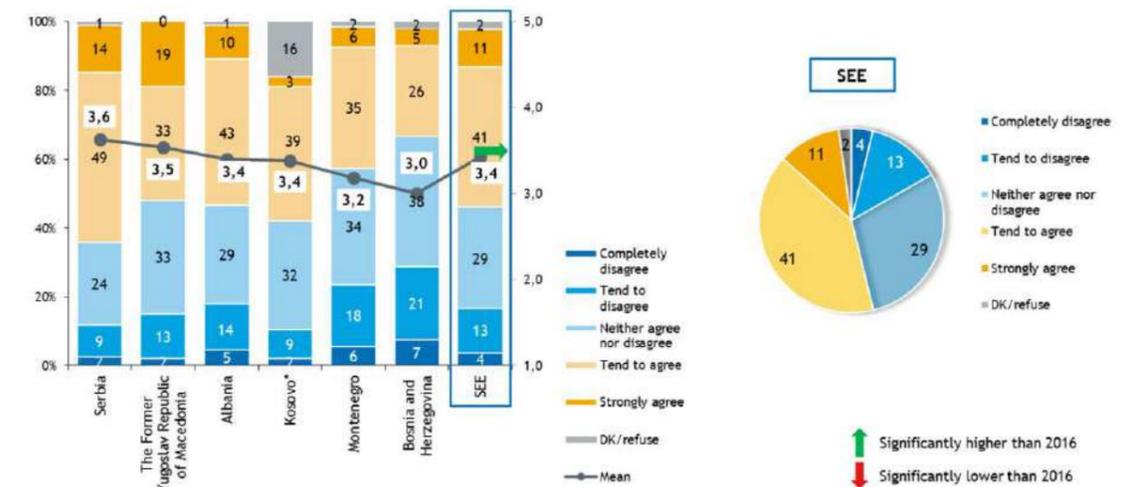


Largely in line with the timeliness satisfaction figures, the majority of SEE business leaders (52%) positively rate the completeness and relevance of information provided (the average score is 3.4). The level of satisfaction is moderate even for Bosnia and Herzegovina (3.0), where most indicators of government performance are rated at below average.

A more detailed analysis confirms the standing relationship between company size and service satisfaction; larger companies are much more likely to receive information that is pertinent and complete. At the same time, agriculture-related firms are much more content than the regional average, possibly due to a more modest set of initial expectations.

Figure 38: To what extent do you agree with the following statement - Requests for information held by a government agency are granted at a reasonable cost?

(All respondents - N=1203, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)



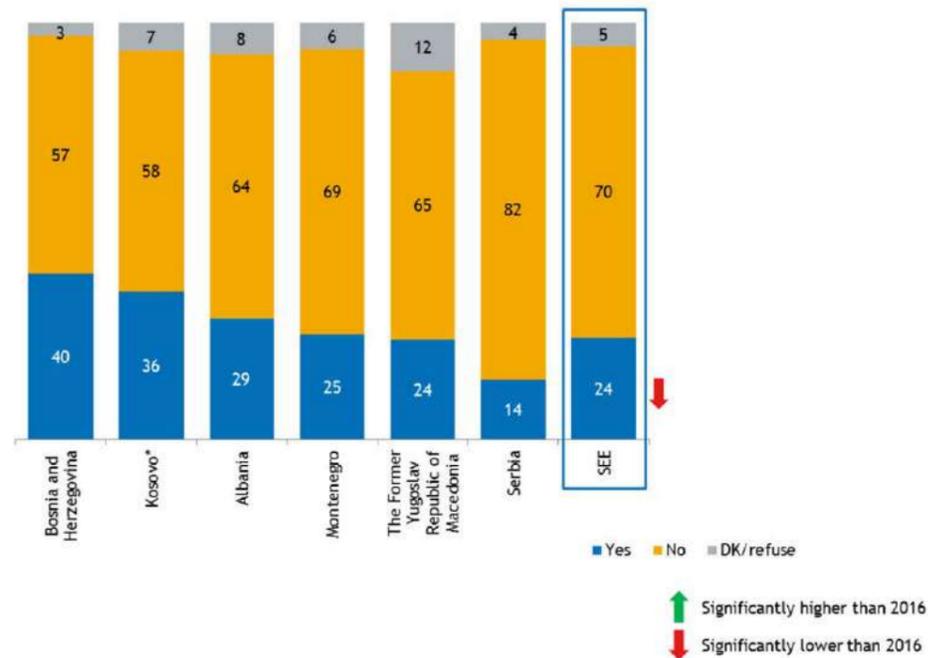
Continuing the general trend of improved satisfaction with government performance, 52% of respondents feel that the state administration provides the service requested at a reasonable cost (up to 3.3 in 2017 from 3.1 in 2016). This view is most common in Serbia (3.6), and as expected, Bosnia and Herzegovina occupies the other end of the satisfaction spectrum (3.0).

seems to be boosted chiefly by improvements in Serbia's performance across all segments. At the same time, private sector opinion in Bosnia and Herzegovina is strongly suggestive of a need for the government to become more business friendly. Other regional economies have largely stabilized in the space between the two extremes, but still closer to Serbia.

Taking into account the aggregate findings of this section, there is evident, if incremental, progress in the relationship between the government and its business community. Importantly, however, the regional score

Figure 39: In the past three years, has your company decided not to take part in a public tender or a public procurement procedure?

(All respondents - N=1430, share of total, %)

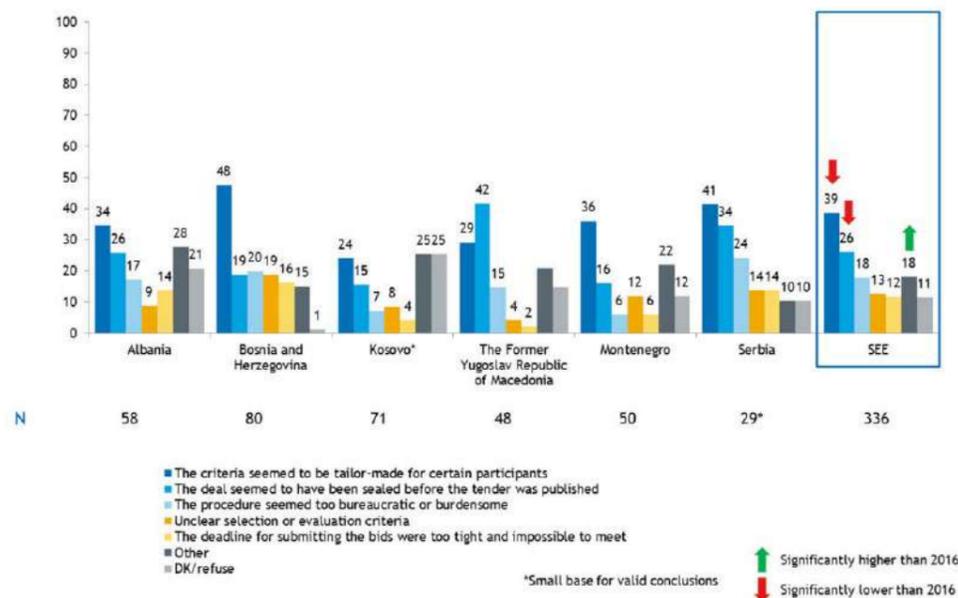


A quarter of companies surveyed (24%) have not participated in a public procurement procedure over the past three years, down from 29% in 2016. The practice of giving public tenders a wide berth is most prevalent in

Bosnia and Herzegovina (40%), not surprising considering the dominant perception of government, and public administration, by the business sector.

Figure 40: 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=336, share of total, %)



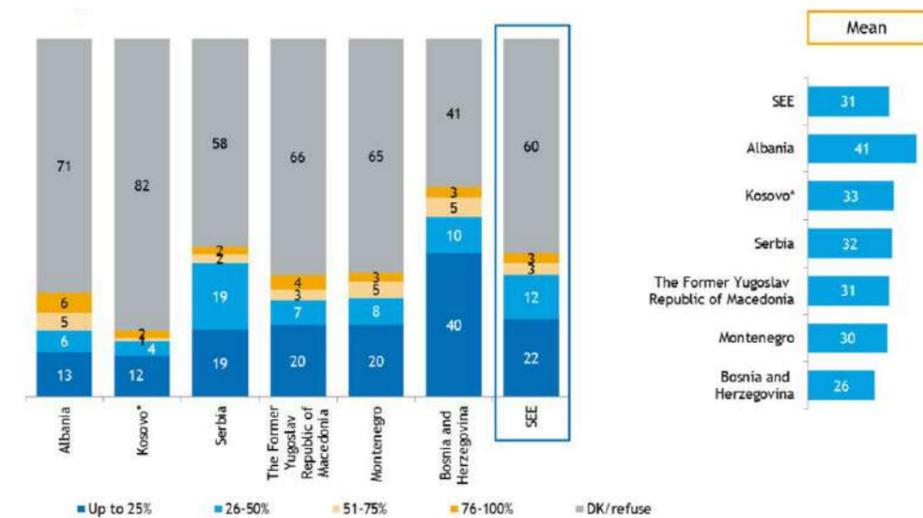
Multiple answers question

Although to a significantly smaller extent than last year, suspicion that tender conditions are designed with a particular bidder in mind dominates the reasoning behind not taking part in public procurements (down to 39% in 2017 from 51% in 2016). The impression that an informal deal had already been made, making the procurement procedure a mere formality, is again the second most prevalent reason cited (although down to 26% in 2017 from 42% in 2016).

Nearly a fifth of all respondents (18%) point to a cumbersome bureaucratic tendering process as the principle barrier. Representatives of companies from The Former Yugoslav Republic of Macedonia are especially inclined to cite a pre-existing agreement outside of the formal public procurement process (42%) while their counterparts from Bosnia and Herzegovina most frequently suspect the tailoring of tender requirements to a preferred bidder (48%).

Figure 41: What is the share of the public procurement market in your company's last year overall turnover? (NEW QUESTION)

(All respondents - N=1203, share of total, %)

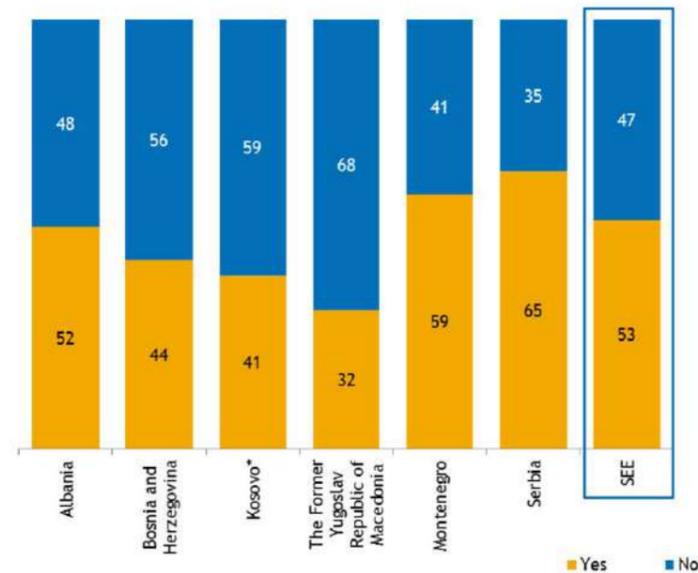


At regional level, roughly a third (31%) of the overall turnover in 2016 comes from public procurements. Albanian companies (41%) benefit from public funds to a considerably

higher level than their counterparts in Bosnia and Herzegovina (26%), The Former Yugoslav Republic of Macedonia (31%) and Serbia (32%).

Figure 42: Have you been contacted for any reason by some public procuring entities over the previous 3 years? (NEW QUESTION)

(Respondents whose company has earned any revenue from public procurement - N=435, %)

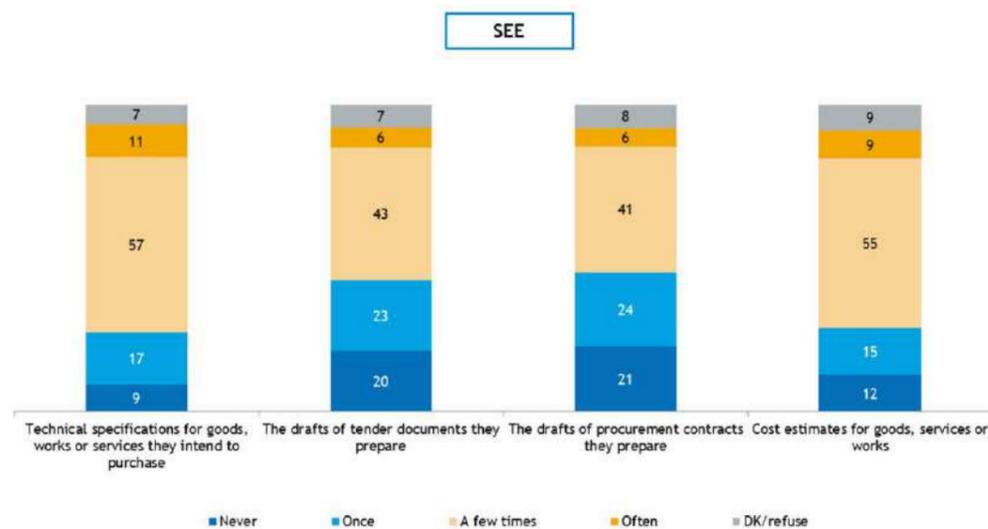


More than half of SEE companies surveyed (53%) have been contacted by public procuring entities over the previous period. This practice is most common in Serbia (65%) and

Montenegro (59%) while at the other end, businesses in The Former Yugoslav Republic of Macedonia field fewest queries (32%).

Figure 43: Over the past three years, how often have public procuring entities been in contact to consult you on the following? (NEW QUESTION)

(Respondents who have been contacted by some public procuring entities over the previous 3 years - N=215, %)

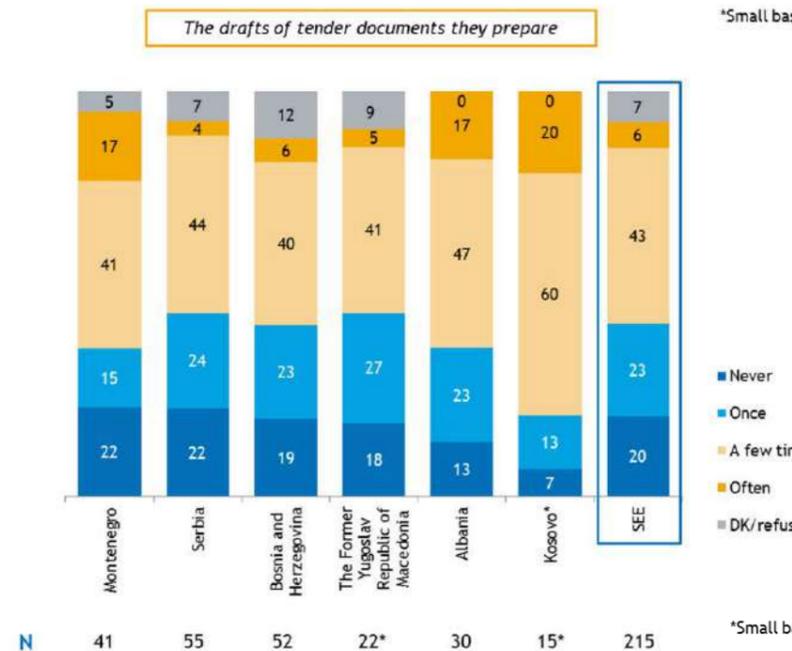
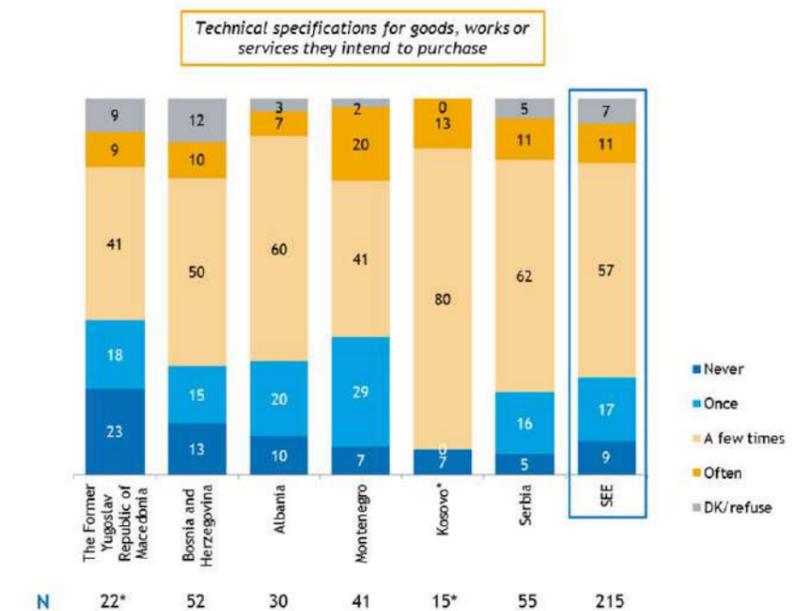


Public procuring entities in the SEE region consult the private sector most often in the course of developing product technical specifications and cost estimates. Although the contacts are largely sporadic, they represent an example of good practice and contribute to the further development and strengthening of relationships between government and the business community.

Looking at each economy individually, Serbian and Montenegrin companies are more likely to be solicited to provide advice in the process of developing technical characteristics for goods/services to be purchased. At the same time, Serbian businesses are less likely to be consulted on draft tender documents or contracts than in any other economy in the region.

Figure 44: Over the past three years, how often have public procuring entities been in contact to consult you on the following? (NEW QUESTION)

(Respondents who have been contacted by some public procuring entities over the previous 3 years - N=215, %)



*Small base for valid conclusions

*Small base for valid conclusions

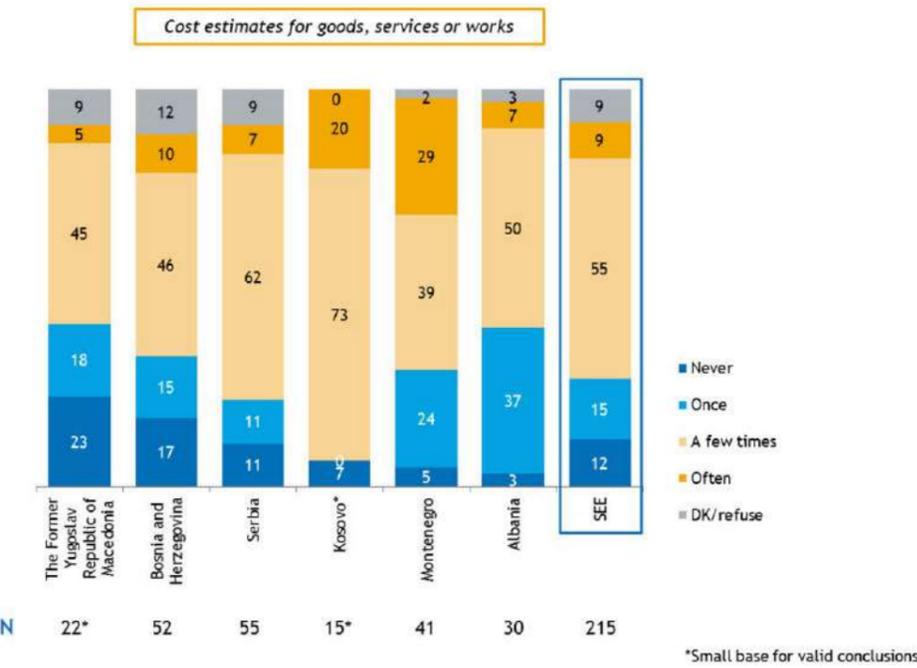
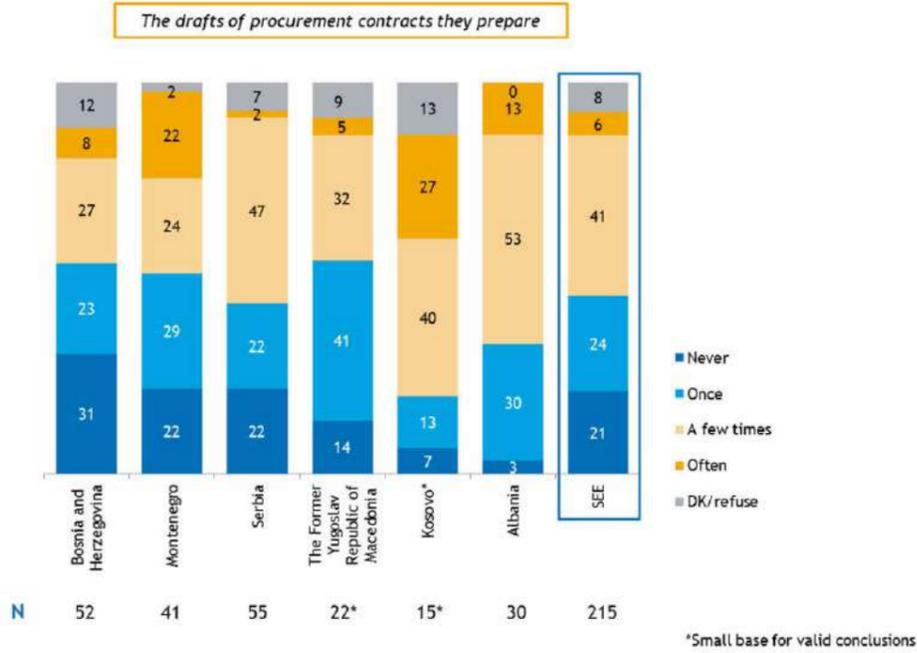
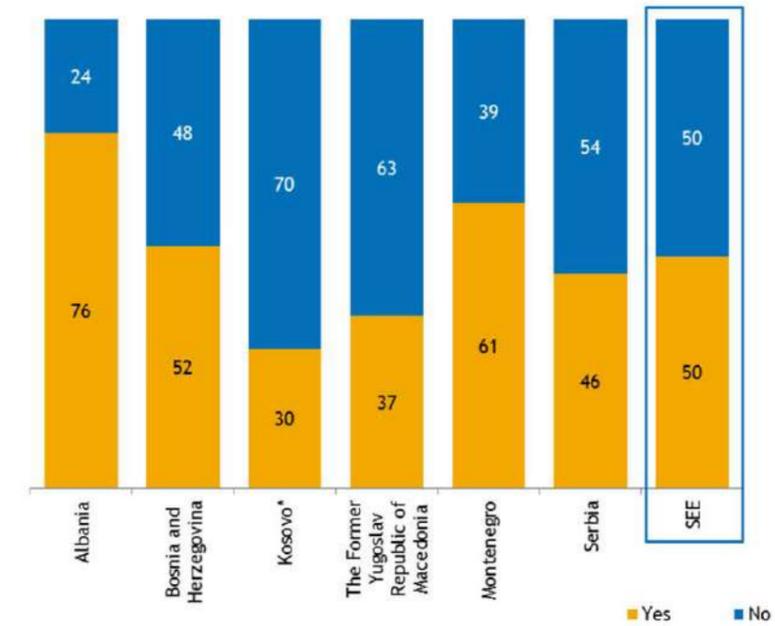


Figure 45: Have you used guidelines or manuals produced by the national procurement authority in the past three years? (NEW QUESTION)

(Respondents whose company has earned any revenue from public procurement - N=435, %)

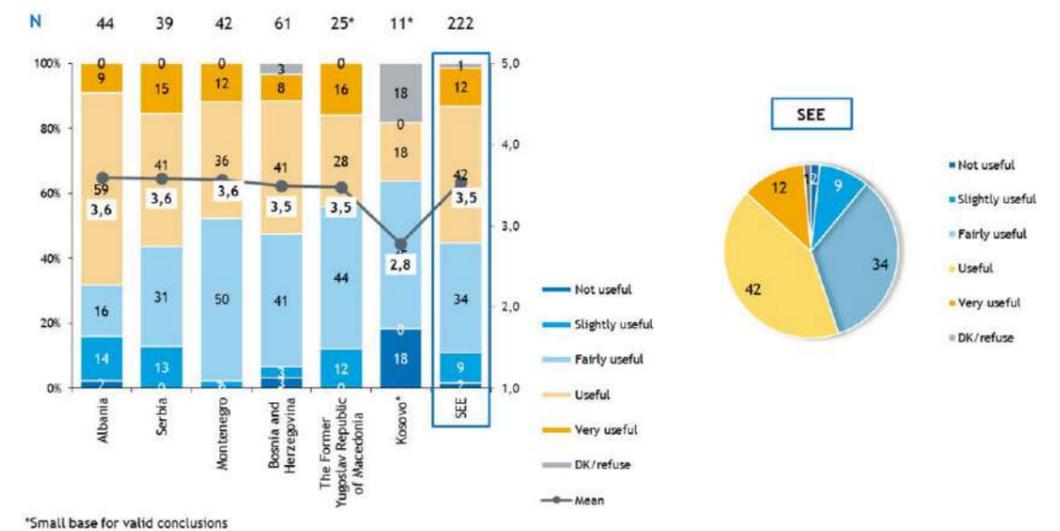


Half of all SEE firms that have been awarded a public contract indicate following official guidelines when applying for tendered projects. There is a fairly large discrepancy between the economies in this regard; while Albanian companies are consistently guided by manuals produced by national procurement

and contracting authorities (76%), in Kosovo*, only one out of three companies report following the relevant guidelines. This is a noteworthy statistic as Figure 41 shows Albanian companies as the most successful bidders in the region.

Figure 46: In general, how useful were the guidelines and manuals you used for solving your practical problems? (NEW QUESTION)

(Respondents who have used guidelines or manuals produced by the national procurement authority in the past three years - N=222, scores are on a scale of 1 to 5 where 1 means not useful and 5 very useful, share of total, %, mean)



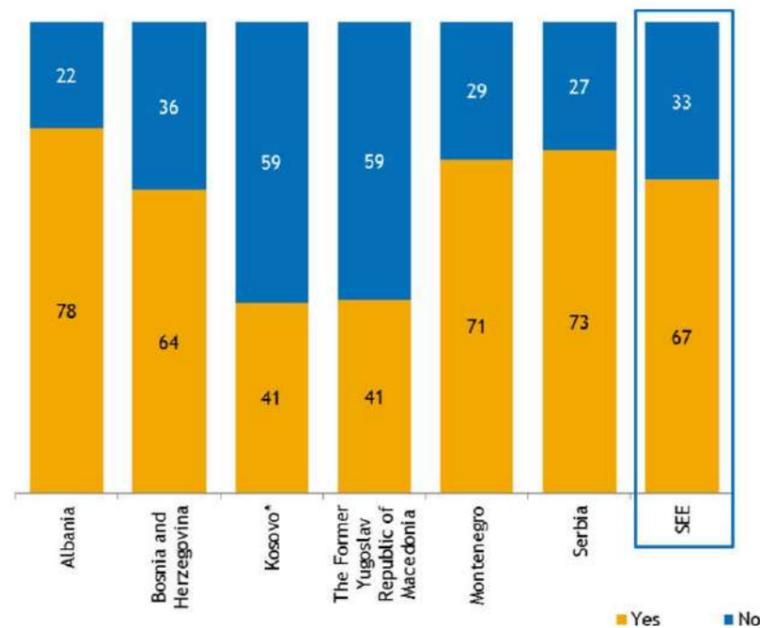
*Small base for valid conclusions

The SEE business community largely considers government procurement guidelines to be helpful in solving practical problems (the average score is 3.5). This is not only true of Albania, where companies benefit from government contracts the most, but across all other economies as well.

Procurement guidelines are of much more use to medium-sized companies than to smaller businesses; this, however, may have something to do with the nature of government contracts that tend to favour larger businesses with bigger operations.

Figure 47: When participating in public procurements, have you used the standard forms or models provided by the national procurement authority in the past three years? (NEW QUESTION)

(Respondents whose company has earned any revenue from public procurement - N=435, %)



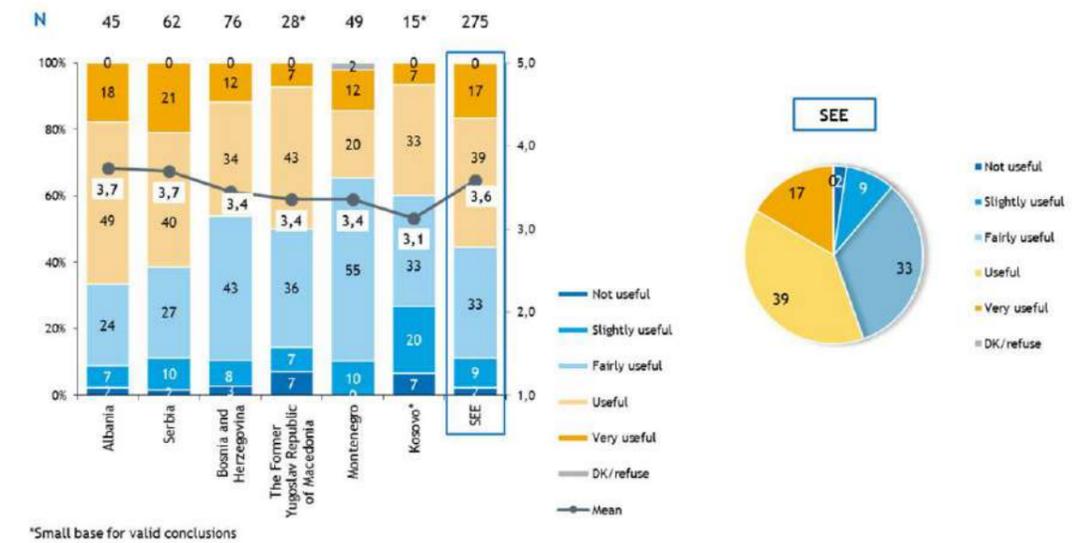
Two thirds of all business entities competing in a public procurement process have used standardized templates produced by the national procurement authority. This number is significantly higher in Albania (78%), Serbia (73%) and Montenegro (71%). Bosnia and Herzegovina is at the SEE average (64%), while companies in Kosovo* and The Former Yugoslav

Republic of Macedonia employ standard forms to a much lesser degree (both 41%).

There are some variations that appear to be linked to size of corporate entity; 45% of micro firms find the templates convenient, compared to 30% for small, and 27% for medium-sized.

Figure 48: How would you rate the usefulness of the standard forms or models? (NEW QUESTION)

(Respondents who have used the standard forms or models provided by the national procurement authority in the past three years - N=275, scores are on a scale of 1 to 5 where 1 means not useful and 5 very useful, share of total, %, mean)



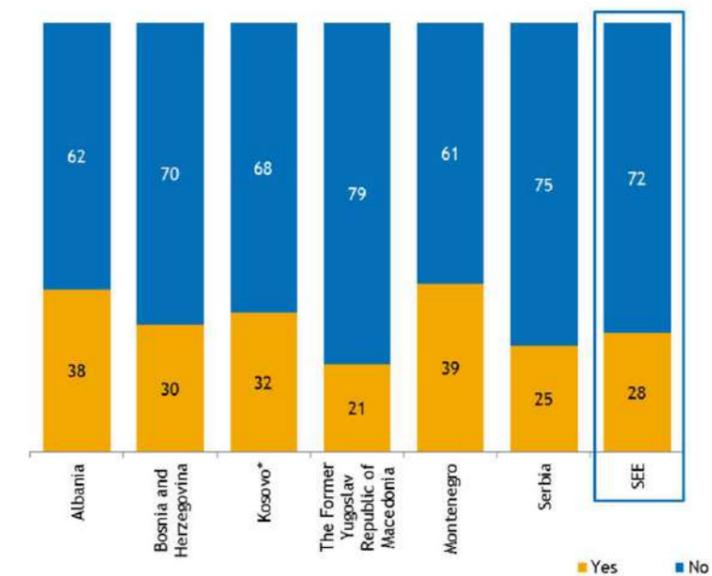
*Small base for valid conclusions

Respondents from companies that utilize standardized forms or templates when competing for public contracts assess them as fairly useful (3.6). Corporate entities from

Albania and Serbia are most satisfied with their utility, with a 3.7 rating, while the rest of the region follows closely.

Figure 49: Have you or somebody else from your company attended any training on public procurement in the past three years? (NEW QUESTION)

(Respondents whose company has earned any revenue from public procurement - N=435, %)

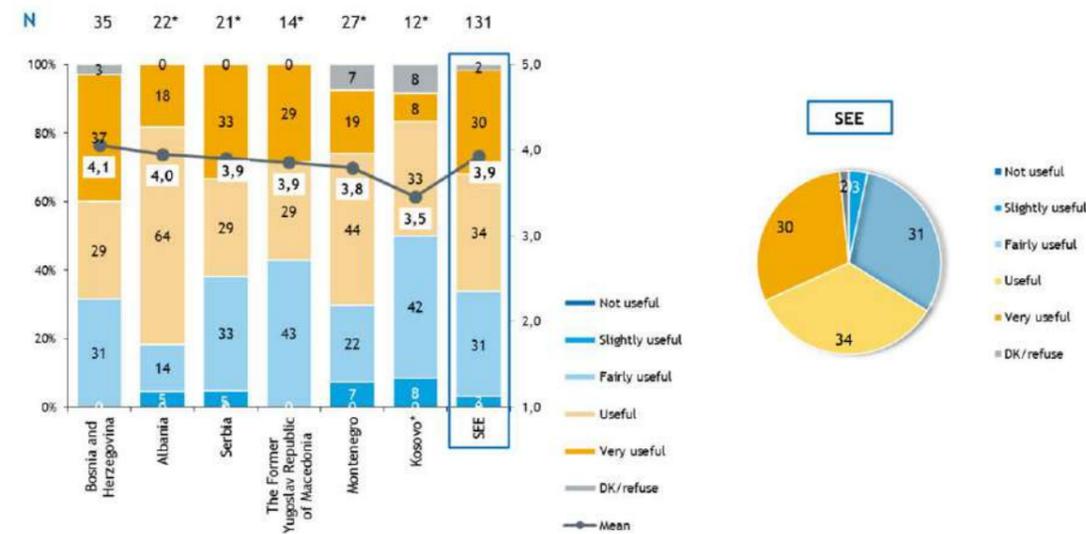


Roughly a quarter (28%) of all companies awarded public contracts in the region are interested in acquiring additional knowledge or information through taking part in relevant trainings. Albanian corporate leaders express

the most interest in public procurement training opportunities (38%), an unsurprising finding considering how much of their turnover originates from public funds.

Figure 50: How would you rate the usefulness of the training in general? (NEW QUESTION)

(Respondents who have attended training on public procurement in the past three years - N=131, scores are on a scale of 1 to 5 where 1 means not useful and 5 very useful, share of total, %, mean)



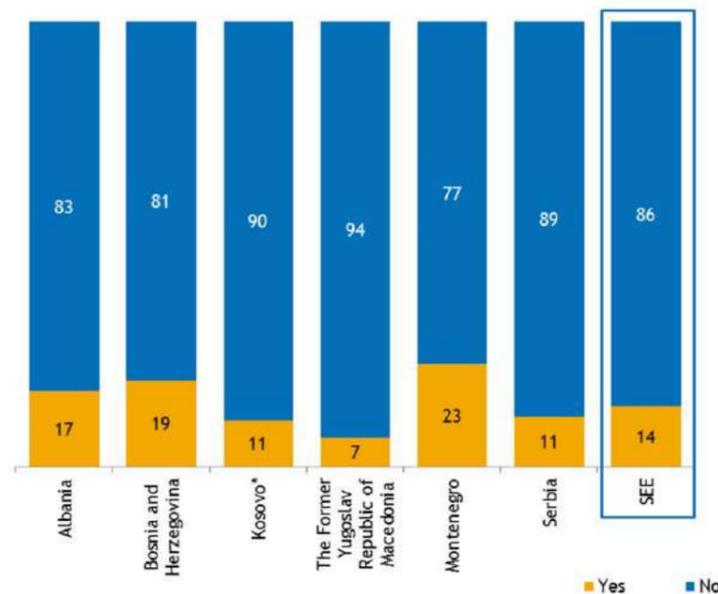
*Small base for valid conclusions

According to feedback providing by SEE executives in attendance, training sessions on public procurement procedures are very useful - two thirds of trainees surveyed describe themselves as better equipped to compete for

public contracts after completing the course (the average score is 3.9). However, due to an insufficient number of qualified respondents, i.e. size of sample, interpreting results at economy level is not advised.

Figure 51: Have you contacted the national procurement authority for advice or other support in the past three years? (NEW QUESTION)

(All respondents - N=1203, share of total, %)

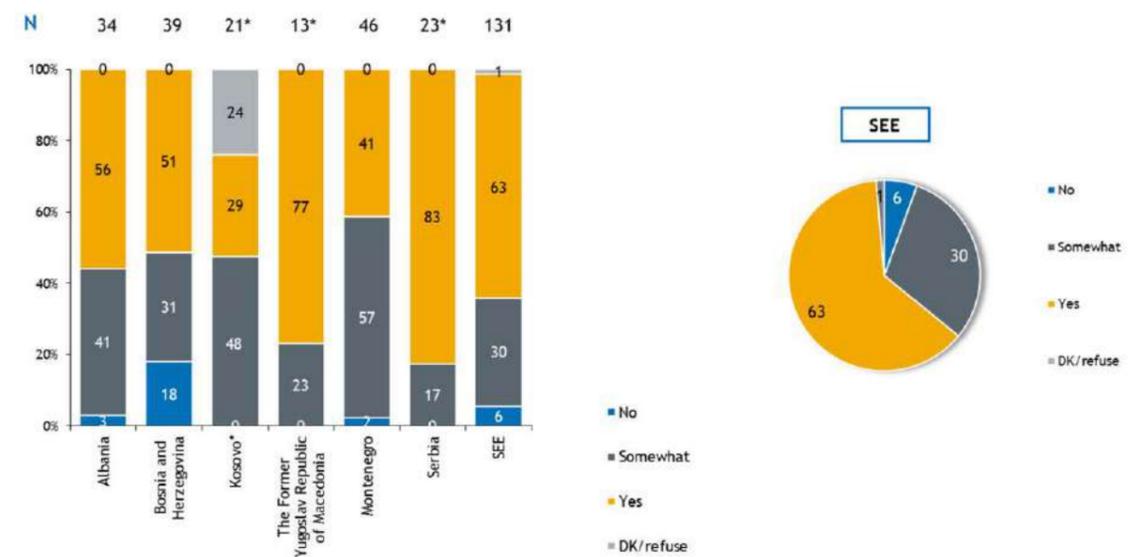


Broadly speaking, the practice of reaching out to national procurement authorities for help or support in the process of competing for public contracts is not well established within the SEE business community; only 14% of companies surveyed confirm some form of contact with relevant agencies over the past three years. Montenegro leads the region with the highest proportion of firms that find

consultations with relevant authorities useful (23%), while The Former Yugoslav Republic of Macedonia stands at the low end of the spectrum with less than half the regional average (7%). Enterprises with more than 50 employees, as well as those operating abroad, are more likely to engage relevant authorities on public procurement related issues.

Figure 52: Were the answers provided generally helpful? (NEW QUESTION)

(Respondents who have contacted the national procurement authority in the past three years - N=176, %)



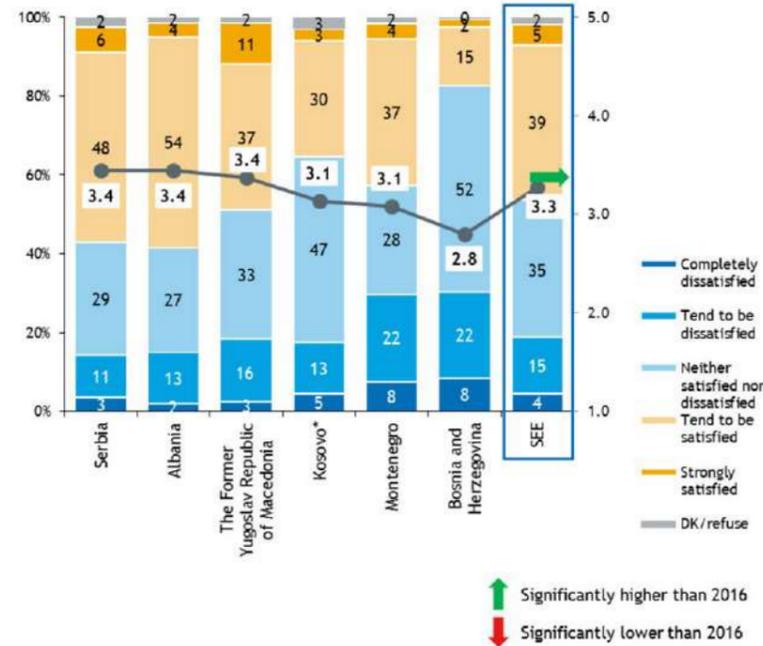
*Small base for valid conclusions

The majority of business leaders (63%) who have contacted the national procurement authority find the feedback received helpful, while roughly a third (30%) describe it as partially helpful. Only 6% of respondents report receiving no help from the relevant authorities. Once again, the number of qualified respondents by economy prevents any informed comparison across the region.

The results, if limited, do indicate that businesses need to be proactive in reaching out to procurement authorities as some 93% of all requests are dealt with in at least a partially satisfactory manner.

Figure 53: Could you please tell me how satisfied you are with each of the following in your place of living - Public services for businesses?

(All respondents - N=1203, scores are on a scale of 1 to 5 where 1 means completely dissatisfied and 5 strongly satisfied, share of total, %, mean)

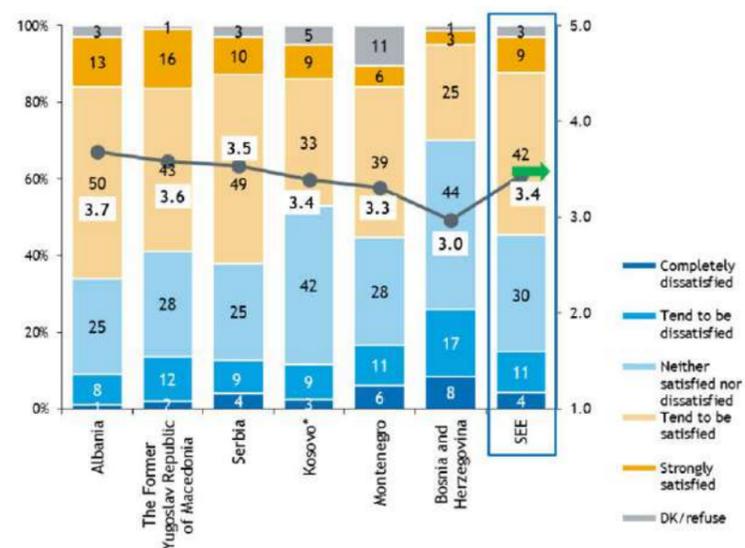


Business satisfaction with public services across the region continues to grow and currently stands at 3.3 (the average score in 2016 was 3.1). Executives from Serbia, Albania and The Former Yugoslav Republic of Macedonia (all three rated at 3.4) tend to be the most contended with services on offer, while Bosnia and Herzegovina comes in at the bottom with

a rating considerably below the SEE average (2.8). The level of satisfaction with public services for business grows in proportion to company size. Likewise, heavy industry (3.4) is more likely to have a positive opinion of services on offer than their counterparts in the service (3.2) and educational/scientific/arts sectors (3.1).

Figure 54: Could you please tell me how satisfied you are with each of the following in your place of living - Digital services currently provided by the public administration for businesses?

(All respondents - N=1203, scores are on a scale of 1 to 5 where 1 means completely dissatisfied and 5 strongly satisfied, share of total, %, mean)

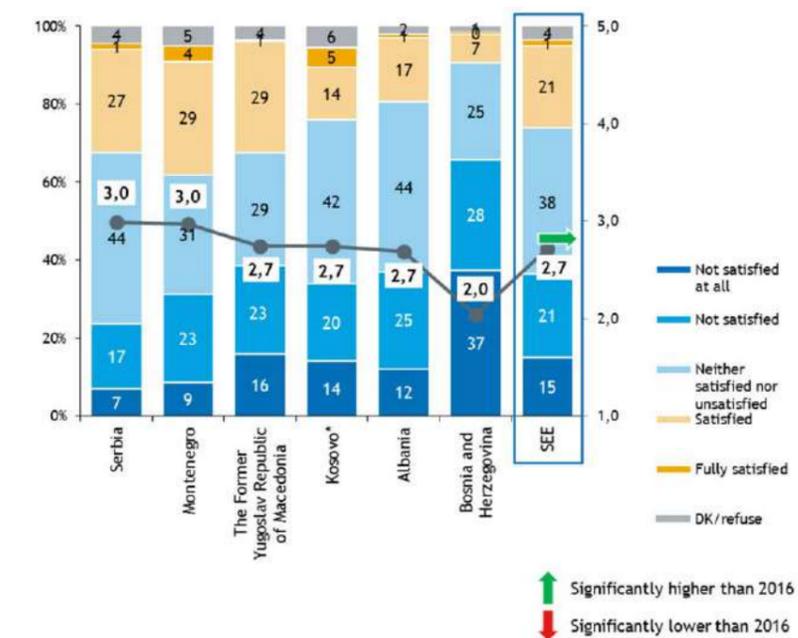


Satisfaction with digital services across the region is on the rise (from 3.1 in 2016 to 3.4 in 2017). Businesses in Albania (3.7%) continue to lead the appreciation charts for new technologies with all other economies closely following. The only exception is Bosnia and

Herzegovina where digital services have been given a below average rating by the business community. Interestingly, companies from the industry/mining/construction sector recognize the benefits of digitalization more frequently than others.

Figure 55: To what extent are you satisfied with how the government consults and involves the private sector when developing new laws and regulations relevant for doing business?

(All respondents - N=1203, scores are on a scale of 1 to 5 where 1 means not satisfied at all, 2 not satisfied, 3 neither satisfied nor unsatisfied, 4 satisfied and 5 fully satisfied, share of total, %, mean)



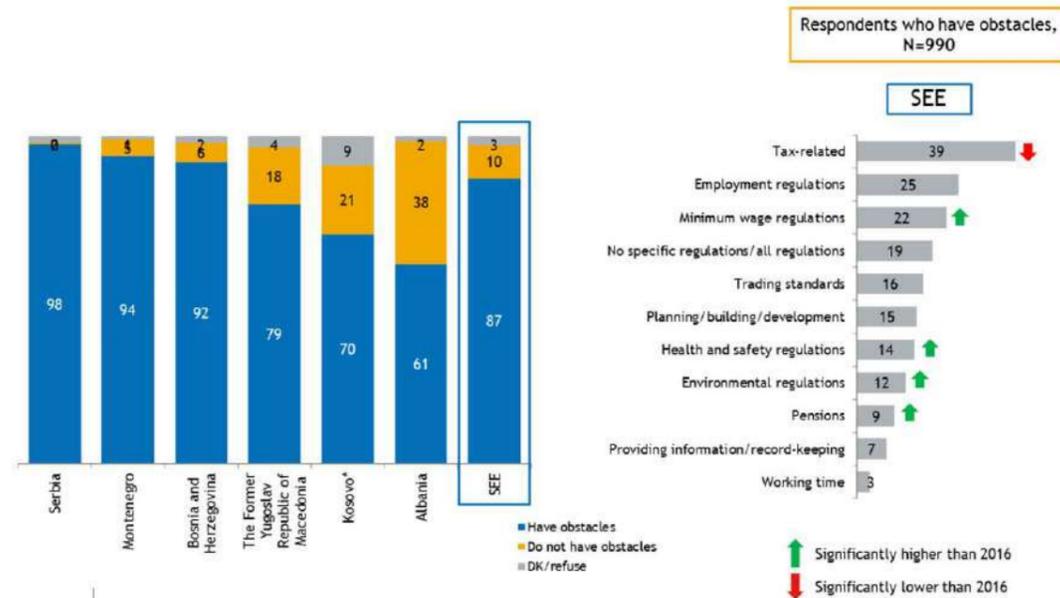
While there have been incremental improvements in this regard since 2014 (from 2.3 in 2014 and 2015, through 2.5 in 2016 to 2.7 in 2017), the region's private sector remains predominantly unhappy with the government's policy making process when it comes to business regulation. Out of all the various aspects of the public-private relationship examined here, this is probably the most important. Unfortunately, it is also one of the most problematic. At regional level, a mere fifth of respondents feel sufficiently involved in policy discussions that will likely have a direct impact on their operations.

Companies from Bosnia and Herzegovina are especially dissatisfied (2.0), as expected, considering their overall sentiment towards the government. Even in Serbia and Montenegro, where the two governments' share the regional high score at 3.0, the relationship is far from good enough.

A more detailed breakdown by company type shows that larger corporations (3.2), as well as those that are active internationally (2.8), tend to be more satisfied with their role in the policy making process.

Figure 56: Which regulations do you consider to be an obstacle to the success of a business?

(All respondents - N=990, two answers allowed, share of total, %)



There has been no change in the number of respondents who consider regulatory issues to be a barrier to the success of their business since 2016. At the same time, new trends in ranking and prioritization of various barriers are becoming evident. While tax regimes continue to lead the field, their share is down by

7% while roughly a fifth of respondents (22%) report struggling with minimum wage regulations - a considerable increase from 12% in 2016. In addition, with each new year, the regional business community reports increasing burdens in the form of health and safety rules, environmental issues, as well as pensions.

Table 2: Regulations considered to be an obstacle to the success of the business (for each economy)

(Respondents who have obstacles - N=990, %)

For each economy

N		Tax-related	Employment regulations	Minimum wage regulations	No specific regulations/all regulations	Trading standards	Planning/building/development	Health and safety regulations	Environmental regulations	Pensions	Providing information/record-keeping	Working time
990	SEE	39	25	22	19	16	15	14	12	9	7	3
122	Albania	67	15	16	10	21	22	9	15	2	13	1
185	Bosnia and Herzegovina	39	29	16	24	8	10	12	19	14	4	2
140	Kosovo*	26	11	57	10	14	9	27	9	11	7	9
158	The Former Yugoslav Republic of Macedonia	36	13	22	27	12	14	14	7	5	16	8
187	Montenegro	46	28	16	16	21	17	9	8	7	10	9
198	Serbia	35	29	22	18	20	16	15	11	10	5	2

Main obstacles

While Albania stands out as the economy with fewest regulatory challenges (38%) reported by companies, it is also the one most burdened with taxation (67%). At the same time, virtually all Serbian companies surveyed (98%) report experiencing some problem brought about by existing regulations, but with no one highlighted as especially problematic or prevalent.

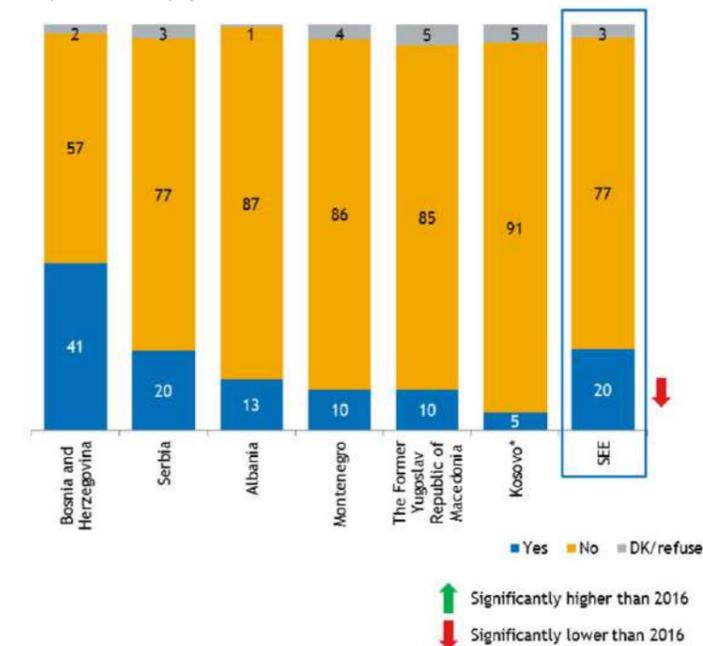
As last year, Kosovo's* businesses (57%) are focused on minimum wage requirements to an extent significantly above the SEE average. Serbia and Montenegro perceive employment standards as well as trading norms especially

cumbersome. Interestingly, while the majority of firms in Bosnia and Herzegovina report taking some mitigation measures to address their harmful impact on the environment (Figure 18), they encounter issues related to environmental regulations more often than any other economy in the region.

Analysis by company's area of business indicates that enterprises in agricultural and related fields cite all regulations as barriers to growth (30%). Furthermore, larger companies tend to be more concerned about labour-related legislation, to include employment laws as well as health and safety regulations.

Figure 57: Has your company had any cases in arbitration courts in the last 36 months?

(All respondents - N=1203, share of total, %)

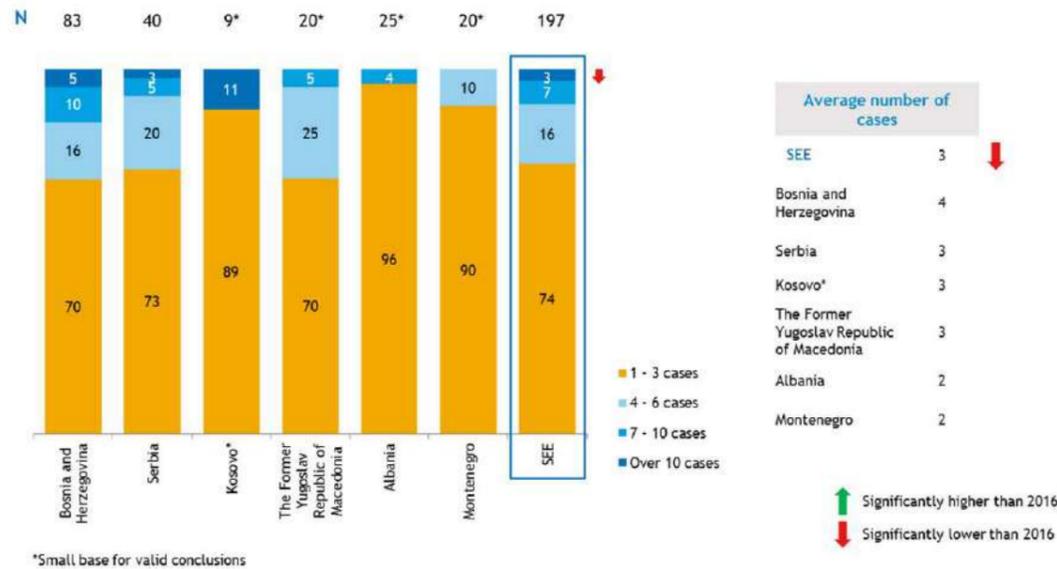


The number of companies seeking dispute resolution through the courts has declined somewhat in comparison to 2016 (down to 20% in 2017 from 24% in 2016). Bosnia and Herzegovina remains the leader, and convincingly so, with two fifths of all enterprises surveyed appearing before arbitration courts in the past 3 years. Kosovo* is at the other extreme with a mere 5%.

Court cases are significantly more frequent among companies employing more than 49 employees. Also, firms active outside the borders of their own economy, as well as enterprises operating in heavy industry, are compelled to seek redress through the courts more often.

Figure 58: How many cases in civil or commercial arbitration courts have involved your company either as a plaintiff or as a defendant in the last 36 months?

(Respondents who had cases in arbitration courts - N=197, %)



The regional average for cases processed in the past 36 months has markedly decreased, from 9 in 2016 to 3 in 2017. There are noticeably fewer businesses involved in more than 10 cases (3% in 2017 vs. 8% in 2016). The

largest caseload was recorded in Bosnia and Herzegovina (4 on average) but with a relative poverty of relevant statistical data for the other economies, any comparison would be ill informed.

Accessibility of Loans

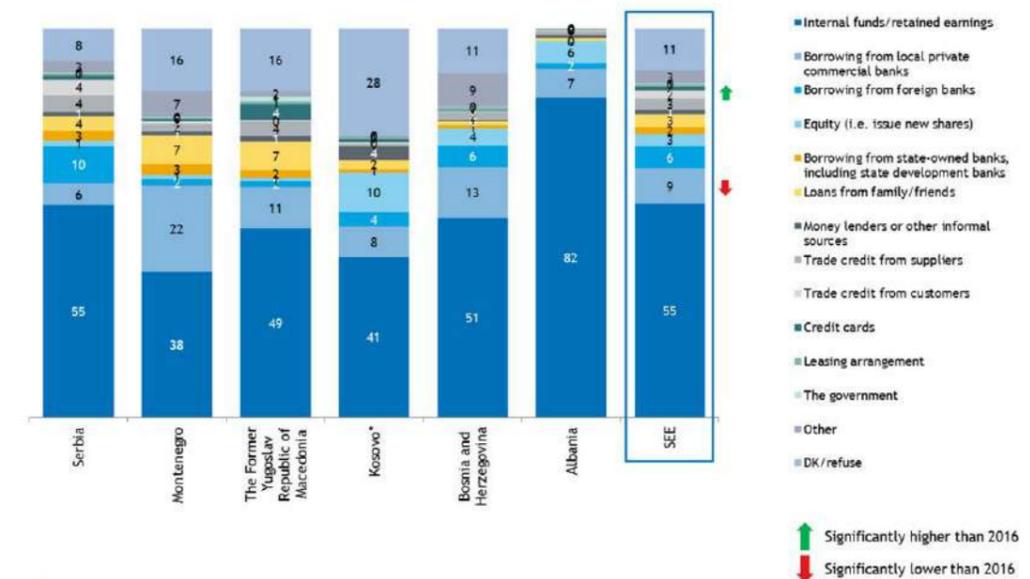
Typically for developing economies, most investment comes from retained profits while larger firms tend to rely more on credit.

Key deficiencies related to access to finance relate to a lack of support for start-ups and an underdeveloped capital market. With the capital market unlikely to improve in the near term, a low dependence on bank loans does

suggest problems in the operation of the financial markets as banks seem unwilling to extend lending terms, a likely direct consequence of a relatively high share of bad loans still listed on their books. The difference in behaviour of exporters and non-exporters is notable, though not uncommon; it is easier to get credit if there is a clear exporting opportunity.

Figure 59: What proportion of your company's working capital and new fixed investment has been financed from each of the following sources, over the past 12 months?

(All respondents - N=1203, share of total, %)



In the SEE, 55% of companies' working capital and new fixed investment were financed from internal funds i.e. retained earnings. The share is at a similar level as in 2016 (57%). At the same time, the share of local private commercial banks' loans, as the second most important source of financing, has declined

somewhat (down to 9% in 2017 from 12% in 2016), indicating either a more complicated path to credit or greater caution by businesses. In addition, there is greater reliance on trade credits from customers, but this source of financing is still negligible in the overall financing structure.

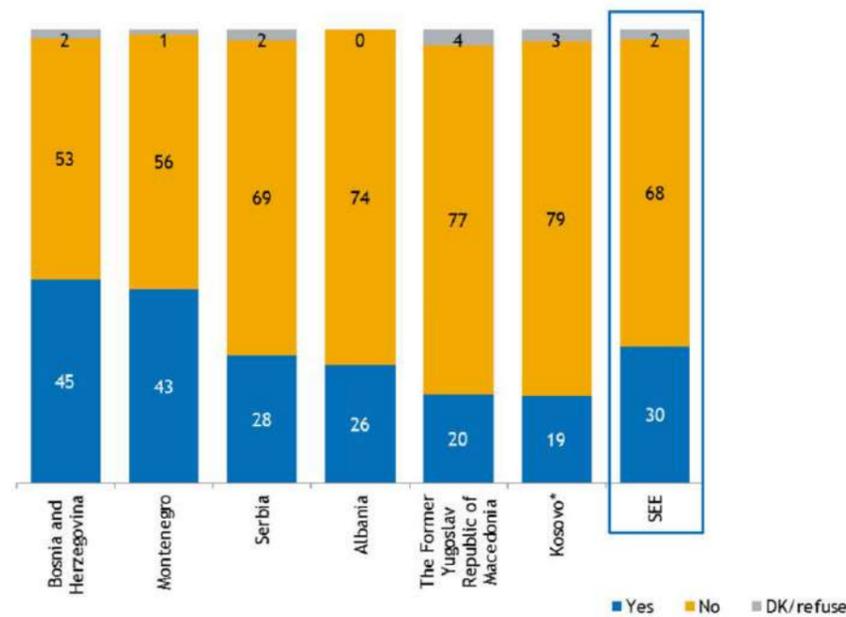
Borrowing from foreign banks comes in third and is at last year's level - 6%. Although all economies feature own resources (internal funds/retained earnings) as the main source of funding, there are some differences within the region. Albanian companies rely on own resources more than all others (82%) while companies from Montenegro prefer borrowing from local banks (22%). Serbian companies trust foreign banks more (10%) than local ones (6%). Kosovo*, meanwhile, stands out with its region-topping share of equity (10%).

Businesses from The Former Yugoslav Republic of Macedonia and Montenegro are more likely to accept loans from family or friends (both at 7%).

A detailed analysis shows that industry/mining/construction companies (62%) count on internal funds significantly more than businesses in other fields. The same is true of non-exporters (57%) and exporters (52%). Finally, larger companies tend to take out loans from foreign banks more frequently.

Figure 60: Has your company taken a loan from a bank in the past 12 months?

(All respondents - N=1203, share of total, %)

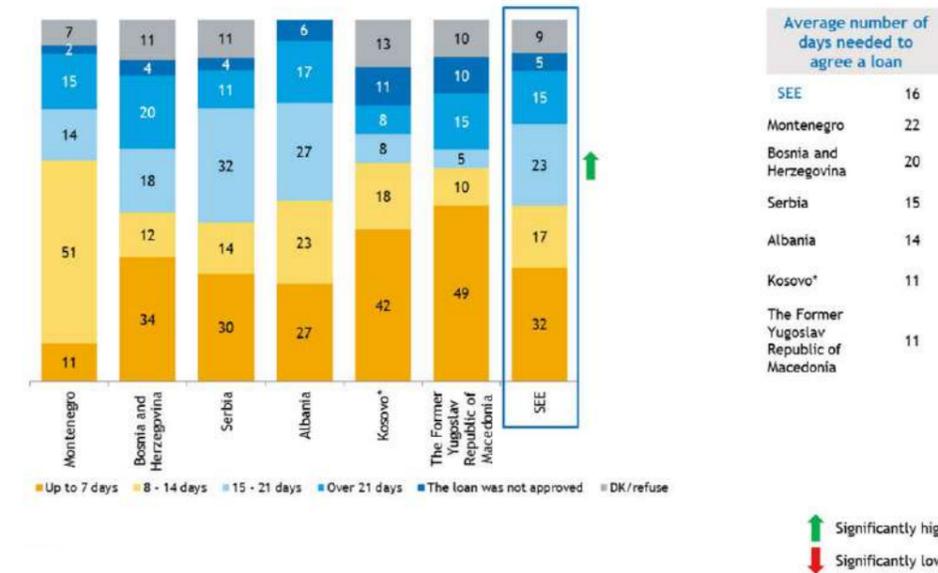


As with the previous survey instalment, nearly a third of the SEE business community report applying for a bank loan in the past 12 months (30%). This practice is especially widespread in

Bosnia and Herzegovina (45%) and Montenegro (43%). Likely due to the scope and nature of work, more loan applicants are found in the group of larger firms and exporters.

Figure 61: How many days did it take to agree the loan with the bank from the date of application?

(Respondents who had a loan application - N=361, %)

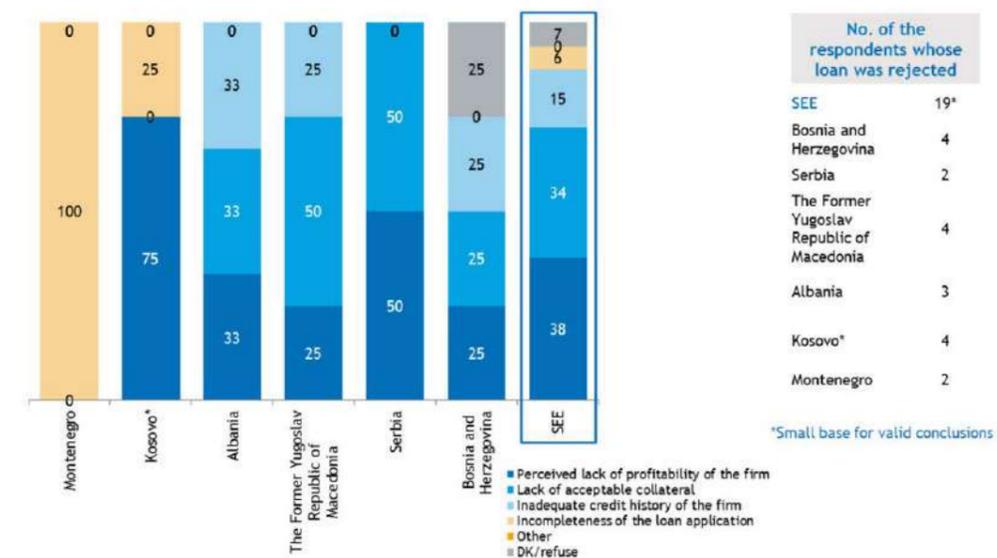


At regional level, the loan approval process takes an average of 16 days, same as in 2016. Processing loan applications took the longest in Montenegro (22 days), followed by Bosnia and Herzegovina (20 days). Kosovo* boasts the

greatest progress in this regard (down to 11 days in 2017 from 27 days in 2016) and is now, along with The Former Yugoslav Republic of Macedonia, the economy with the most efficient credit procedure.

Figure 62: You said that you company's loan application was rejected, what was the main reason for that?

(Respondents whose loan was not approved - N=19*, %)



*Small base for valid conclusions

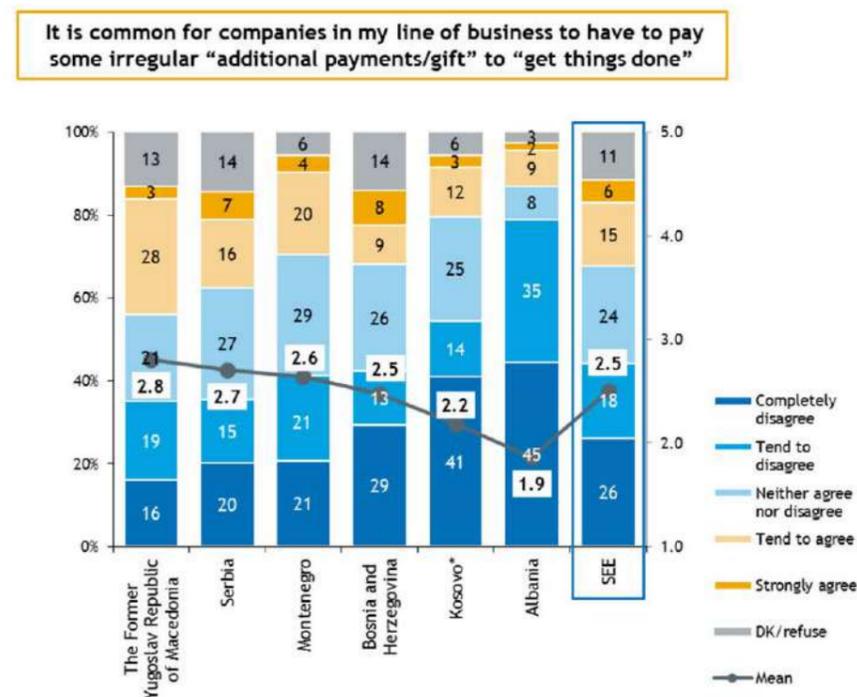
Corruption

There is little news when it comes to corruption; this is hardly surprising considering very little has been done to combat it in the past year.

Interestingly, unfair competition has sprang up as a concern for the region's business community, suggesting that access to markets is influenced by how well the business is connected.

Figure 63: Thinking about officials, to what extent would you agree with the following statements?

(All respondents - N=1203, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, %, mean)



A fifth of respondents cite irregular payments as a common feature of everyday operations for SEE companies, while a quarter withhold judgment. Respondents who disagree with the notion that money or gifts change hands in

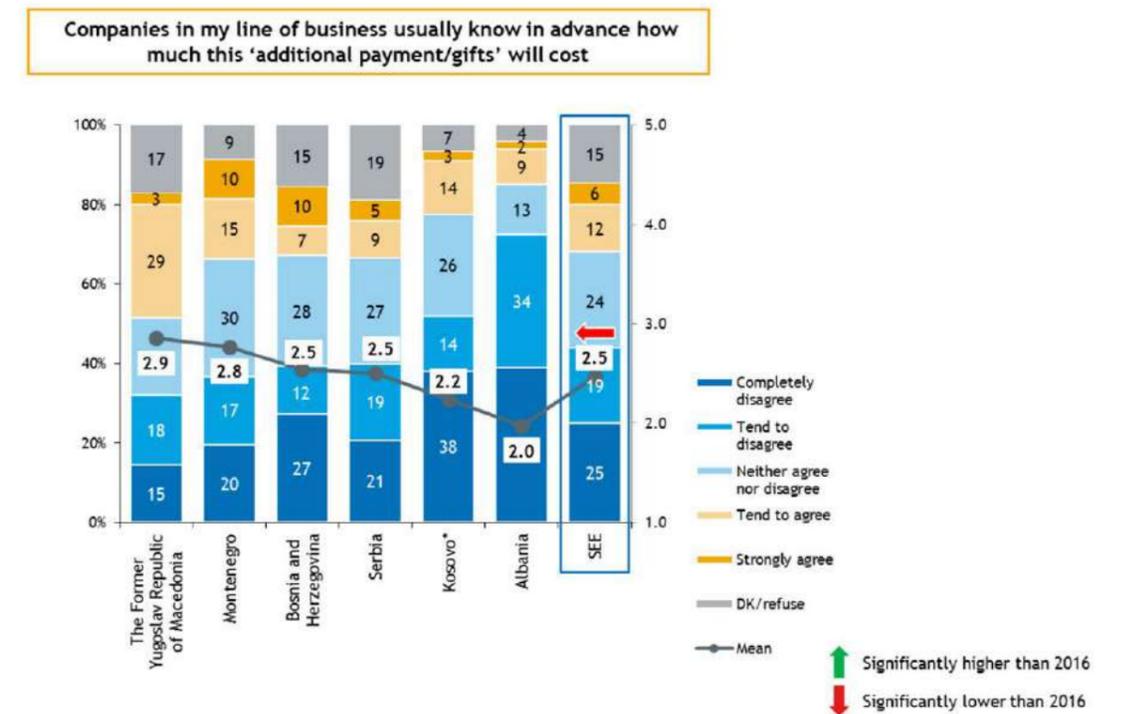
order to get things done are the most numerous (44%). The overall average score does not differ significantly compared to 2016, and it stands at 2.5. This is not a resounding statement of confidence in the integrity of public

officials and business people alike. Looking at the region's economies individually, The Former Yugoslav Republic of Macedonia (2.8) and Serbia (2.7) are the most sceptical while as many as 80% of Albanian corporate leaders feel that bribery occurs only sporadically or

rarely. When it comes to company size, large enterprises tend to view public officials with the highest degree of mistrust; the same is true of internationally active firms and those supported by domestic capital.

Figure 64: Thinking about officials, to what extent would you agree with the following statements?

(All respondents - N=1203, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, %, mean)

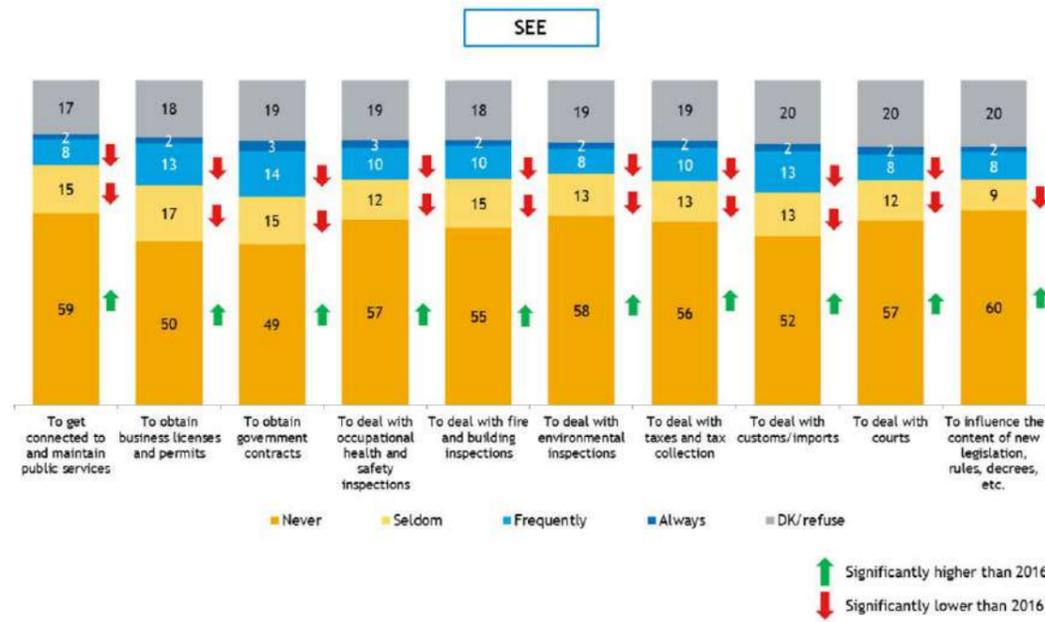


Compared to 2016, fewer respondents agree with the assertion that the amount of irregular payment is known beforehand (down to 18% in 2017 from 24% in 2016), effecting a drop in the regional score from 2.7 in 2016 to 2.5 in 2017. Corporate leaders from The Former Yugoslav Republic of Macedonia (2.9) and Montenegro (2.8) are more likely to know the amount of the bribe than any of their regional counterparts, especially those from Albania (2.0).

It appears that the heads of smallest (2.5) and largest (2.7) enterprises are more familiar with the sum needed to get the job done, compared to their mid-sized counterparts (2.3). A similar perception gap exists between companies operating with local assets (2.5) and those with foreign capital (1.9).

Figure 65: Thinking now of unofficial payments/gifts that companies like yours would make in a given year, could you please tell me how often they would make payments/gifts for the following purposes?

(All respondents - N=1203, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)



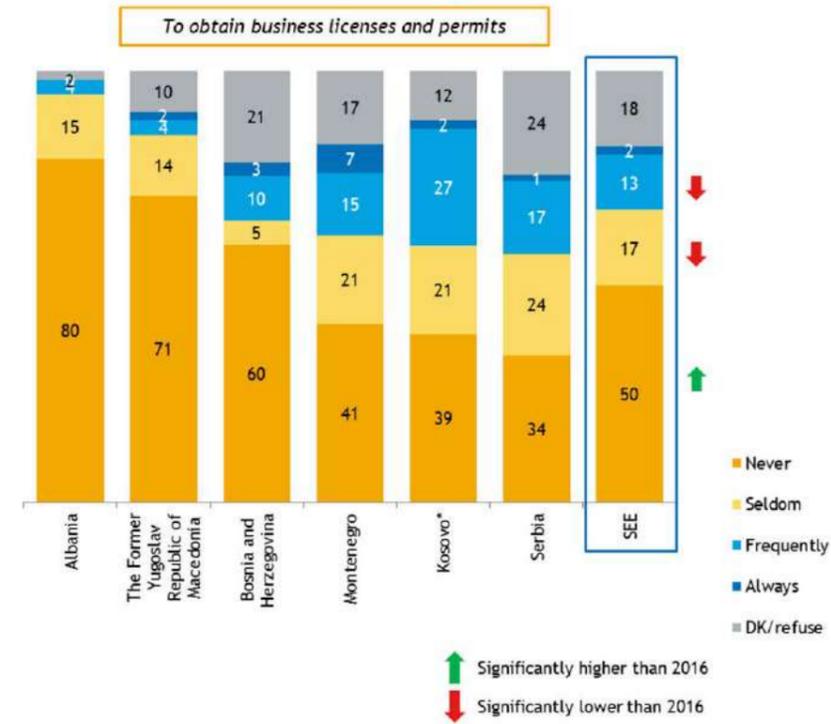
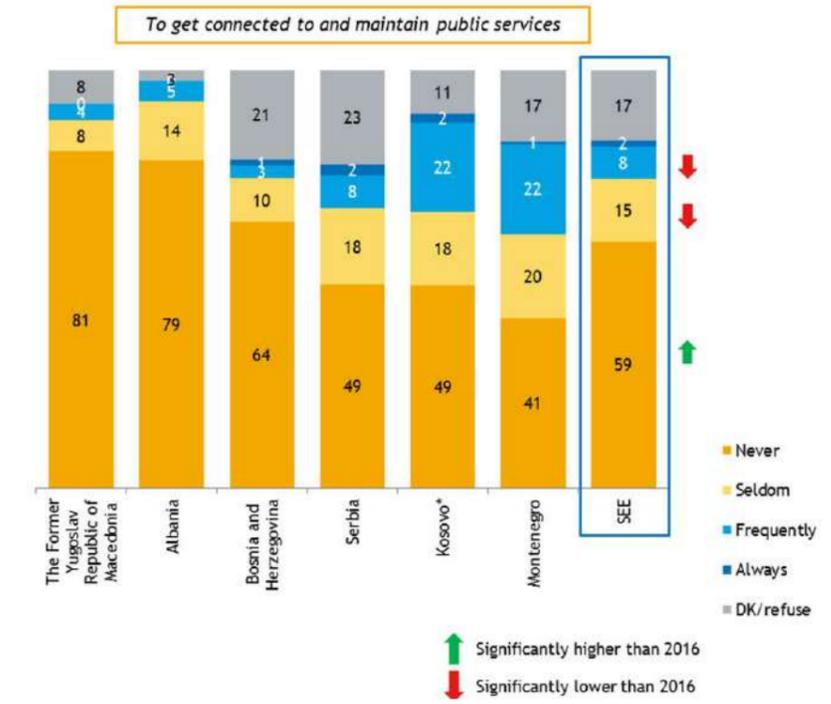
Taking into account the changes recorded in this year's survey, it appears that public officials in the SEE region have improved their conduct, effectiveness and efficiency over the previous 12 months. Regardless of the type of service surveyed, respondents have reported fewer instances where informal payments were made to get things done. At the same time, a lower percentage of respondents finds the practice common in doing business.

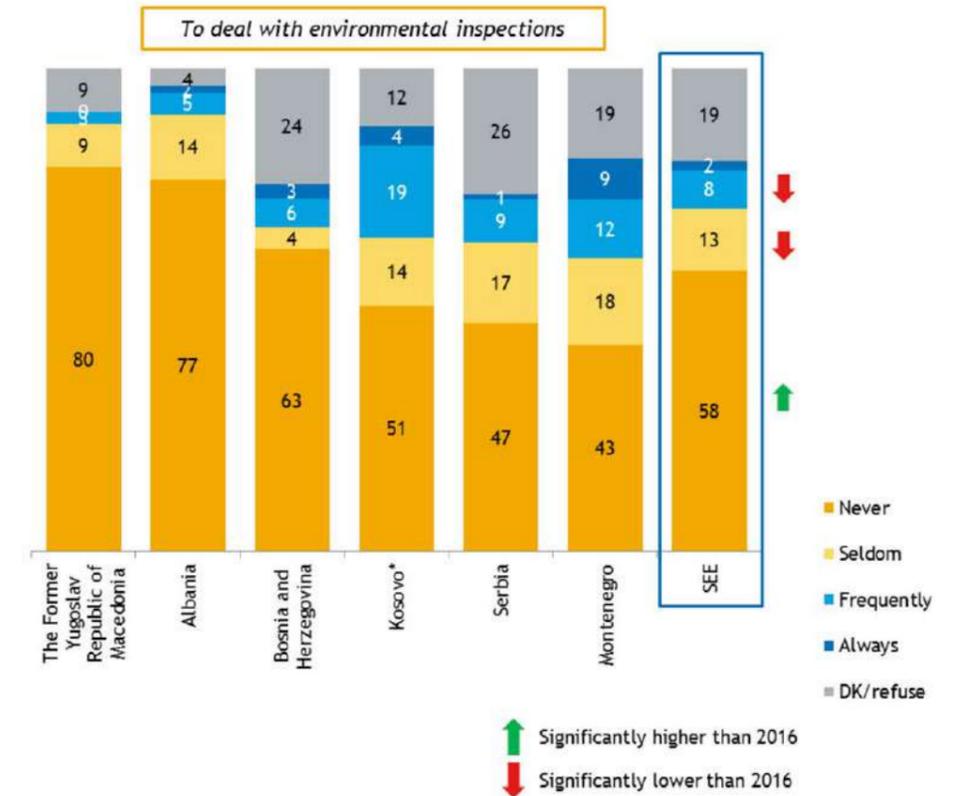
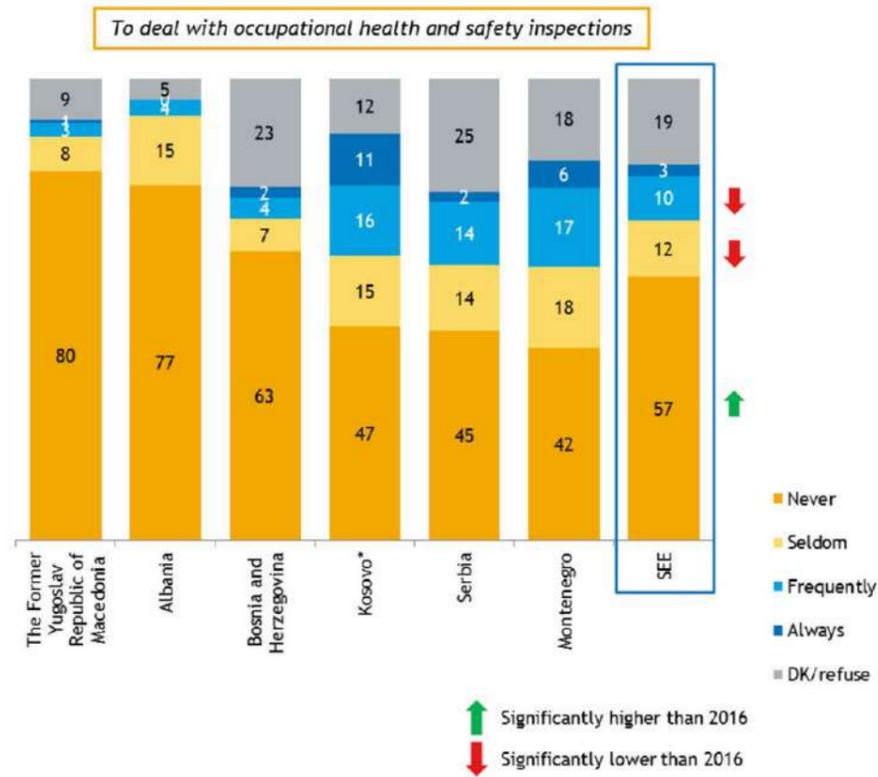
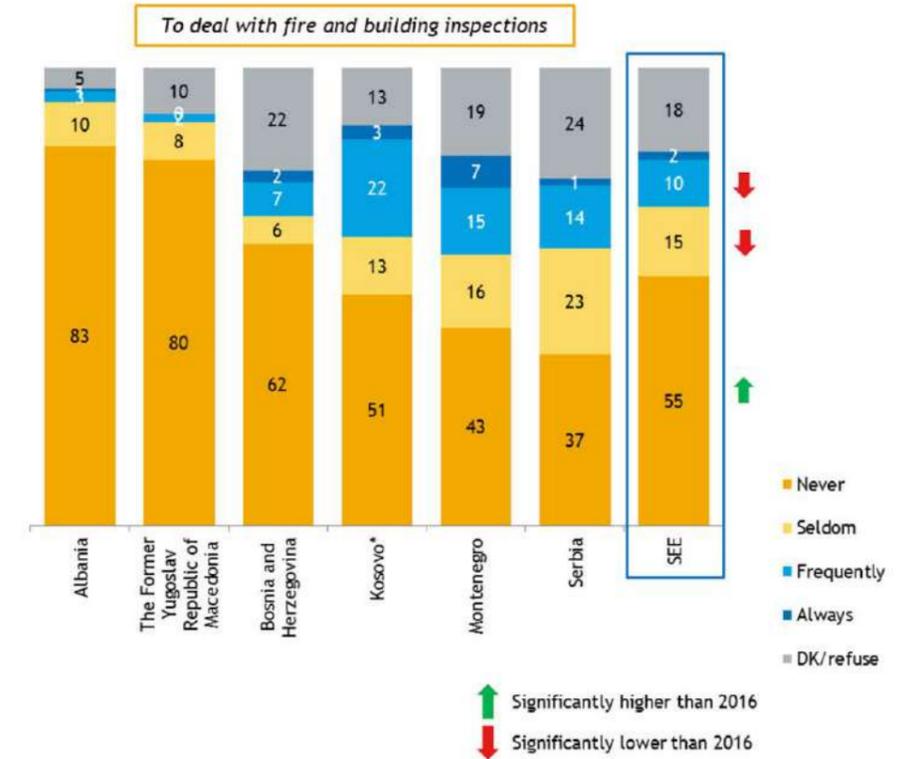
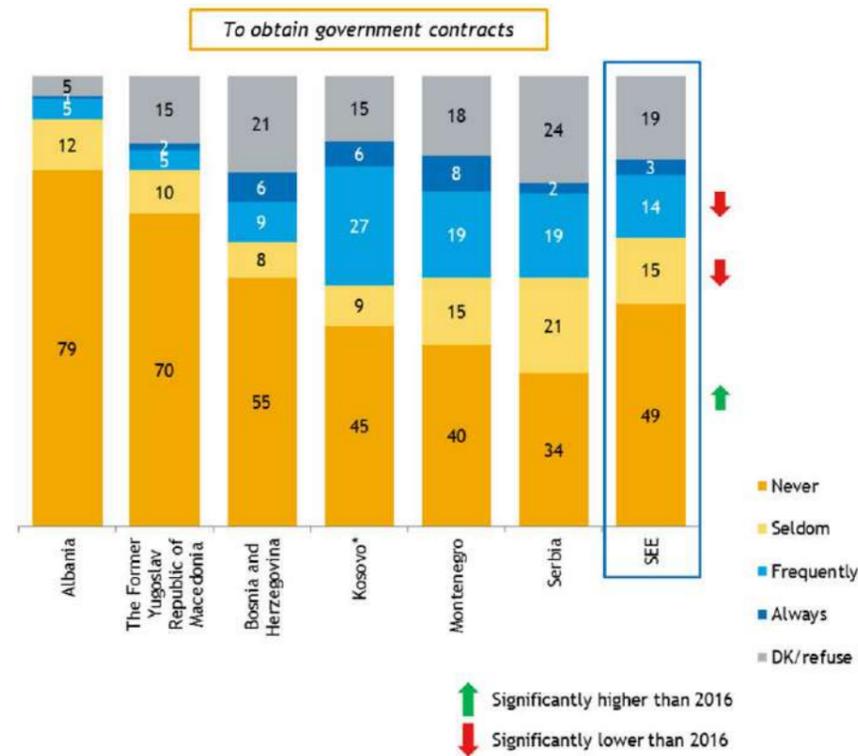
While this indicates progress, economies across the region are hardly uniform in their perception of corruption. Albania and The Former Yugoslav Republic of Macedonia are home to

the highest proportion of businesses that believe in the integrity of their public officials while executives in Serbia and Montenegro find the practice of informal payments relatively widespread. Kosovo* and Bosnia and Herzegovina occupy the space between, although the former leans more towards the group with Serbia and Montenegro while the latter is closer to the positive end of the scale. Interestingly, Bosnia and Herzegovina, along with Serbia, boasts the highest number of executives who refused to answer this question. As with the 2016 survey, company size, origin of capital, export or main activity do not seriously influence the perception of corruption.

Figure 66: Thinking now of unofficial payments/gifts that companies like yours would make in a given year, could you please tell me how often they would make payments/gifts for the following purposes? (Results by economies)

(All respondents - N=1203, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)





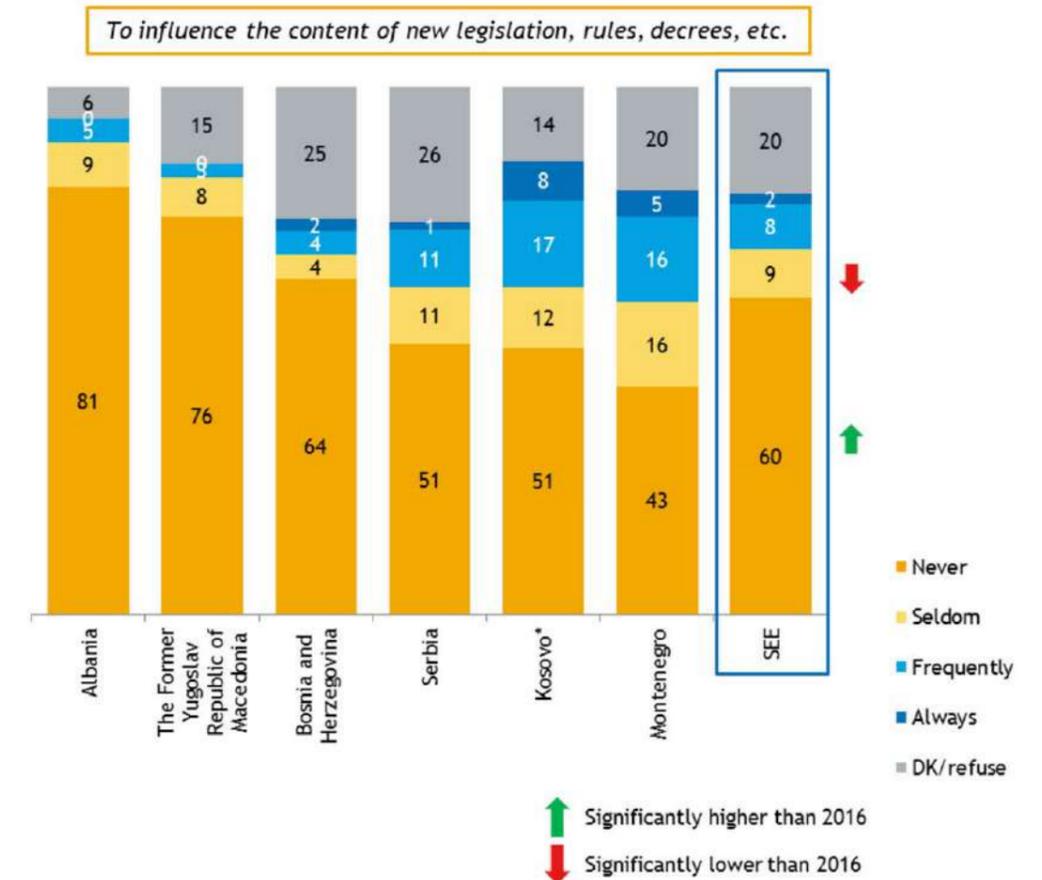
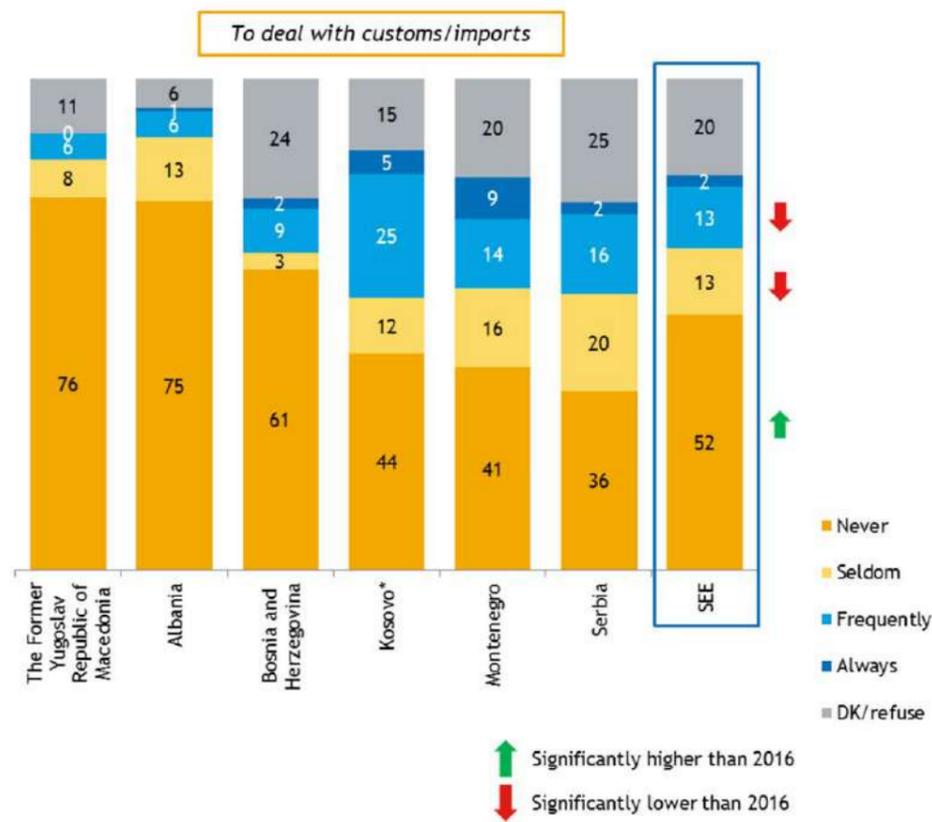
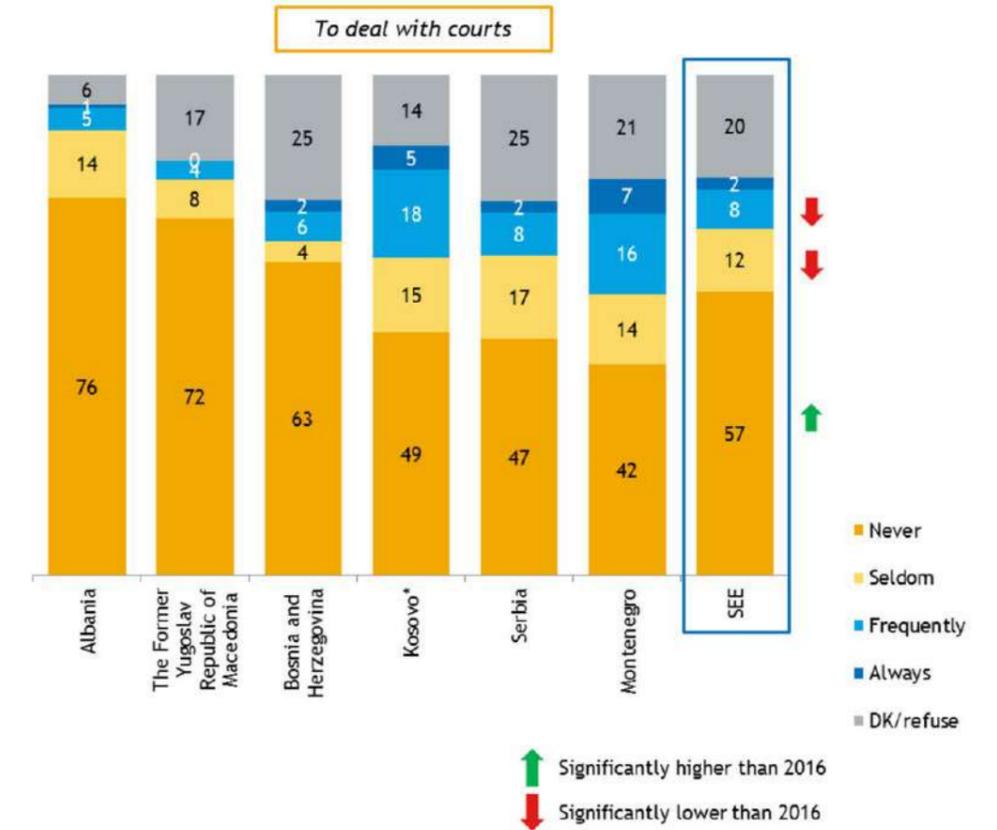
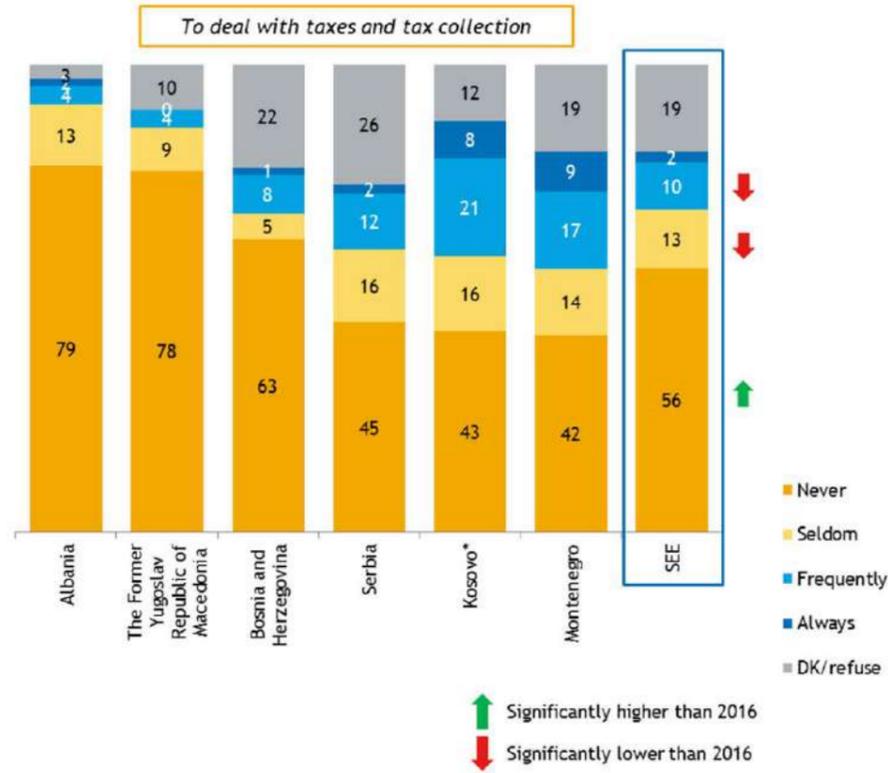
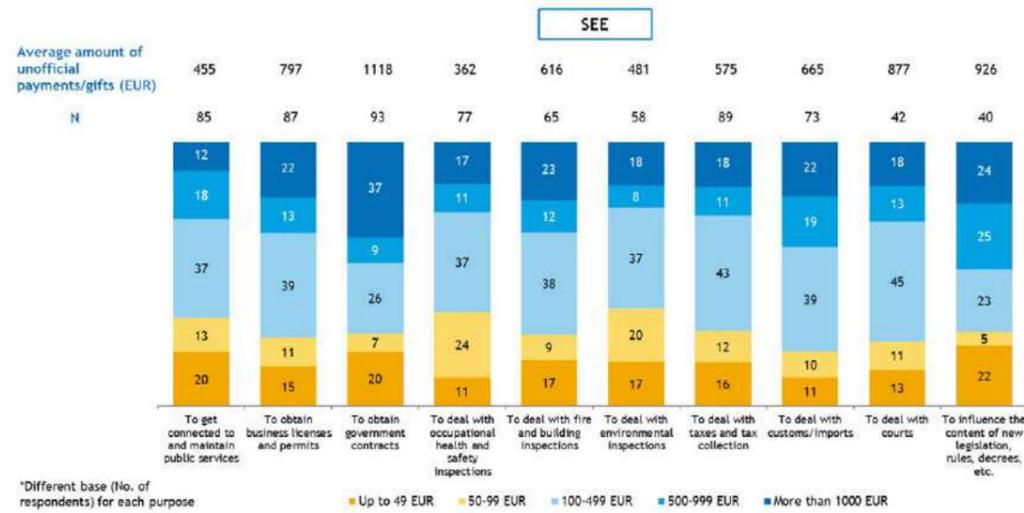


Figure 67: Please estimate what is the approximate amount (in EUR) of unofficial payments/gifts that companies like yours would make in a given year for the following purposes. (Results at the SEE level)

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

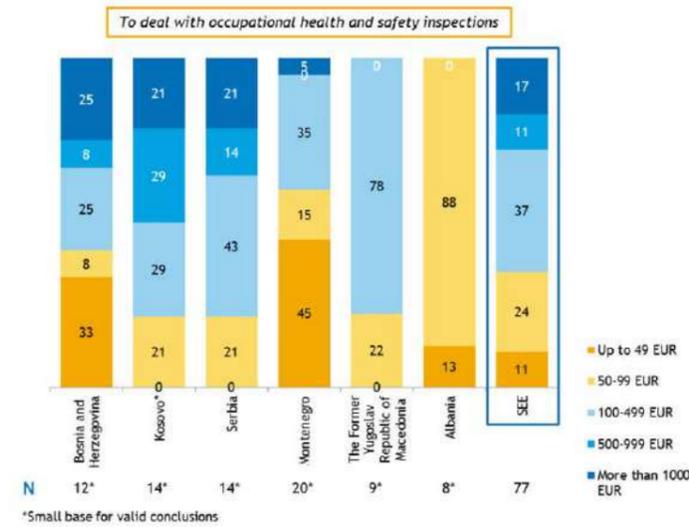
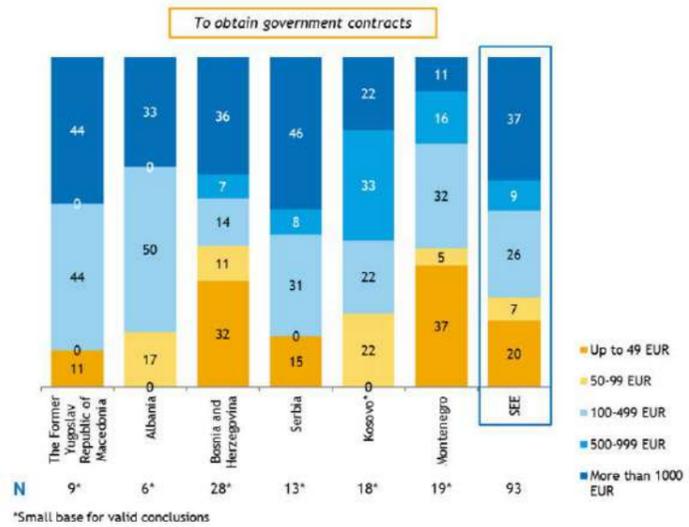
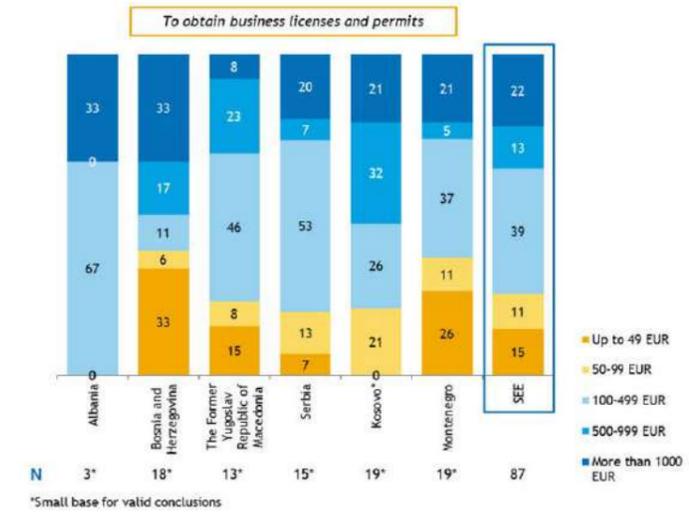
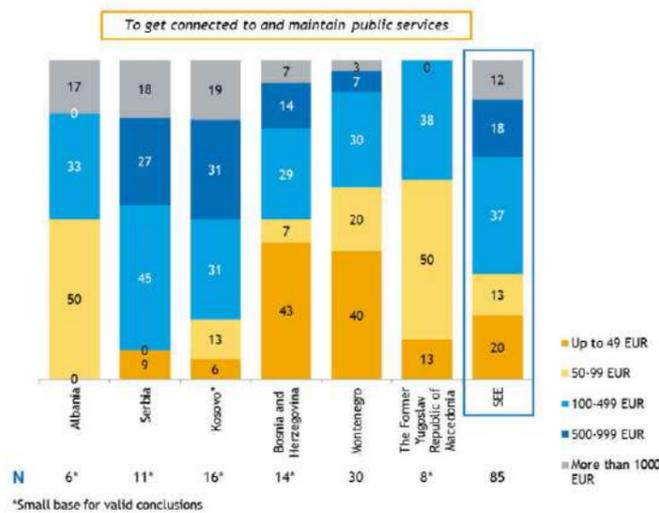


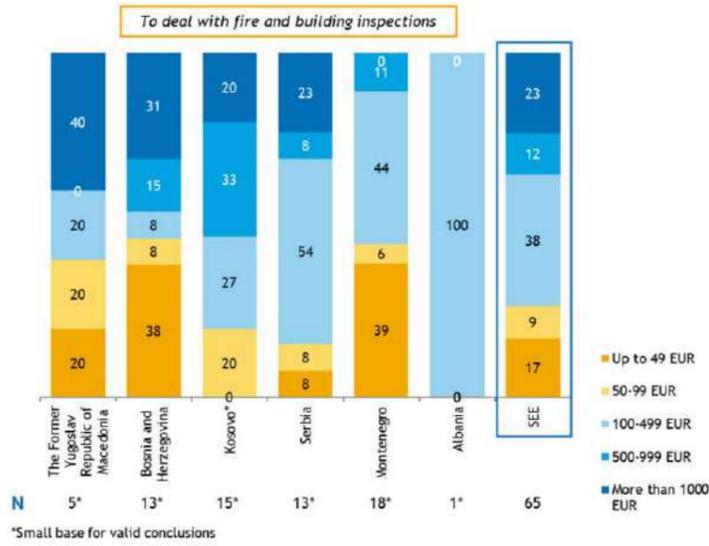
The majority of surveyed executives who believe that corruption is present to a varying extent, remain tight-lipped when asked to assess the amount of unofficial payments or gifts changing hands. Taking into account the estimated average sum (1.118 EUR), government contracts seem to attract the highest

bribes. Unduly influencing policy is the second most expensive “service” and costs 926 EUR. Cooperation with courts (877 EUR) and obtaining business licenses and permits (797 EUR) are next in line, while inspectors, according to managers surveyed, require the most modest bribes.

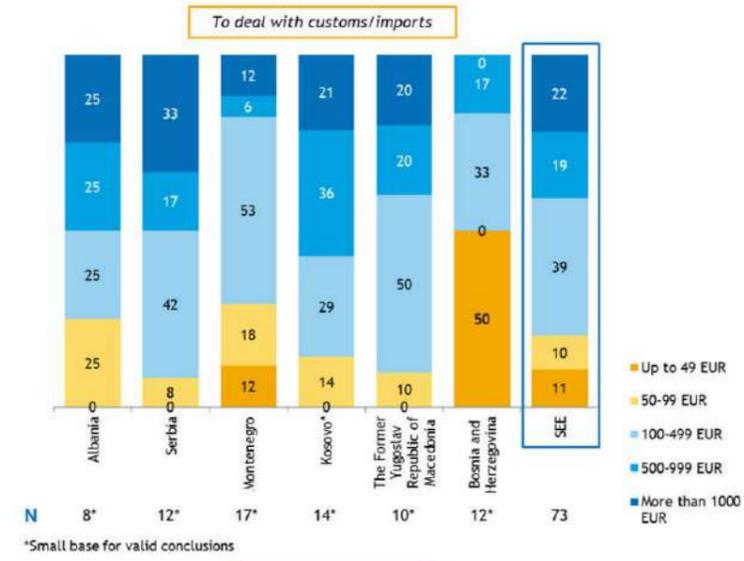
Figure 68: Please estimate what is the approximate amount (in EUR) of unofficial payments/gifts that companies like yours would make in a given year for the following purposes. (Results by economies)

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

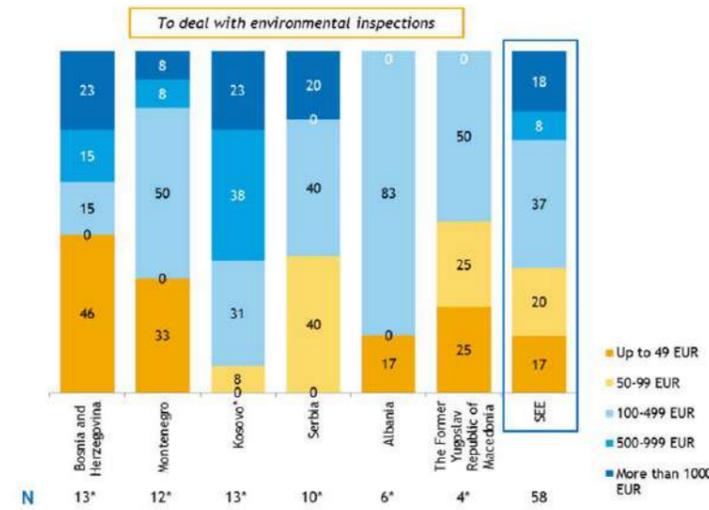




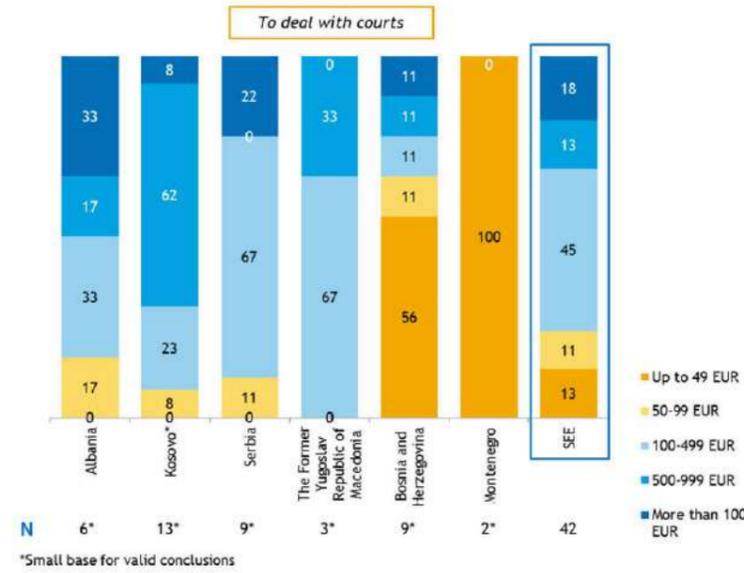
Average amount of unofficial payments/gifts
SEE 616



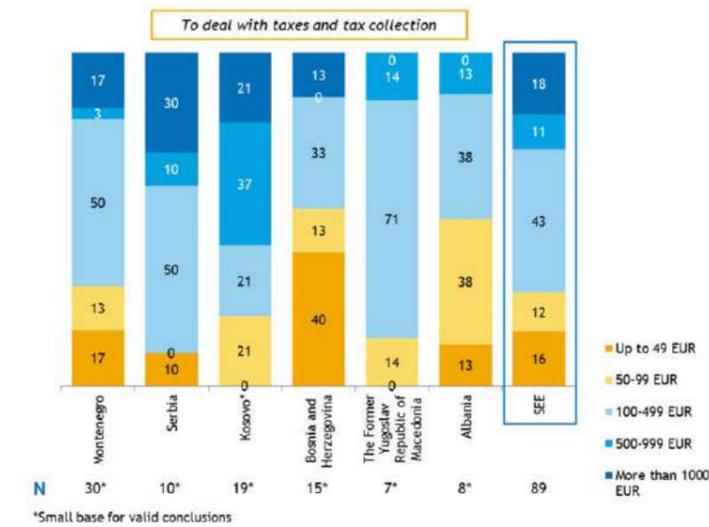
Average amount of unofficial payments/gifts
SEE 665



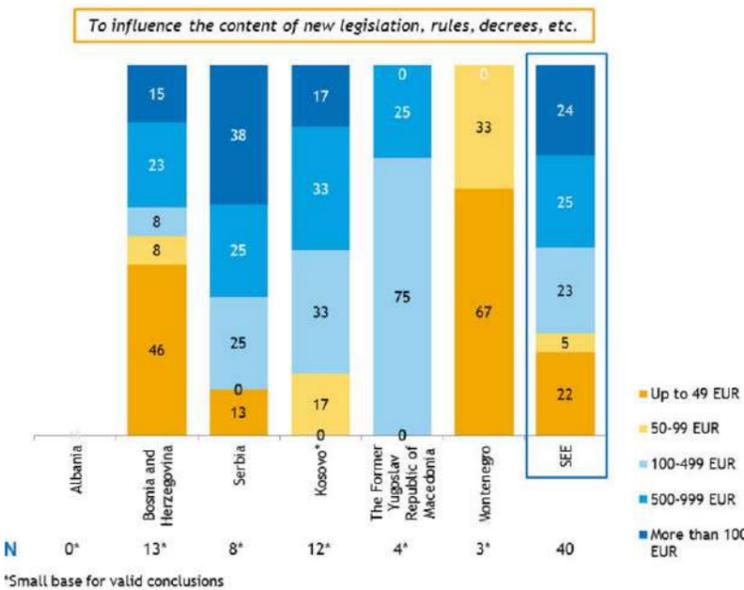
Average amount of unofficial payments/gifts
SEE 481



Average amount of unofficial payments/gifts
SEE 877



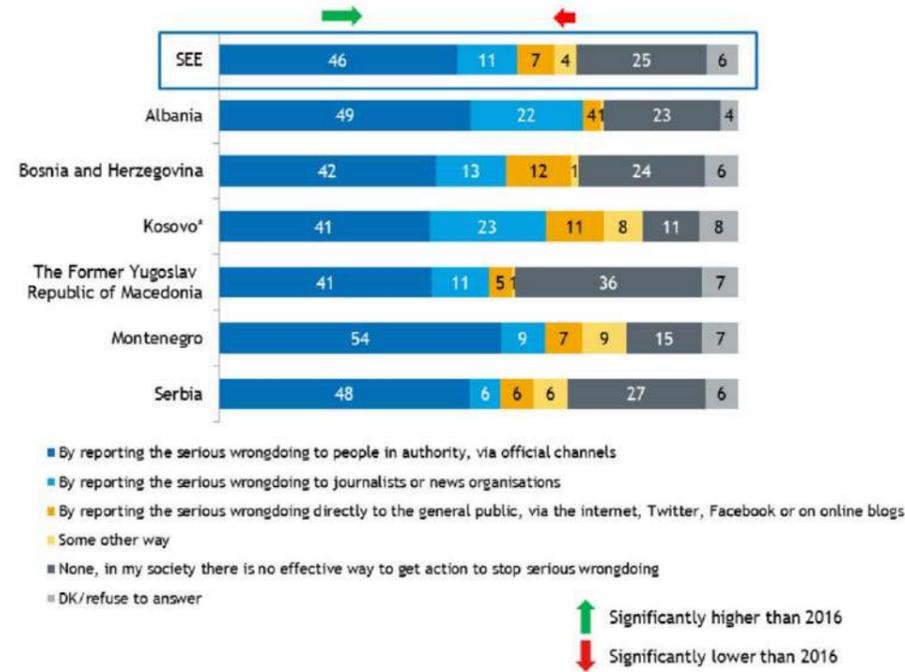
Average amount of unofficial payments/gifts
SEE 575



Average amount of unofficial payments/gifts
SEE 926

Figure 69: In different societies, there are different views on the most effective ways to get action to stop serious wrongdoing. Which one of these do you think is the most effective way in your society?

(All respondents - N=1203, share of total, %)



Interestingly, compared to the two previous waves, a significantly higher proportion of company representatives feel that formally reporting wrongdoing to the relevant authorities is the most effective method of combating corruption (up to 46% in 2017 from 39% in both 2016 and 2015). This indicates that even with the public-private relationship leaving much to be desired, there is a growing appreciation across all six economies that an institutional response is vital in curbing corruption. Reporting malpractice to journalists or media

remains the second most effective method (11%) with Albania (22%) and Kosovo* (23%) the regional leaders in this category. Alarming, there is no change from last year in the number of executives who feel that there is no recourse to wrongdoing by public officials; this indicates an overall sense of disillusionment with the public administration across the six countries. The Former Yugoslav Republic of Macedonia is an absolute regional leader in this regard with 36% of business executives falling into this category.

Trade and Investment

The region features a number of characteristics of a dual economy, with The Former Yugoslav Republic of Macedonia an excellent case in point. This suggests that the policy of pursuing foreign investments intended for foreign markets through preferential treatment leads most economic actors to turn to the domestic market. Accordingly, special incentives targeting foreign investors should only be viewed as a temporary measure and must be phased out as quickly as possible in order to spur local entrepreneurship in the exporting sector.

Investments usually lag in demand-led recoveries so a more positive assessment will likely follow in the next survey instalment.

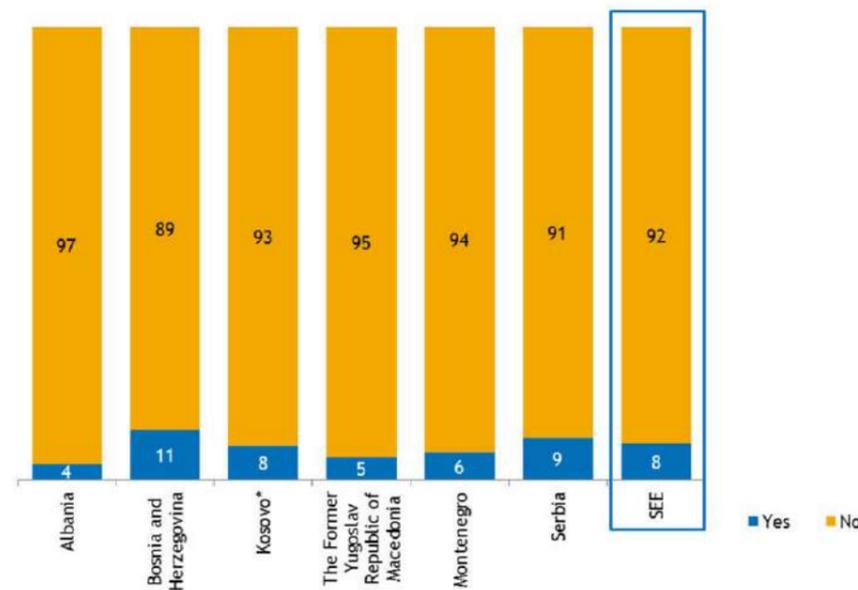
Cross-border investments are low, which is a source of concern as one intended reason for the creation of the SEE free trade region was to stimulate an increase in intraregional investments.

As is common in developing economies, investments are largely made to plants and equipment. That is also the avenue through which most innovations come in.

Interestingly, businesses surveyed continue to feel that they can compete internationally, although the vast majority supply domestic markets only, largely with non-tradable goods and services.

Figure 70: Has your company invested abroad, or plans to do so in the next 12 months? (NEW QUESTION)

(All respondents - N=1203, share of total, %)

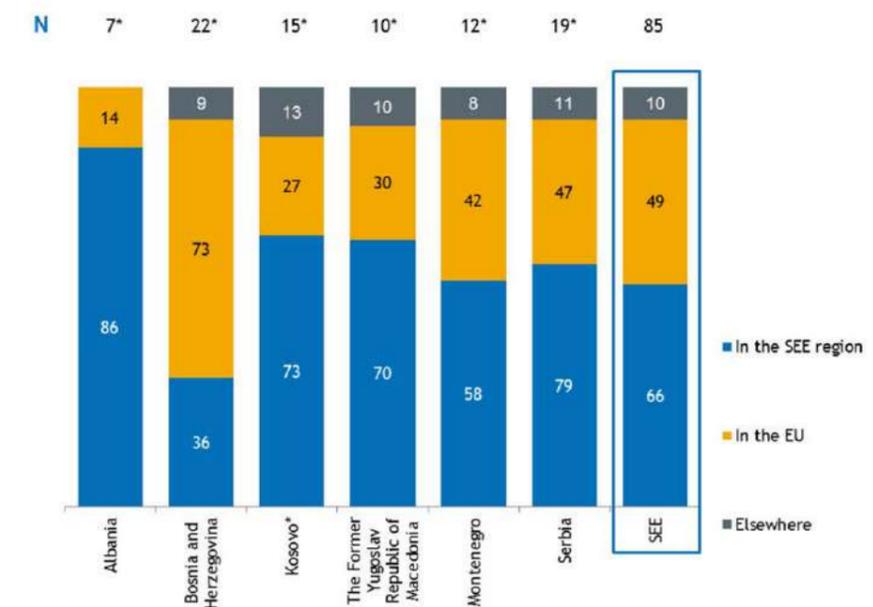


Only 8% of surveyed SEE businesses have invested abroad or plan to do so in the near future. Companies from Bosnia and Herzegovina (11%) and Serbia (9%) are more ambitious than their counterparts in Albania (4%) and The Former Yugoslav Republic of Macedonia (5%).

Further analysis shows that larger companies (more than 50 employees), firms in the heavy industry sector (12%) and those operating with foreign capital (32%) are more likely to invest across borders.

Figure 71: Where did you invest or plan to do so? (NEW QUESTION)

(Respondents whose company invested abroad, or plans to do so in the next 12 months - N=85, %)



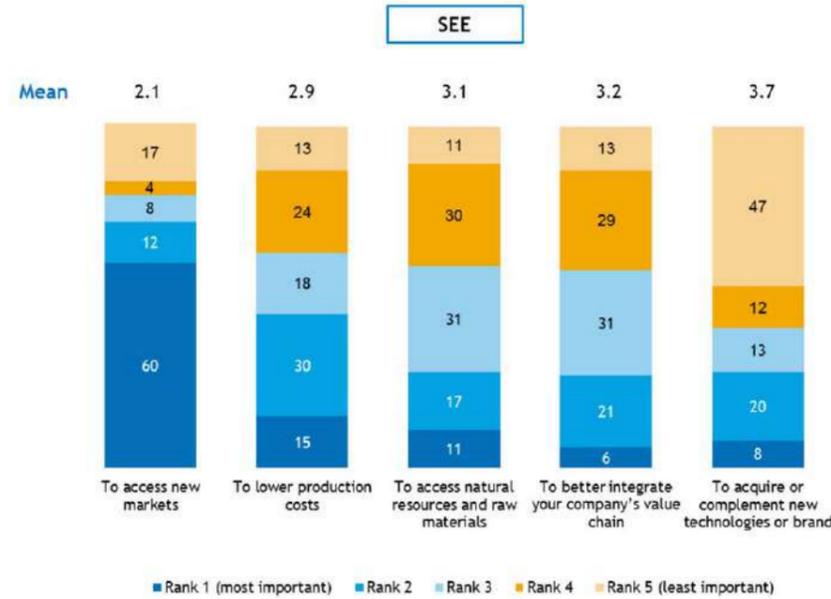
*Small base for valid conclusions

Two thirds of companies attracted to foreign markets have invested, or plan to invest, in the SEE region, while roughly a half see the EU as a prospective investment destination. In spite of declining interest in regional cooperation (Figure 11), this finding indicates that the majority of regional businesses still see their immediate surroundings as vital to their

business' development. Due to sample size, interpretation of results at economy level is not advised.

Figure 72: Which of the following reasons best describes your company's motivation to invest abroad? Please rank your answers with 1 being most important and 5 being least important. (NEW QUESTION)

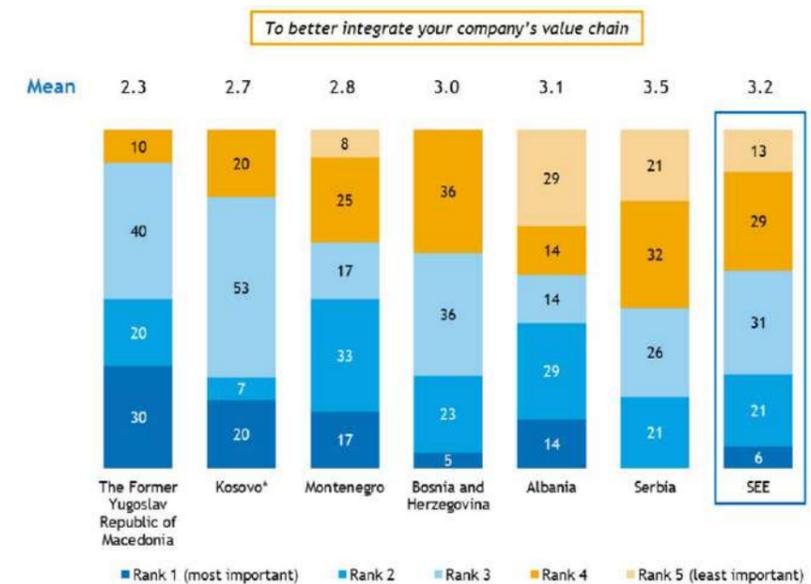
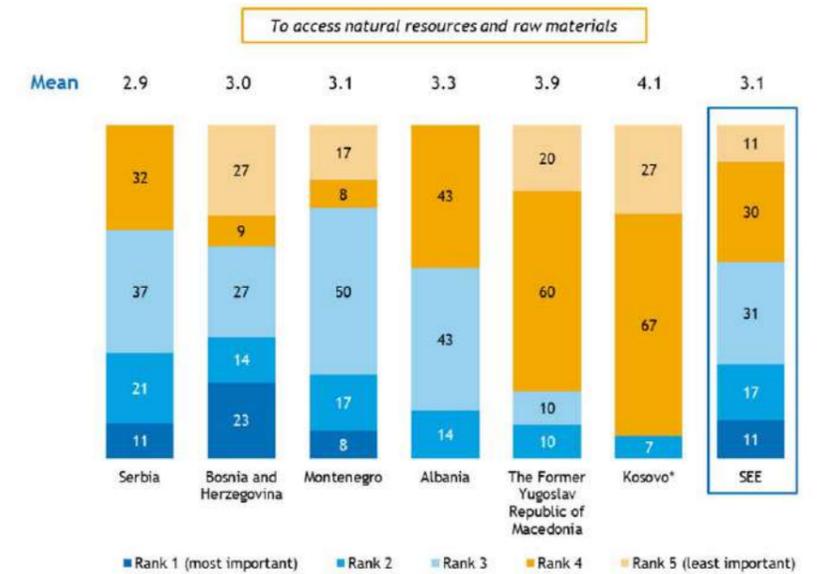
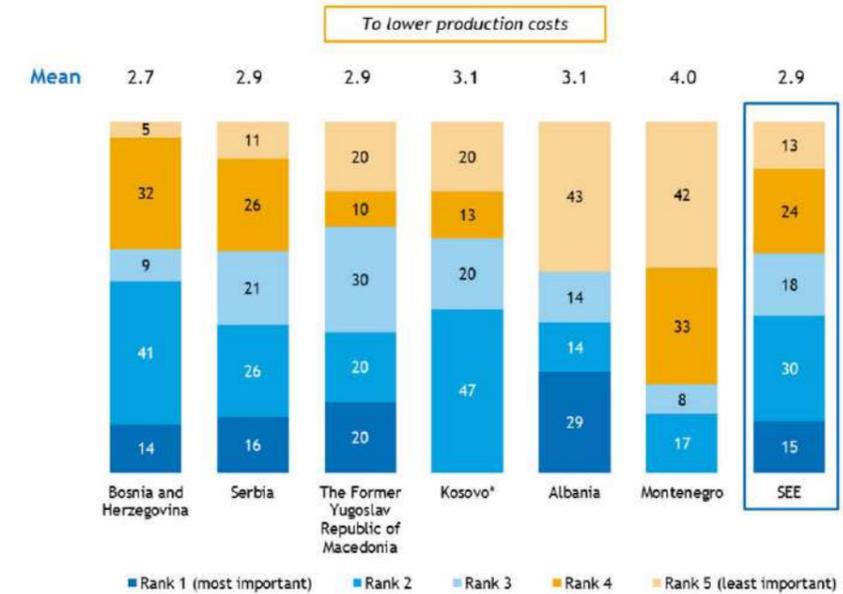
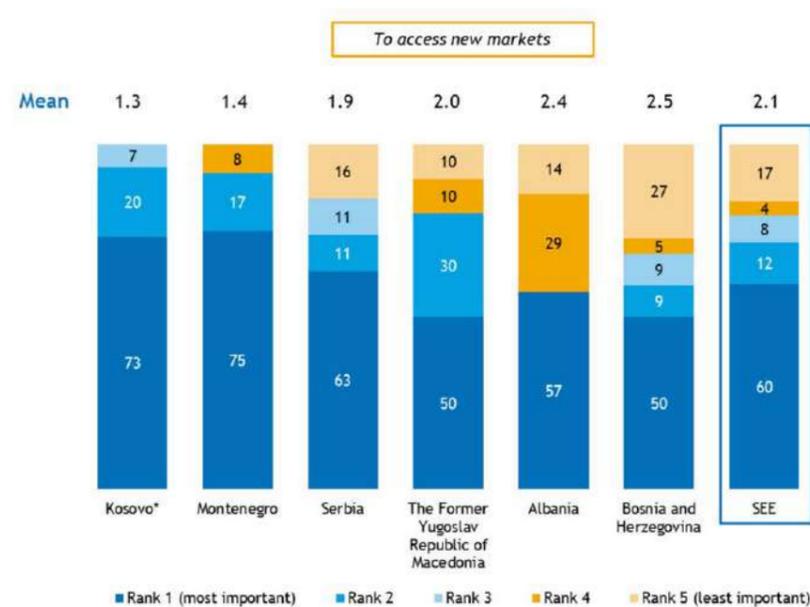
(Respondents whose company invested abroad, or plans to do so in the next 12 months - N=85, ranks are on a scale of 1 to 5 where 1 means most important and 5 least important, share of total, %, mean)



Accessing new markets dominates the thinking behind investing abroad (the average score is 2.1). Downsizing of production costs (2.9), and access to natural resources and raw materials (3.1) are ranked as second and third respectively by companies surveyed.

Figure 73: Which of the following reasons best describes your company's motivation to invest abroad? (Results by economies) (NEW QUESTION)

(Respondents whose company invested abroad, or plans to do so in the next 12 months - N=85, ranks are on a scale of 1 to 5 where 1 means most important and 5 least important, share of total, %, mean)



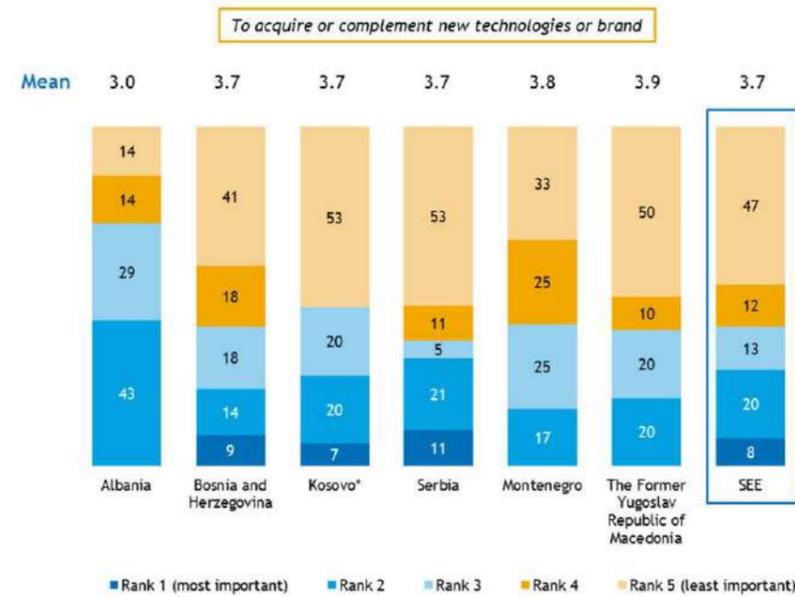
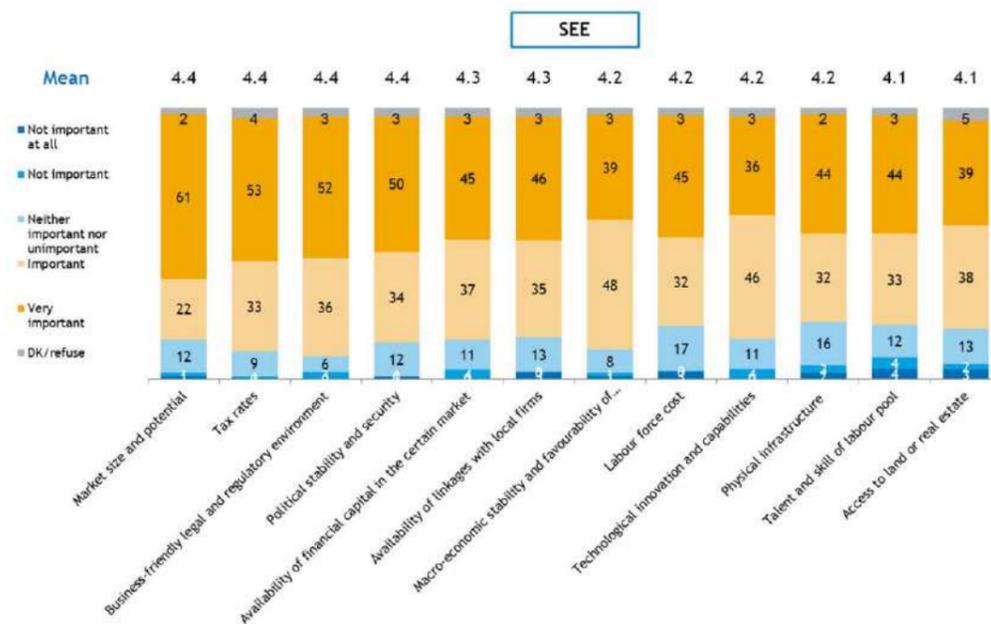


Figure 74: In the process of choosing where to invest abroad, how important were the following factors? (Results by economies) (NEW QUESTION)

(Respondents whose company invested abroad, or plans to do so in the next 12 months - N=85, scores are on a scale of 1 to 5 where 1 not important at all and 5 very important, share of total, %, mean)

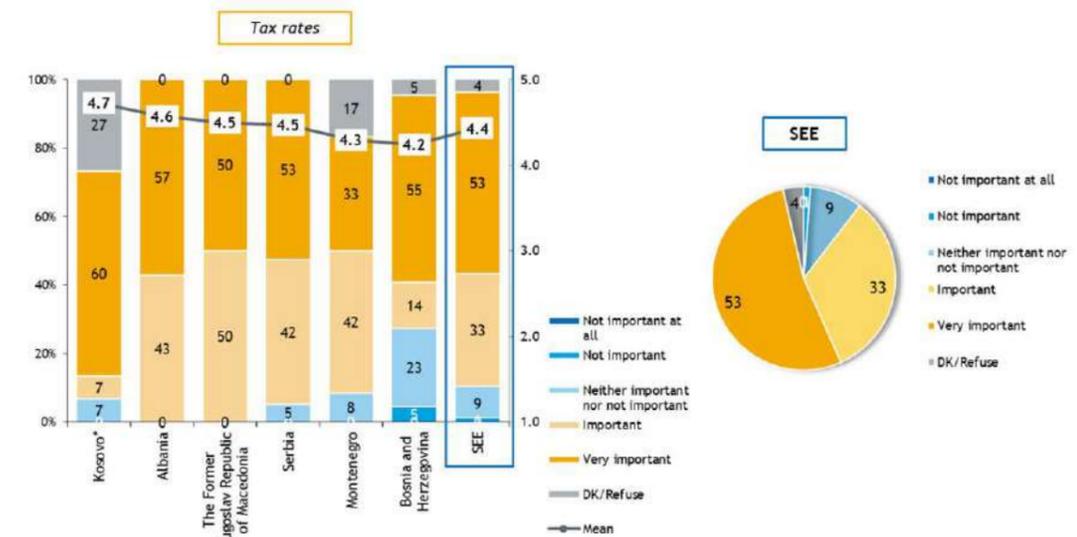
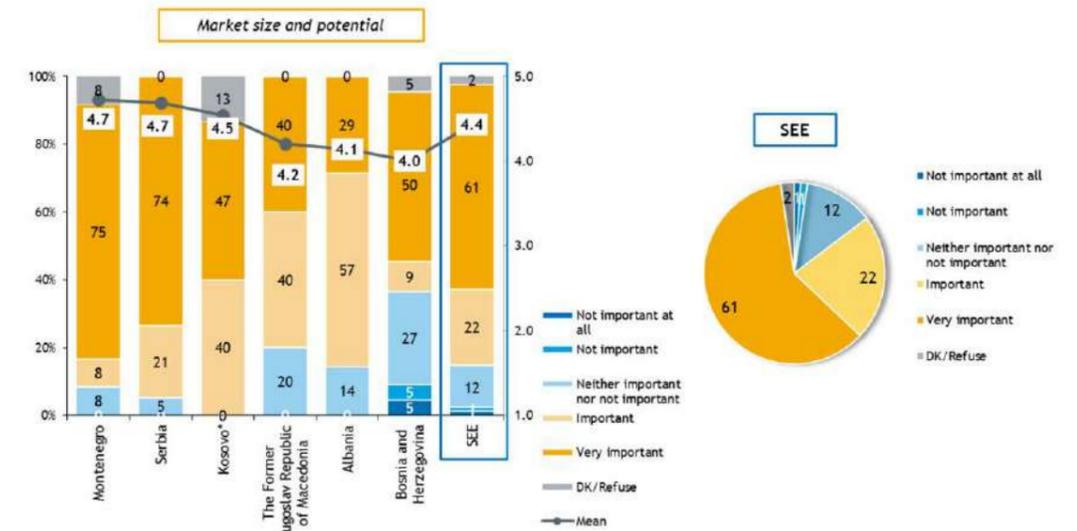


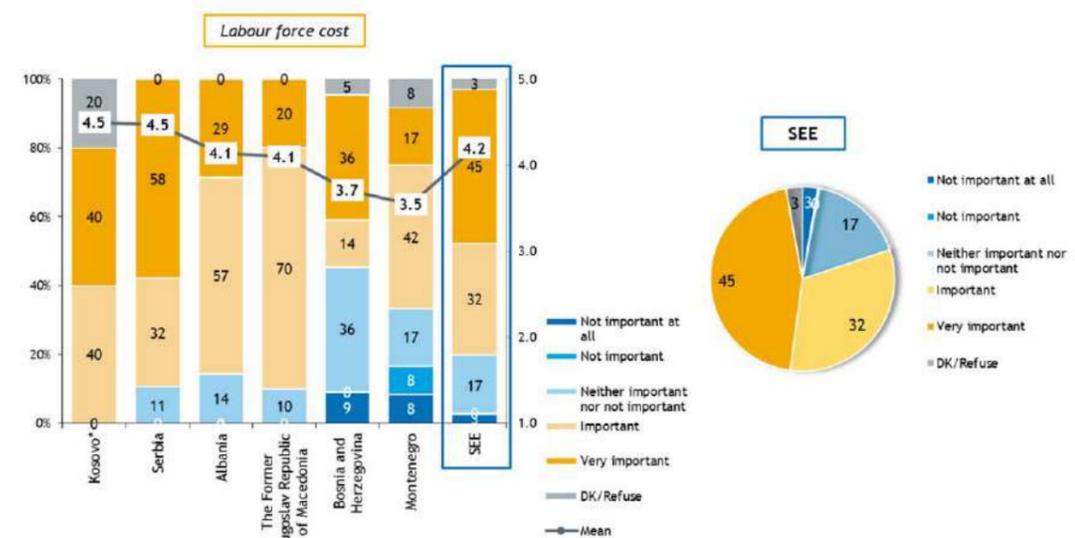
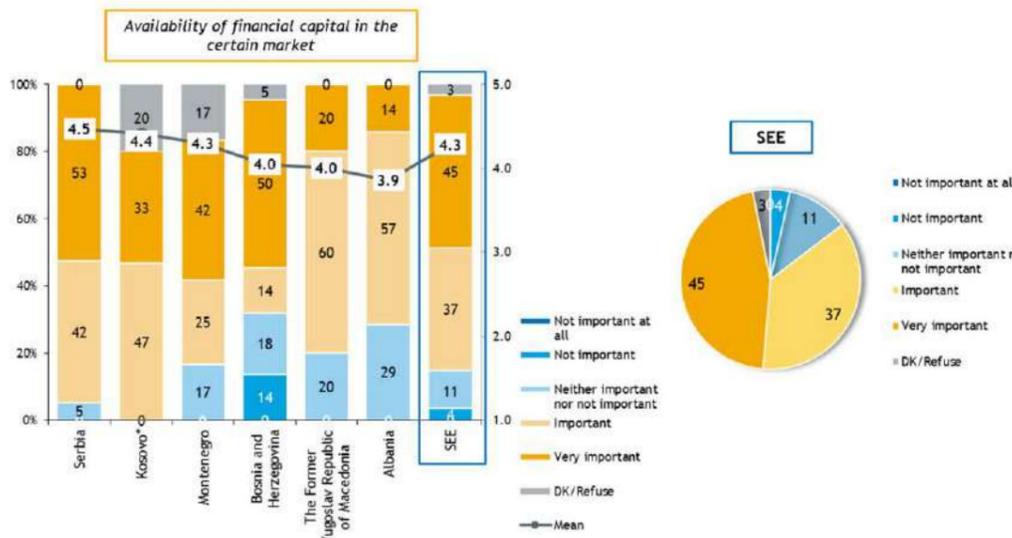
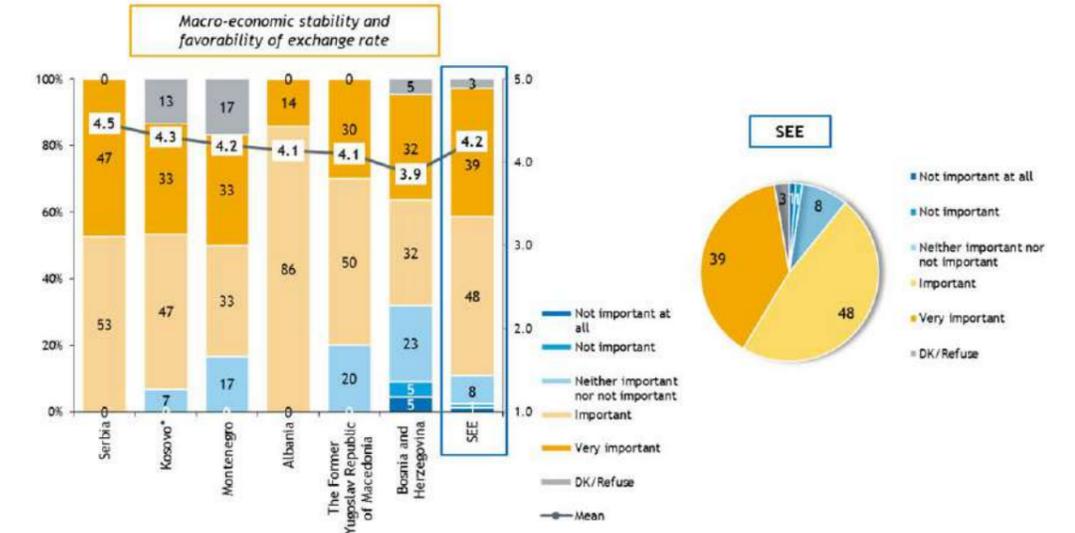
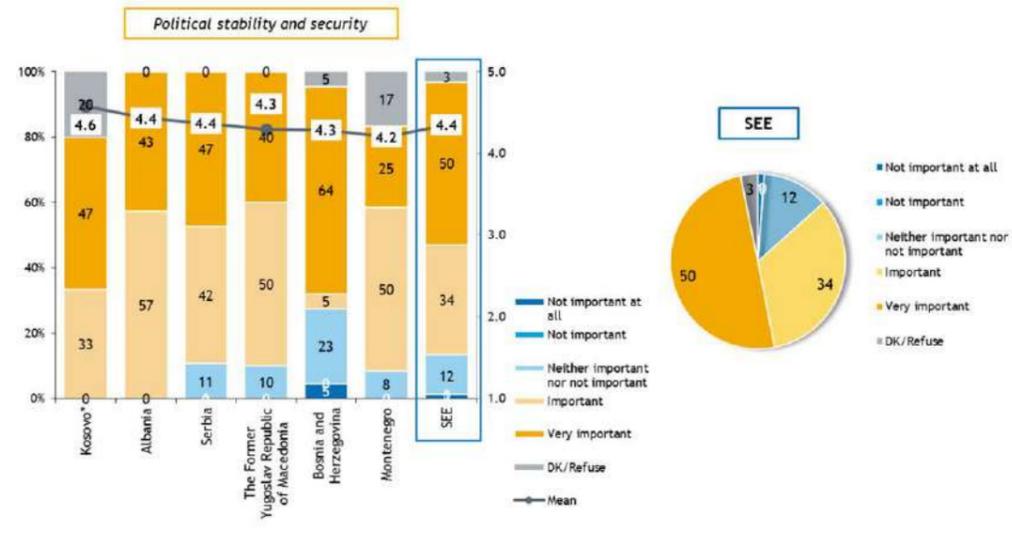
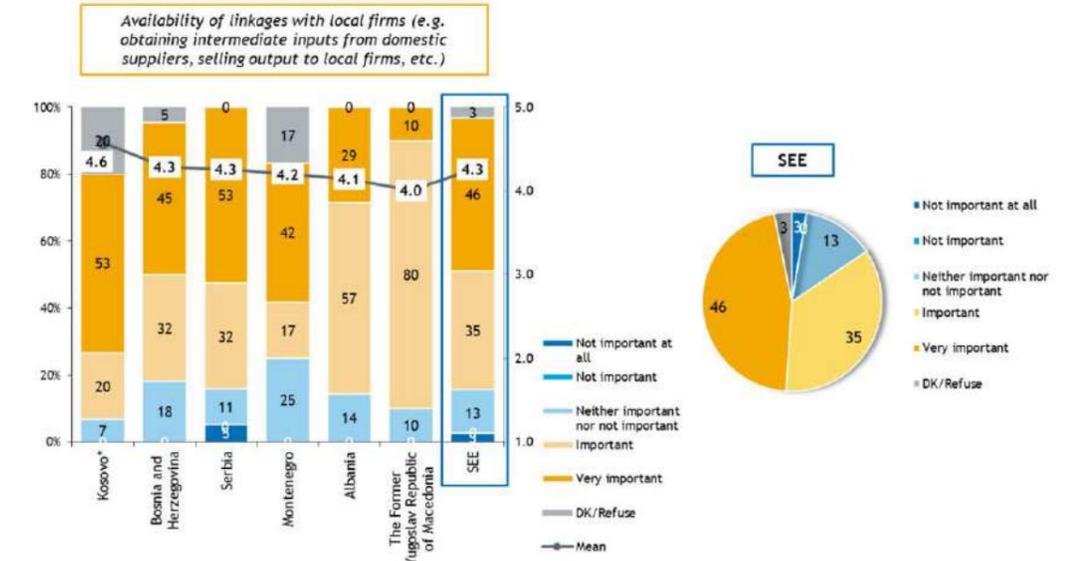
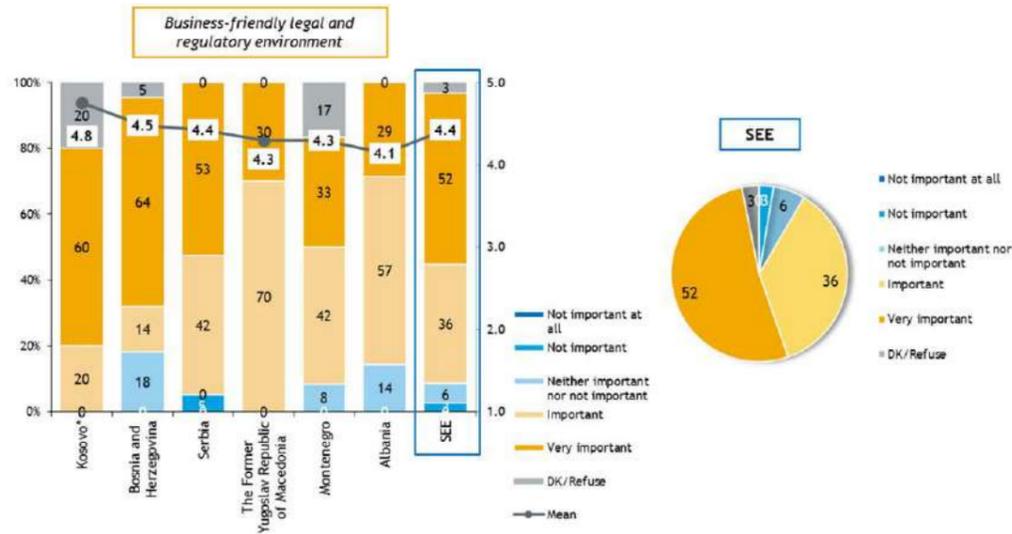
As expected, the SEE business community considers a wide variety of factors when planning their investments abroad. The range between considerations identified as most, and least important, is relatively slender (from 4.4 to 4.1), indicating that all factors undergo a

careful deliberation. Nonetheless, corporate leaders tend to pay most attention to the size and potential of the new market, tax rates, legal and regulatory framework as well as the political situation in the respective economy (4.4).

Figure 75: In the process of choosing where to invest abroad, how important were the following factors? (NEW QUESTION)

(Respondents whose company invested abroad, or plans to do so in the next 12 months - N=85, scores are on a scale of 1 to 5 where 1 not important at all and 5 very important, share of total, %, mean)





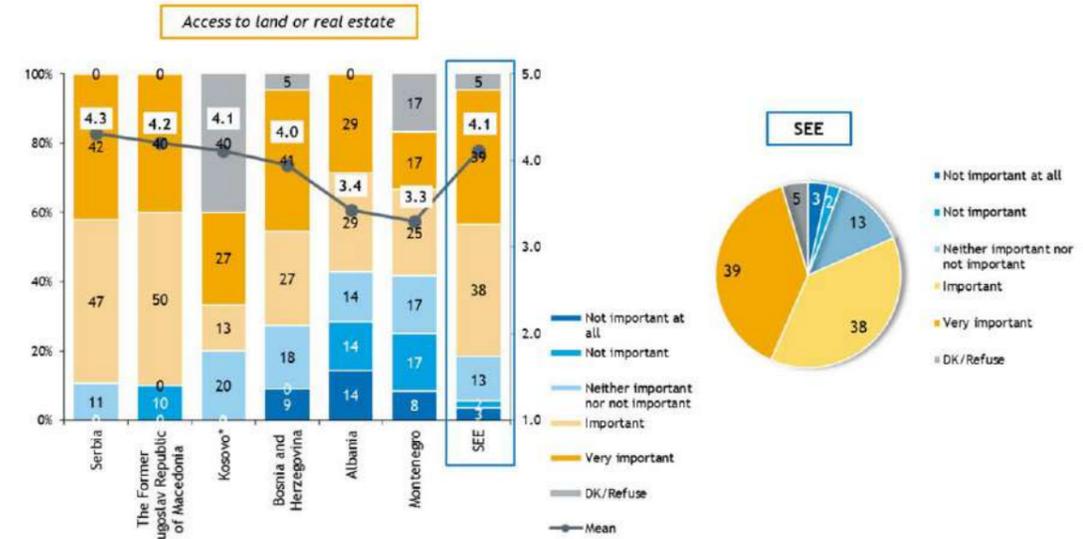
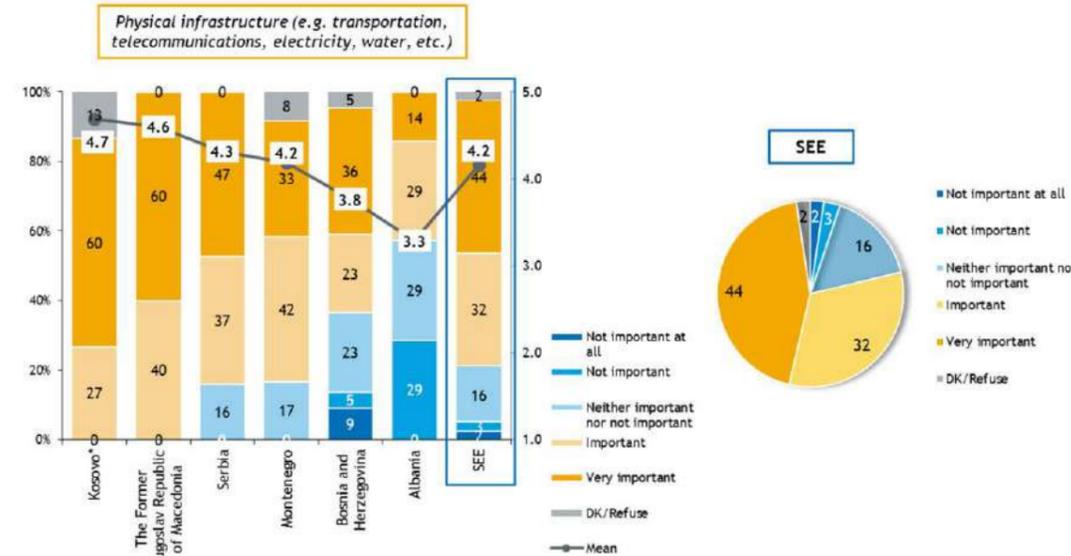
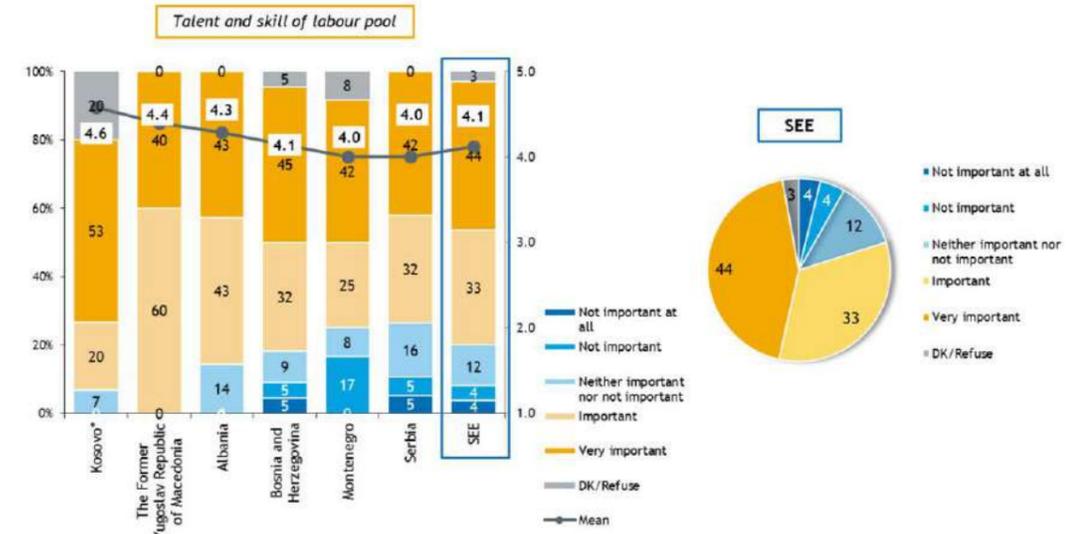
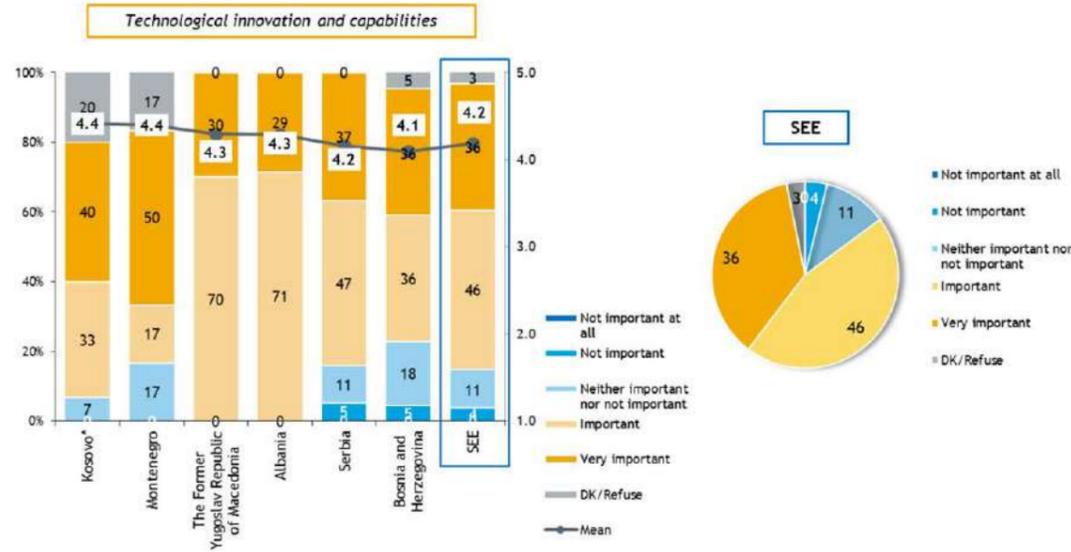
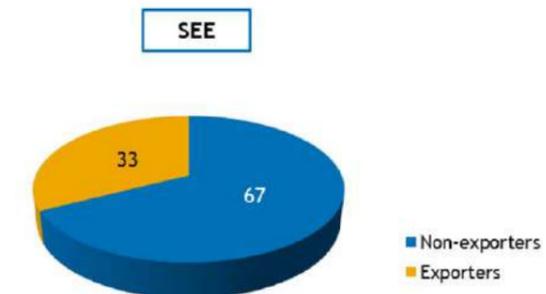
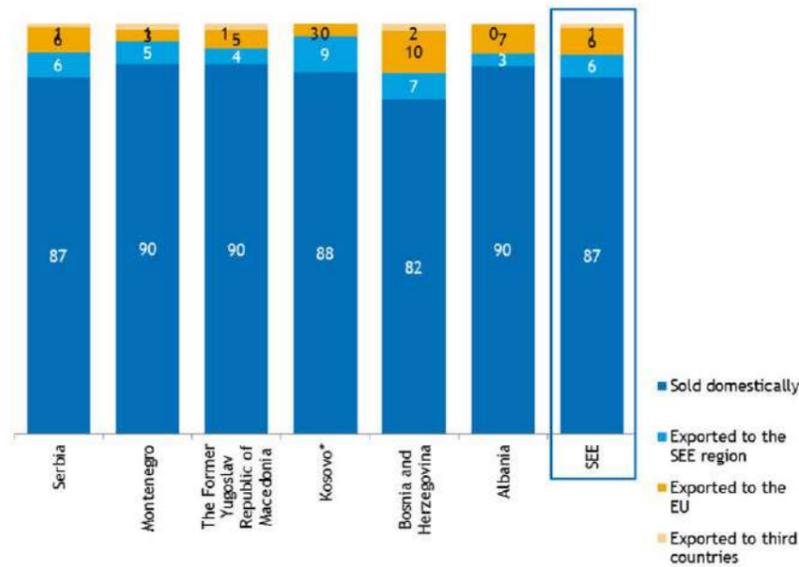


Figure 76: What percentage of your company's sales are made domestically, exported to the SEE region, to the EU or to the third countries?

(All respondents - N=1203, share of total, %)





A third of SEE companies surveyed export their goods and services, while the rest are still focused exclusively on the domestic market. Taking into account total sales numbers provided by respondents, broadly in line with 2016, 87% are locally made with exports equally distributed between the region and the EU (both 6%).

The major change, however, comes from Kosovo* where total exports have increased by 9% (up to 12% in 2017 from 3% in 2016). The chief reason behind this unprecedented boost in sales abroad lies in improved cooperation with neighbouring markets - presently, 9% of Kosovo's* total sales are made in the SEE region.

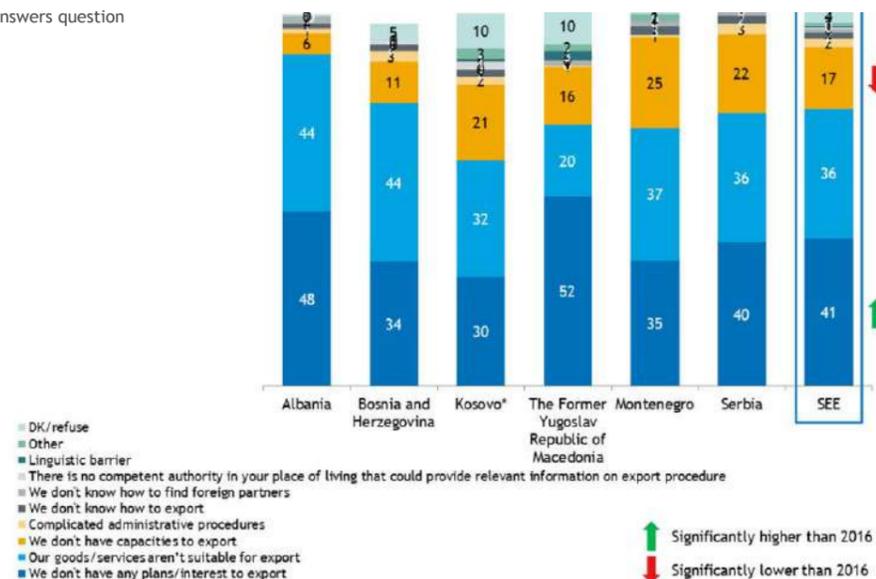
Bosnia and Herzegovina stands out as the most active exporter; alongside Serbia (6%), Bosnia and Herzegovina's economy exports to neighbouring economies more than others (7%), and also holds the largest share of the EU market with 10%, and third country exports at 2% of all sales.

Unsurprisingly, export activity grows in importance in proportion to company size. In addition, exporters tend to have the highest proportion of industry/mining/construction companies and firms supported by foreign assets.

Figure 77: Why doesn't your company export?

(Respondents who do not export - N=849, %)

Multiple answers question



Unlike with all previous waves when perceived inferiority of goods and services was the principle obstacle to export, this time around as many as two fifths of respondents declare no interest in exporting (up to 41% in 2017 from 32% in 2016 and 31% in 2015). Concerns over the quality of goods and services come in second (36%), while lacking capacities stay in third, but with a smaller proportion of SEE managers represented (down to 17% in 2017 from 23% in 2016).

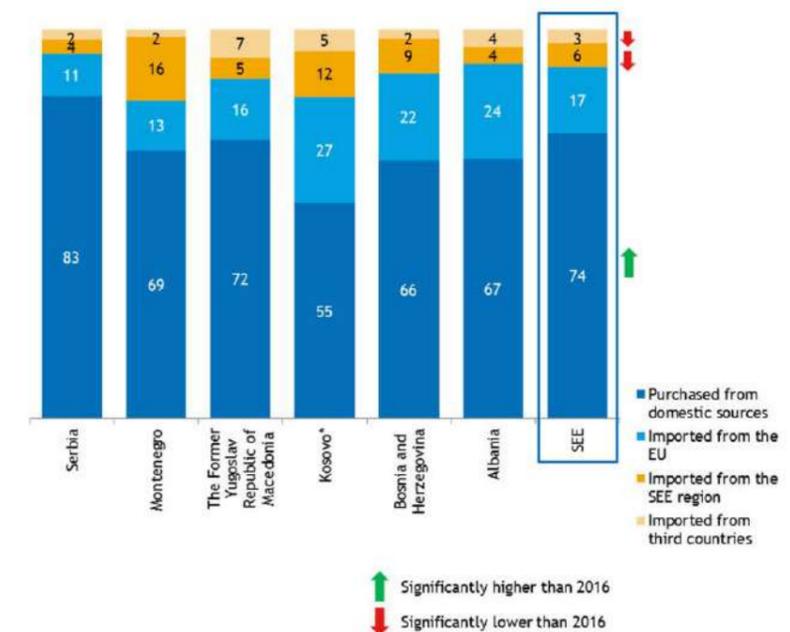
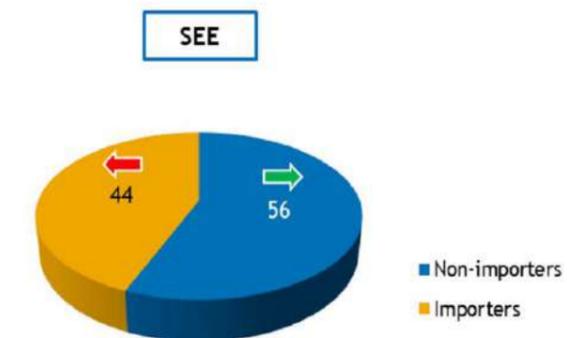
time, far fewer respondents describe their goods or services as unsuitable for export (20%). This indicates a growing self-sufficiency by companies in this particular economy but does not bode well for market diversification. Additionally, companies from Montenegro (25%) and Serbia (22%) appear to be much more aware of their limitations in terms of capacities and resources needed.

As expected, representatives of educational/arts/scientific institutions are more likely to describe their services as not intended for export (54%). At the same time, and much more surprisingly, some 41% of industry/mining/construction executives share their opinion.

In terms of individual economies, The Former Yugoslav Republic of Macedonia shows a striking absence of interest or ambition to export (52%), a significantly higher proportion than all other regional economies. At the same

Figure 78: What percentage of your company's inputs and supplies are...?

(All respondents - N=1203, share of total, %)



The share of domestic raw materials and supplies purchased as inputs by regional companies is the highest since 2014 (up to 74% in 2017 from 70% in 2016). Predictably, imports from neighbouring markets (6% in 2017 vs. 8% in 2016) and third countries (3% in 2017 vs. 5% in 2016) has gone down.

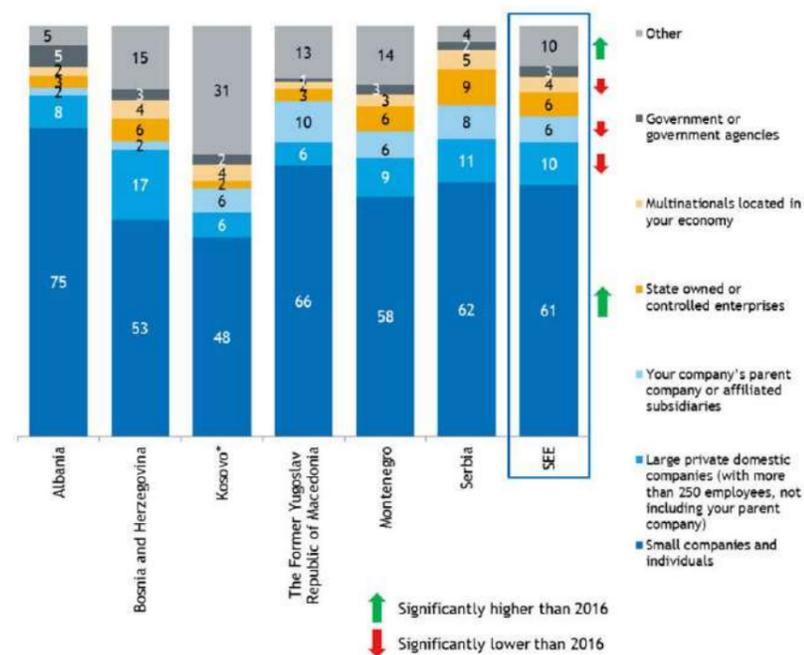
Accordingly, the overall number of companies that purchase their inputs abroad has decreased to 44% in 2017 from 55% in 2016.

Serbia still leads the field in local purchasing, even more convincingly than in 2016 (up to 83% from 78%). Montenegro remains the main importer from within the SEE region (16%), while Kosovo* (27%), Albania (24%) and Bosnia and Herzegovina (22%) rely on EU supply channels more frequently than others.

Exporters tend to purchase from all three foreign sources more often than non-exporters.

Figure 79: What percentage of your domestic sales are made to...?

(All respondents - N=1203, share of total, %)



The portion of total domestic sales made to small firms and individuals is now up to 61% from 55% in 2016. There seems to be some fluctuation in this segment with 2015 boasting a 63% share of sales made to small buyers before dropping to 55% in 2016.

While their share in total sales has declined (down to 10% in 2017 from 15% in 2016), large privately-owned domestic firms remain the second biggest purchaser.

Sales to parent companies and/or affiliated subsidiaries have also gone down (from 11% in 2016), and are now joint third with state owned or controlled enterprises with 6%.

Similar to 2016, companies from Albania supply small firms and individuals more often than their counterparts in the region (75%), while companies in Bosnia and Herzegovina record the highest proportion of sales to large privately-owned domestic firms (17%).

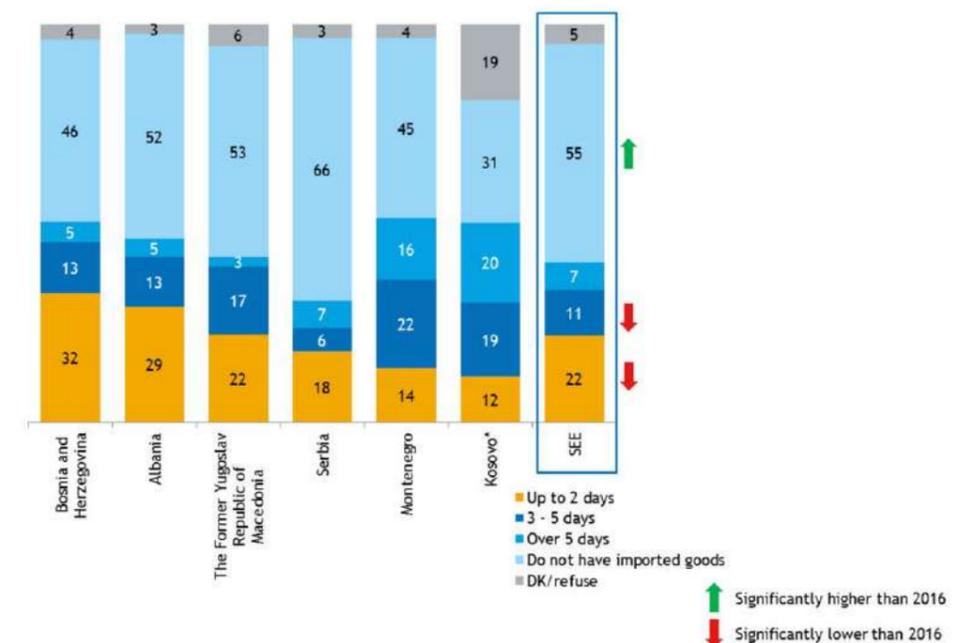
Serbian companies are most likely to sell their products and services to state-owned entities (9%), and also, along with the Former Yugoslav Macedonia (10%) sell to their mother or sister companies (8%) more often than others.

As last year, companies employing more than 250 people (17%) and those who are primarily export oriented (17%) enjoy a better relationship with large, private domestic firms. Furthermore, the number of government and

state-owned buyers grows in proportion to company size. Businesses in heavy industry find more customers within the ranks of multinationals operating in their economy (5%). Small firms and individuals are the preferred purchasers for small and medium enterprises, companies oriented exclusively towards the local market (69%), and businesses established with domestic capital only (62%).

Figure 80: If you have imported goods in the past 12 months, what is the average number of days to clear imports through customs?

(All respondents - N=1203, share of total, %)



Some 22% of companies surveyed report customs clearance within two days, down from 30% in 2016, while 11% report the procedure taking anywhere between three and five days (down from 14% in 2016).

While this may indicate a gradual drop in performance by customs authorities, it is important to note the sizable decrease in the number of companies importing goods in the course of 2017 thereby effecting a significantly smaller sample size.

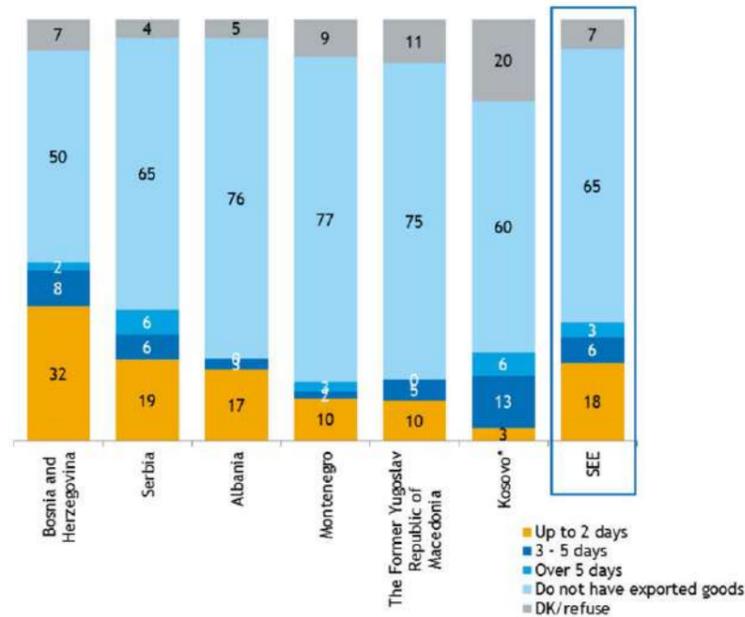
Observing the economies separately, customs clearance tends to take less time in Bosnia and Herzegovina and Albania than in the rest of the region. Just like in the previous wave, the number of those who have not imported goods over the past year is significantly higher in Serbia (66%) than in the other economies. Larger companies tend to be the happiest with the duration of import procedures as they complete all the necessary paperwork in two days. This could indicate either the

preferential treatment of larger corporations by relevant government agencies or it could be attributed to the companies' back-office expertise, experience and capacities. Export-oriented firms complete customs clearance

more quickly while the same is true of companies operating in industry/mining/construction industry and those active in the service sectors.

Figure 81: If you have exported goods in the past 12 months, what is the average number of days to clear exports through customs?

(All respondents - N=1203, share of total, %)



Unlike for imports, there is no notable difference in the number of days required to clear exports through customs, compared to 2016. The majority of exporters across the region (18%) still require up to two days to complete the requisite procedures. This further reinforces the assumption that perceived delays in import are likely influenced by sample size considerations rather than by any change in performance by customs authorities.

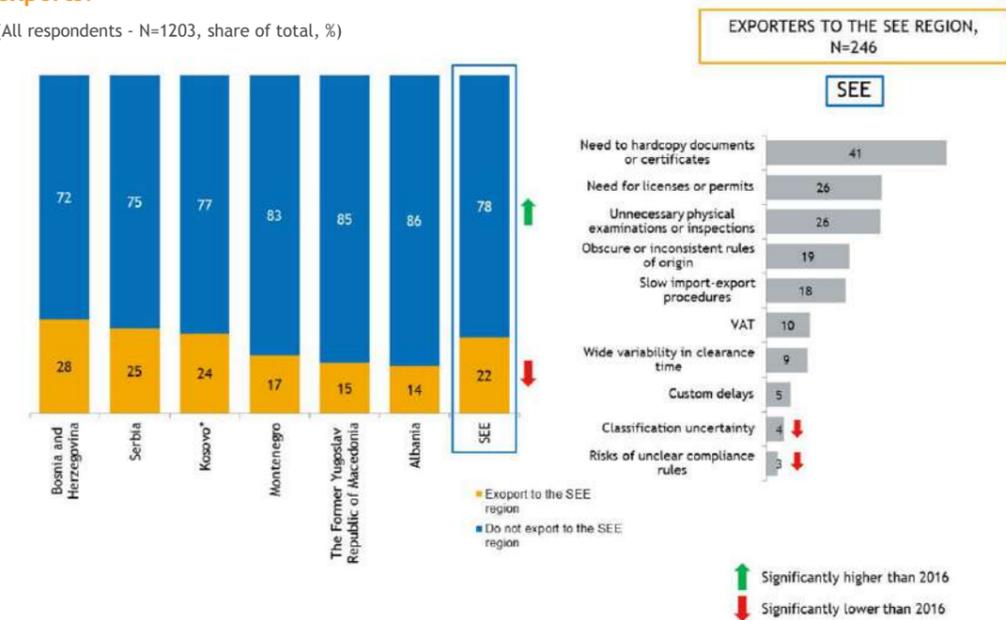
As in 2016, companies in Bosnia and Herzegovina spend significantly less time clearing customs - 32% of their exporters claim

that the relevant procedures take up to two days. Albania (76%) and The Former Yugoslav Republic of Macedonia (75%) stand out with the above average number of firms that have not exported their goods or services in the previous year.

Similar to import, export procedures tend to take less time for larger firms - half of those companies employing 250 or more complete clearance in two days. Firms operating in industrial and related sectors cite shorter delays in export.

Figure 82: If your company exports to the SEE region, what are the main obstacles to your exports?

(All respondents - N=1203, share of total, %)



The percentage of SEE companies exporting to neighbouring economies has dropped to 22% in 2017 from 28% in 2016. The number of regionally active firms is significantly higher in Bosnia and Herzegovina (28%) and Serbia (25%), than in Albania (14%) and The Former Yugoslav Republic of Macedonia (15%); all of this further corroborates earlier findings with regards to the number of exporters by economy.

Key obstacles to regional export remain largely unchanged. The insistence on hardcopy documents and/or certifications is still recognized

as the most problematic (41% of exporters i.e. 9% of all respondents). This is followed by the need to provide multiple licenses or permits, as well as undergo physical inspections (26% of exporters for both, i.e. 6% of all respondents). Obscure or inconsistent rules on origin come in third (19% i.e. 4%). Having in mind that SEE exporters have been reporting the same issues for a number of years, a more stringent review of customs requirements should be undertaken across the region in order to explore opportunities for simplification.

Table 3: Obstacles for exporting to the SEE region (for each economy)

(Respondents who export to the SEE region - N=246, %)

N	2017	Need to hardcopy documents or certificates	Need for licenses or permits	Unnecessary physical examinations or inspections	Obscure or inconsistent rules of origin	Slow import-export procedures	VAT	Wide variability in clearance time	Custom delays	Classification uncertainty	Risks of unclear compliance rules
246	SEE	41.0	26.2	25.9	19.0	18.2	9.9	9.4	5.5	4.0	2.6
51	Serbia	54.9	31.4	25.5	25.5	11.8	5.9	5.9	3.9	5.9	3.9
56	Bosnia and Herzegovina	26.8	14.3	33.9	14.3	28.6	10.7	21.4	3.6	1.8	1.8
28	Albania	32.1	7.1	28.6	7.1	25.0	3.6	7.1	14.3	0.0	3.6
30	The Former Yugoslav Republic of Macedonia	16.7	30.0	20.0	13.3	23.3	13.3	3.3	13.3	6.7	0.0
47	Kosovo*	31.9	42.6	10.6	14.9	12.8	36.2	2.1	4.3	2.1	0.0
34	Montenegro	44.1	35.3	20.6	11.8	20.6	8.8	11.8	2.9	0.0	0.0

■ Main obstacles
■ Small base for valid conclusions

This analysis is exclusive of Albania as its export base is not substantial enough to provide data for representative conclusions.

With the exception of The Former Yugoslav Republic of Macedonia, the major obstacle for exporting to the SEE region is the insistence on paperwork in the form of hardcopy documents or certifications. Businesses from Serbia (54.9) are especially concerned with their Montenegrin counterparts coming in second, and well above the regional average (44.1).

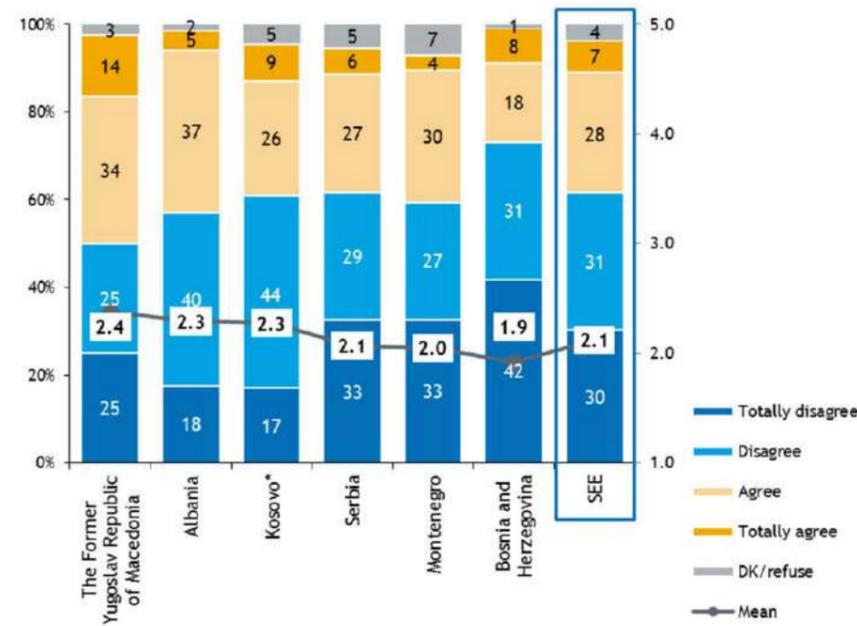
Together with Kosovo* (42.6), businesses from Serbia and Montenegro frequently flag mandatory licenses and permits as another major obstacle to exports. This is the biggest problem for companies from The Former Yugoslav

Republic of Macedonia (30). Redundant physical inspections are considered most cumbersome for companies in Bosnia and Herzegovina (33.9); businesses from this economy also fret over slow customs procedures (28.6) and inconsistency in clearance time (21.4). Considering the customs performance by economy, shown under figures 80 and 81, there does not seem to be much in the way of empirical evidence to back the claims made by Bosnian businesses. In addition, companies in Kosovo* are distressed by VAT (36.2) significantly more than all others.

Looking at company subgroups, largest firms, as well as those from industry and related fields are most affected by the perceived barriers to export in the SEE region.

Figure 83: To what extent do you agree that your company is threatened by global competition?

(All respondents - N=1203, scores are on a scale of 1 to 4 where 1 means totally disagree and 4 totally agree, %, mean)



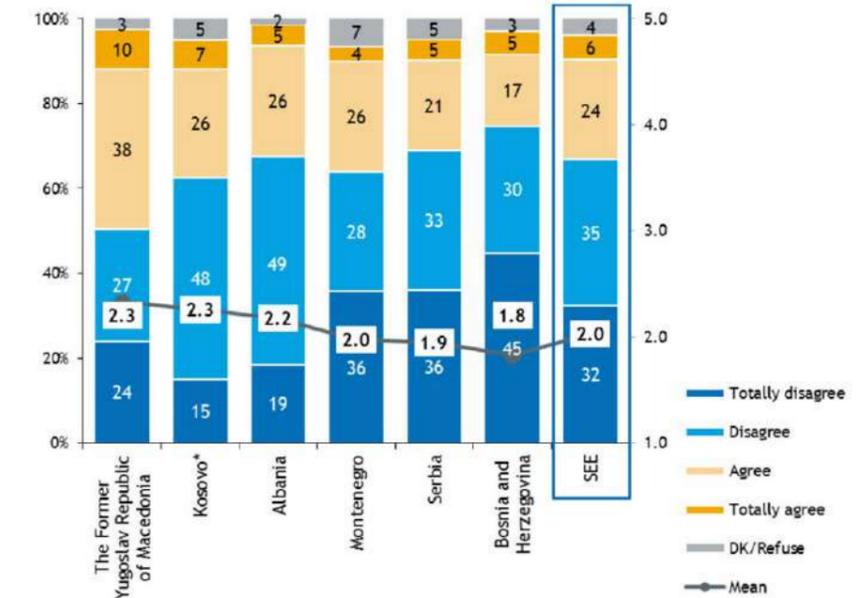
Almost to an identical extent as in 2016, SEE companies display a remarkable level of confidence with 61% of respondents not threatened by international competition (the average score is 2.1).

There are significant differences between the economies, though. Executives from Bosnia and Herzegovina are most convinced of their own abilities (1.9), while those from The

Former Yugoslav Republic of Macedonia are the least confident (2.4). Likely due to their familiarity with foreign markets and the scope of competition faced, exporters perceive global competitors more seriously (2.3) than non-exporters (2.0). Companies in industrial manufacturing (2.2) tend to be more self-aware as well.

Figure 84: To what extent do you agree that your company is threatened by competition from the SEE region?

(All respondents - N=1203, scores are on a scale of 1 to 4 where 1 means totally disagree and 4 totally agree, %, mean)



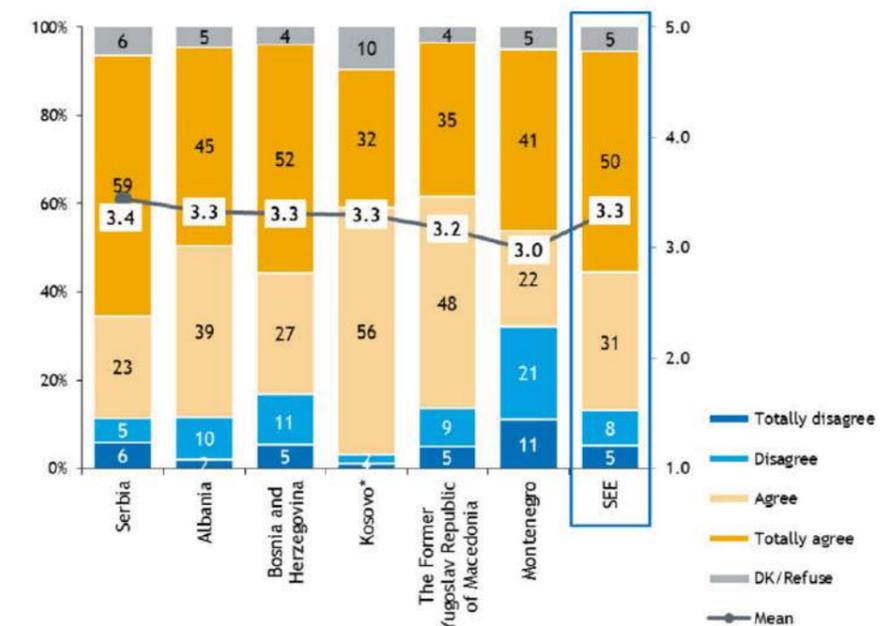
Similar to the 2016 survey, two thirds of SEE firms are not worried by market rivals from neighbouring economies (2.0). The most confident managers operate in Bosnia and Herzegovina (1.8) and Serbia (1.9). At the other end of the spectrum is The Former Yugoslav Republic of Macedonia with nearly

half of respondents (48%) unsure of their competitiveness with regional businesses (2.3).

Firms dealing with transport, trade or tourism (2.1) and those active abroad seem to be most concerned (2.2).

Figure 85: 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 SEE?

(All respondents - N=1203, scores are on a scale of 1 to 4 where 1 means totally disagree and 4 totally agree, %, mean)

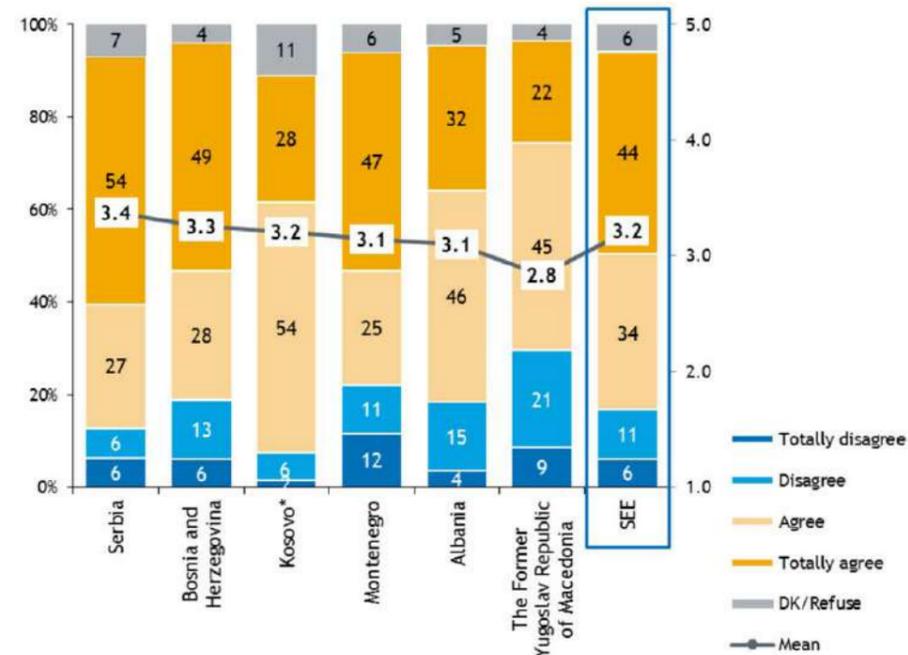


As expected in light of findings presented in Figure 84, the majority of regional corporate leaders (81%) believe their products to be competitive in the region. In Serbia, as many as 92% of respondents hold this view, while The Former Yugoslav Republic of Macedonia has significantly improved on last year's score (up to 3.2 in 2017 from 2.9 in 2016).

A detailed analysis by business type shows a close relationship between confidence and company size, with both growing in proportion. Finally, export-oriented businesses (3.5), as well as industry, mining or construction companies (3.6) are more assertive on average.

Figure 86: 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 EU countries?

(All respondents - N=1203, scores are on a scale of 1 to 4 where 1 means totally disagree and 4 totally agree, %, mean)

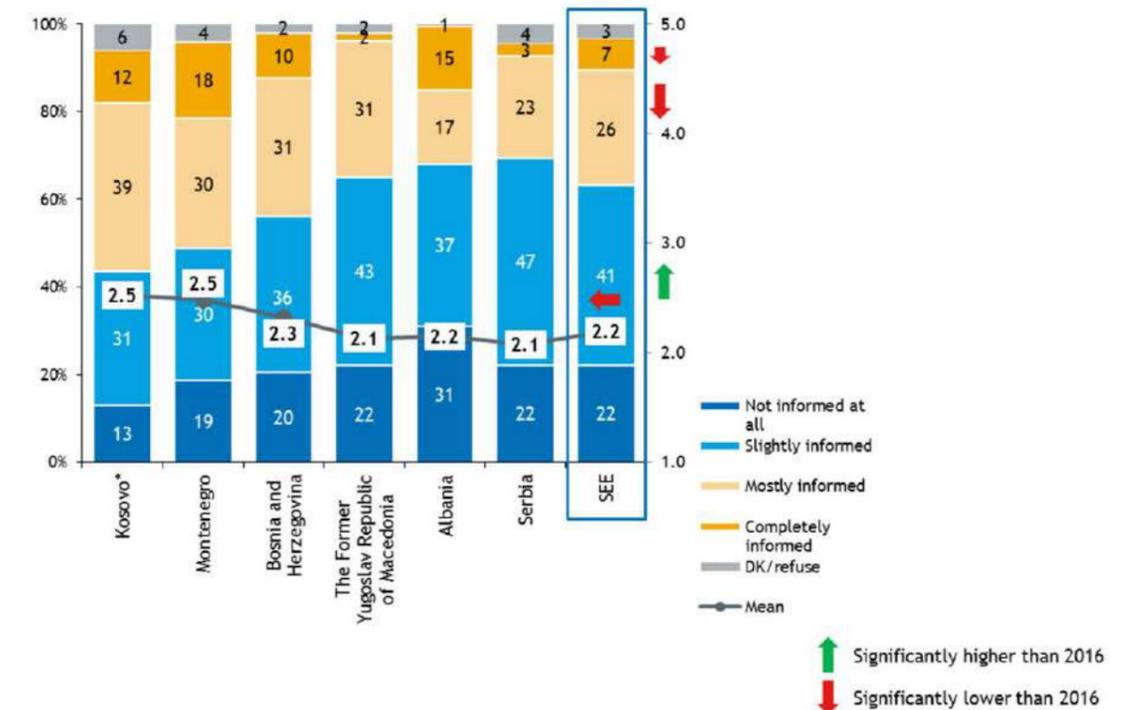


As in 2016, almost four fifths of all SEE businesses (78%) feel that domestic products can compete with those originating in the EU (the regional average score is 3.2). The degree of confidence in their own products is especially high in Serbia (3.4), while The Former Yugoslav Republic of Macedonia remains at the bottom end of the spectrum (2.8).

Once again, heads of firms operating in foreign markets (3.4) and heavy industry (3.5) tend to be more confident in their product's market positioning, as do managers of companies employing more than 49 employees.

Figure 87: To what extent do you think that you are informed about the regional free trade agreement (CEFTA 2006)?

(All respondents - N=1203, share of total, %)



Down from 44% in 2016, a mere third of SEE executives describe themselves as informed about the Central European Free Trade Agreement (CEFTA 2006). At the same time, there is an increase in the number of executives who acknowledge their limited awareness of the free trade agreement (up to 41% in 2017 from 36% in 2016).

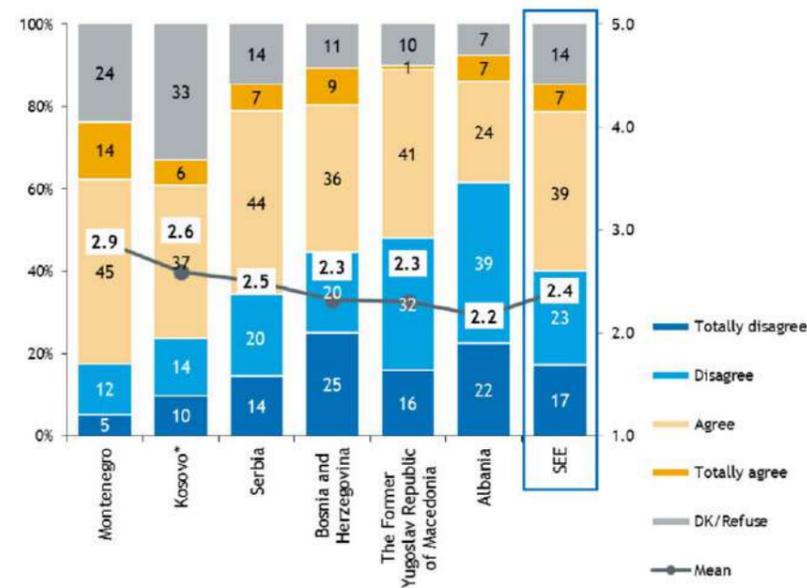
The proportion of business representatives who are at least somewhat educated on CEFTA has declined steeply (down to 51% in 2017 from 80% in 2016). Kosovo* remains the best informed economy while Serbia records a

major drop and is at the other end of the spectrum (down to 26% in 2017 vs. 37% in 2016). Montenegro, on the other hand, shows significant growth in the level of familiarity with CEFTA (up to 48% in 2017 from 29% in 2016) and is now in second right behind Kosovo*.

As in previous instalments of the survey, interest in CEFTA grows in proportion to company size. Exporters are naturally much better informed (47%) than non-exporters (27%), but also companies in sectors primed for exchange, such as industry (36%) and trade (33%).

Figure 88: To what extent do you agree with the statement - My company has benefited from the regional free trade agreement (CEFTA 2006)?

(Respondents who export and import - N=686, scores are on a scale of 1 to 4 where 1 means totally disagree and 4 totally agree, %, mean)



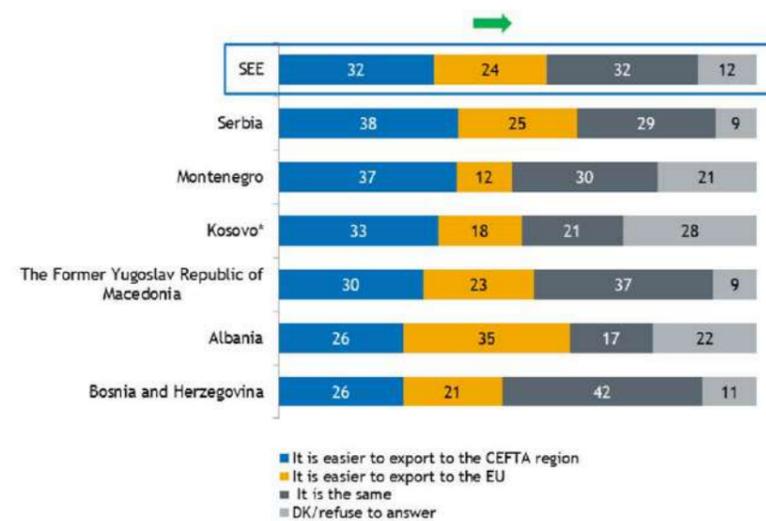
Similar to last year, slightly fewer than half of all respondents (46%) report some benefit for their business from the regional free trade agreement (the regional mean is 2.4). Businesses from Montenegro seem to have become better equipped to take advantage of CEFTA (up to 2.9 in 2017 from 2.6 in 2016). At the same time, The Former Yugoslav Republic of Macedonia reports a major drop in the

utilization of the Agreement, slipping from first to second last in the rankings, just above Albania who continues to struggle with export (Figures 76 and 82).

Representatives of largest companies and firms with foreign capital are more likely to utilize benefits on offer through CEFTA.

Figure 89: If your company is an exporter, can you tell us whether it is easier to export to the CEFTA region, or to the EU?

(Respondents who export - N=354, %)



While a third of interviewed SEE managers feel that it is easier to export to the CEFTA region, the number of executives who have had an easier time selling their products and services to the EU has increased to a quarter (up from 16% in 2016).

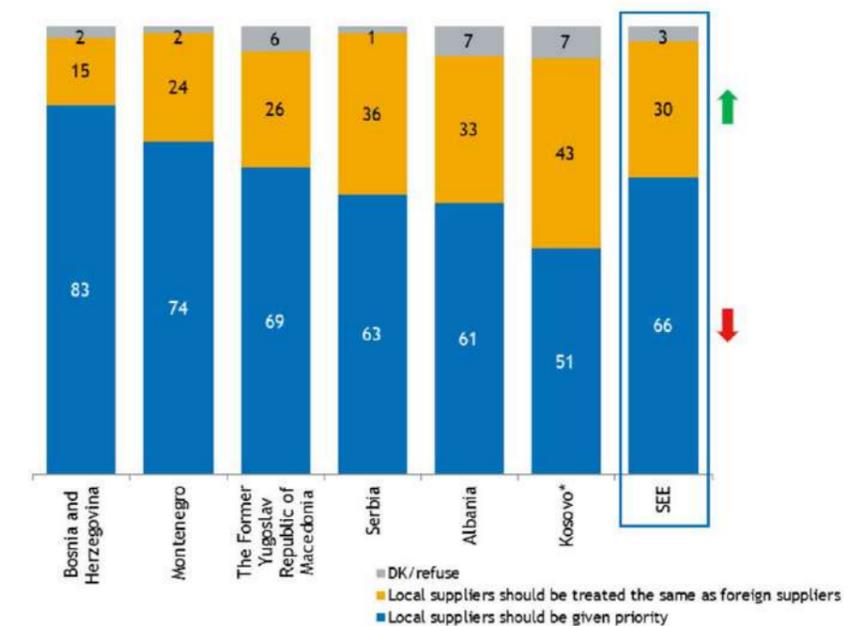
are most numerous in Bosnia and Herzegovina (42%). As a result, the percentage of Bosnian firms who find it is simpler to cooperate with CEFTA economies is significantly lower than in Serbia (38%) and Montenegro (37%).

EU-oriented exporters are most prevalent in Albania with 35%. Company executives that do not distinguish between the two markets

Interestingly, there are no noteworthy statistical variations between companies based on business size, area of operations of origin of capital.

Figure 90: In your opinion, when procuring products and services, should the governments in the region give priority to local suppliers, or should they be treated the same as all other suppliers (provided price and quality is equal)?

(All respondents - N=1203, share of total, %)



With every new year SEE business leaders are becoming more inclined to support free and open competition without prejudice towards foreign bidders. While the majority of executives surveyed still support preferential treatment of local suppliers in public procurement the number has dropped by an additional ten points since 2016 (down to 66% in 2017).

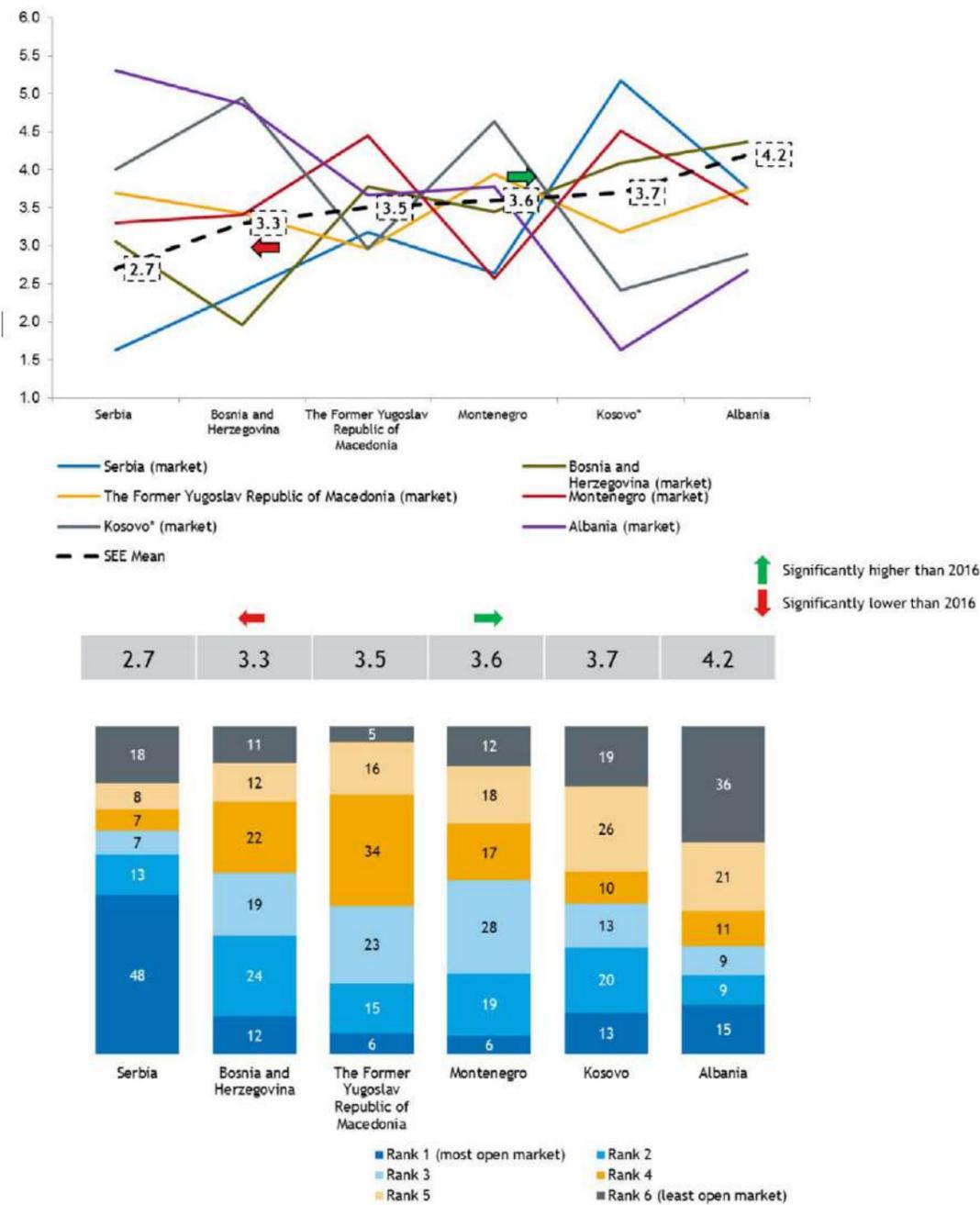
favour protectionism for locally sourced goods and services (83%) while their counterparts from Kosovo*, to a large degree, feel there should be no differentiation between the product place of origin. (43%).

As with last year's survey, there are differences between the individual economies - companies in Bosnia and Herzegovina overwhelmingly

Support for the free market grows in proportion to company size. Industrial manufacturing firms, as well as those with foreign capital, are also less likely to favour protectionism based on country of origin.

Figure 91: According to your opinion, which market in the SEE region is the most open one? Please give us your opinion no matter whether you/your company had direct experience with it.

(Respondents who can rank - N=456, rank is on a scale of 1 to 6 where 1 means most open and 6 least open, %, mean)



Compared to 2016, only Bosnia and Herzegovina and Montenegro have recorded significant changes in the perceived openness of their respective markets. Bosnia and Herzegovina, with its rating upgraded from 3.6 to 3.3 (where 1 is the most open) is now right behind Serbia (2.7) in regional rankings. Meanwhile, Montenegro has regressed considerably, going from 3.1 in 2016 to 3.6 in 2017. In terms of rankings, Montenegro has now dropped from second to fourth. The Former Yugoslav Republic of Macedonia reports a historical high in this category (3.5) and comes in third. Kosovo* (3.7) and Albania (4.2) remain at the bottom of the spectrum. As is now tradition, the largest economies continue to be the most open.

In terms of relationships between the region's economies, not much has changed since 2016. Bosnia and Herzegovina and Albania are much more closed towards each other than they are to other economies in the SEE area. Executives from Kosovo* have the poorest relationship with their counterparts in Serbia, while Kosovo's* economy, in turn, is considered the most insular by Montenegro. At the same time, companies from The Former Yugoslav Republic of Macedonia consider the Montenegrin market the most closed.

Innovation and Technology

Most innovation still takes the form of technology transfers. This is hardly surprising, considering the region's economies' general level of development. The side effect of this, however, is that product innovation often refers to the introduction of products new to the firm rather than to the market. Nonetheless, innovation through technology transfer should improve product quality and reduce costs.

The crucial problem for SEE businesses, when it comes to new product development, is the absence of a symbiotic relationship with research and development institutions. In addition to limiting business opportunities, this represents a major operational gap for

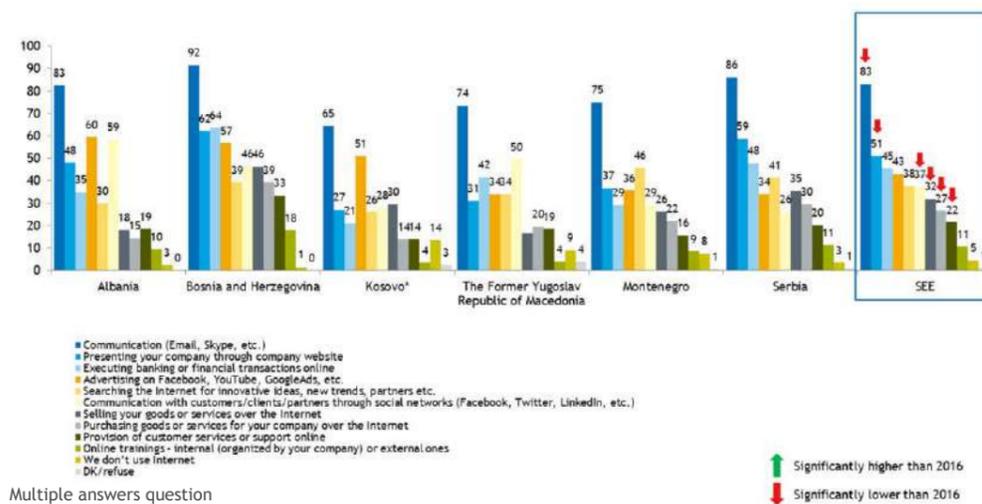
research facilities and universities.

Furthermore, low rates of innovation translate into limits on internationalisation, i.e. cooperation with foreign firms and research institutions, as well as entrepreneurship. The latter is also hampered by extremely modest policy enablers available to new market entrants, especially for small and medium sized enterprises.

Predictably, digital economy has a long way to go, though it represents a major opportunity for economies the size and development level of those in the SEE.

Figure 92: Does your company use the Internet for...?

(All respondents - N=1203, share of total, %)



As in previous survey instalments, the Internet is overwhelmingly used for communication via e-mail, Skype, etc. (83%). The company website comes in second and is employed by some 51% of businesses. Interestingly, all forms of

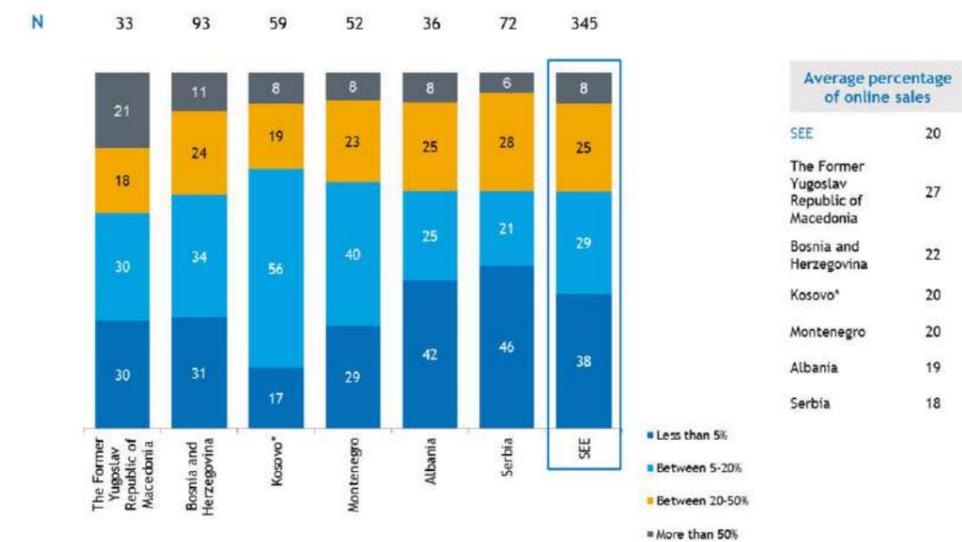
internet use have become less prevalent since 2016. This can in part be explained by improved affordability of services provided by mobile operators, allowing for more efficient and immediate communication by phone.

In a new survey segment, respondents were asked about new forms of Internet use. 45% of surveyed SEE companies use online banking, 43% employ digital marketing while a slightly lower number use the Internet for research, development and networking purposes (38%).

As with the 2016 survey, exporters and companies with 50 and more employees use the Internet to a greater degree. In addition, firms in the industrial and related sectors are more likely to build and maintain their own websites.

Figure 93: What percentage of your total sales is currently generated through online sales? (NEW QUESTION)

(Respondents who sell their goods or services over the Internet - N=345, %)

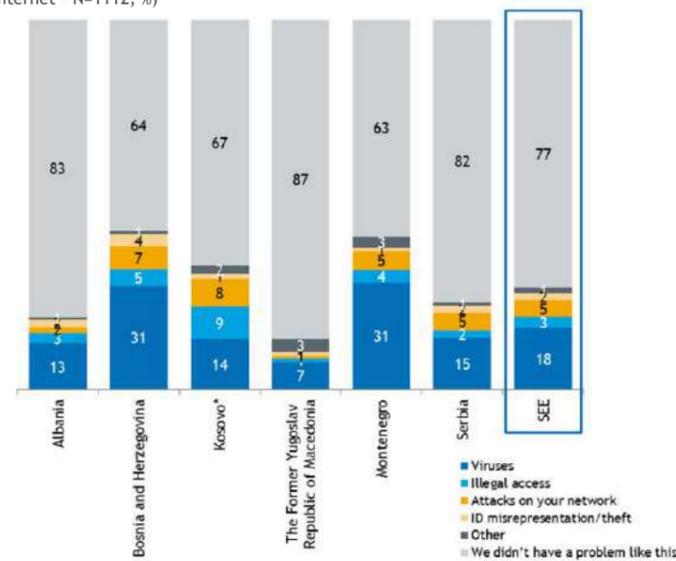


A third of all SEE enterprises sell their products over the Internet (Figure 92). This number is significantly higher in Bosnia and Herzegovina (46%) than in the rest of the region, with Serbia in distant second (35%). Nonetheless, actual sales figures suggest that firms from The Former Yugoslav Republic of Macedonia are much more accomplished online sellers - 27% of their total sales are made on the Internet. The average for the other regional economies is roughly a fifth.

Interestingly, small firms (up to 49 employees) record a higher percentage of online sales (23%) than medium ones (50 - 249 employees) - 14%. The same is true for the relationship between the service sector (24%) and heavy industry (13%), as well as between exporters (22%) and non-exporters (18%).

Figure 94: In the last six months, have you experienced any of the following Internet security problems? (NEW QUESTION)

(Respondents who use the Internet - N=1112, %)



Approximately three fourths of all SEE companies (77%) report no recent Internet security problem. As for those that did, viruses are the most prevalent form of online security breaches (18%). Looking at the economies individually, businesses from Bosnia and Herzegovina and Montenegro (both 31%) encounter this problem much more frequently than the regional average (both 31%).

Alongside Kosovo*'s businesses (8%), companies from Bosnia and Herzegovina cite network attacks (8%) at a level higher than the SEE average (5%). Illegal access issues, next in the rankings, are much less prevalent (3%).

Further analysis shows that companies employing 50 and more people, as well as those active abroad, struggle with computer viruses more frequently than others.

Figure 95: Are you satisfied with your Internet connection? (NEW QUESTION)

(Respondents who use the Internet - N=1112, %)



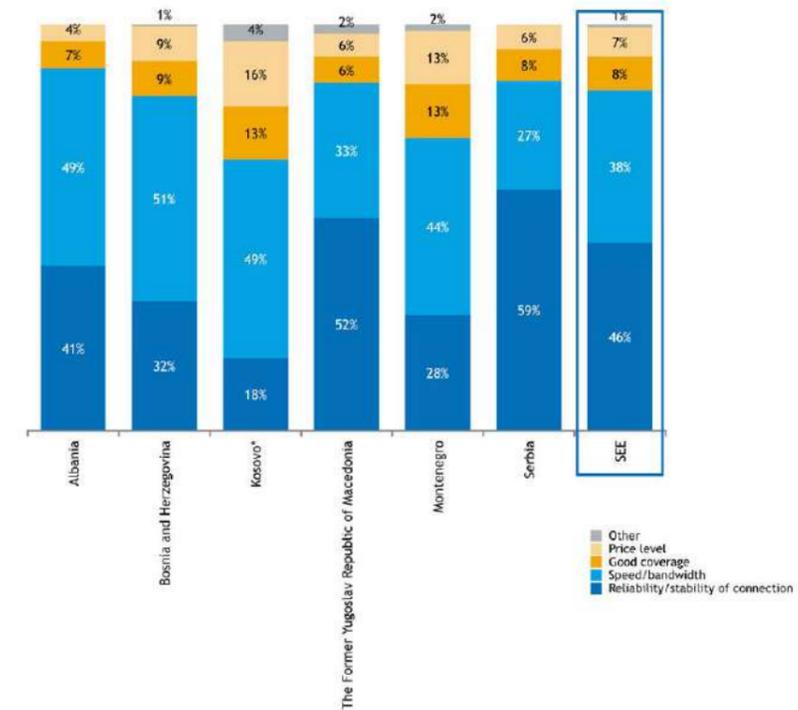
The vast majority of SEE firms surveyed (87%) report satisfaction with the quality of their Internet connection. Respondents from Serbia (93%) and The Former Yugoslav Republic of Macedonia (91%) are especially positive. Montenegro is at the other end of the spectrum with almost a quarter (23%) of

respondents reporting dissatisfaction with the quality of their Internet connection.

Small enterprises appear more likely to face Internet connection issues (14%) than their medium-sized counterparts (8%).

Figure 96: Which feature is the most important aspect for you regarding your internet access? (NEW QUESTION)

(Respondents who use the Internet - N=1112, %)

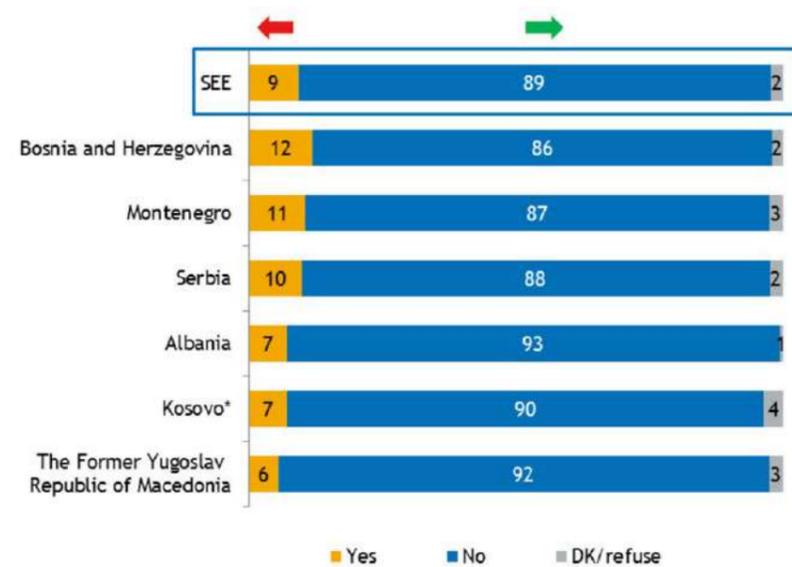


Most respondents agree that a reliable and stable connection is the most important feature of the Internet (46%). This is particularly true for managers from Serbia (59%) and The Former Yugoslav Republic of Macedonia (52%). At the same time, respondents from other SEE economies rank bandwidth as the most important aspect.

While micro firms (up to 9 employees) prioritize speed, larger companies appreciate stability of access. Likewise, companies operating in transport/trade/tourism sectors rank speed as the most important Internet feature while their counterparts in industrial manufacturing prioritize reliability.

Figure 97: In the past 3 years, did you cooperate with any of the universities on research and development (R&D) or technology development projects to help develop new products or services?

(All respondents - N=1203, share of total, %)

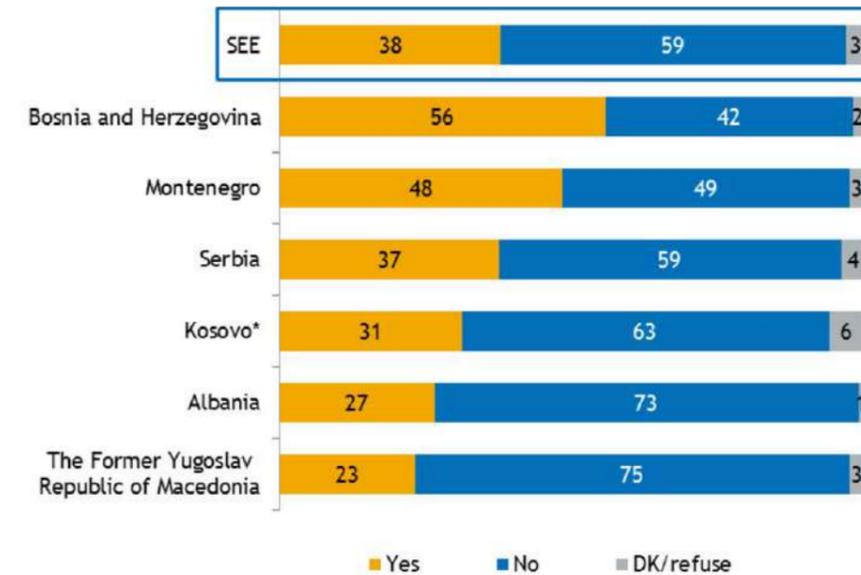


Results here indicate a worrying deterioration in an already fragile relationship between businesses and universities compared to results of 2016 - a very modest 9% of businesses in cooperated with universities on R&D or technology transfer projects to develop new products of services (down from 14% in 2016). Most companies which reported cooperation with universities are from Bosnia and Herzegovina (12%), followed by companies from Montenegro (11%) and Serbia (10%), while companies from Albania and Kosovo* (both 7%), and The Former Yugoslav Republic of Macedonia, (6%), hold the bottom of a very short ladder.

Larger enterprises are the most likely to have cooperated with universities (34%) in the past three years. Likewise, exporters (16%), firms with foreign capital (21%) and educational/ arts/scientific institutions (18%) are more likely to have cooperated with the universities for innovation purposes in the past three years.

Figure 98: Have you introduced new or significantly improved products and/or services in the last 3 years (2015-17)? (NEW QUESTION)

(All respondents - N=1203, share of total, %)



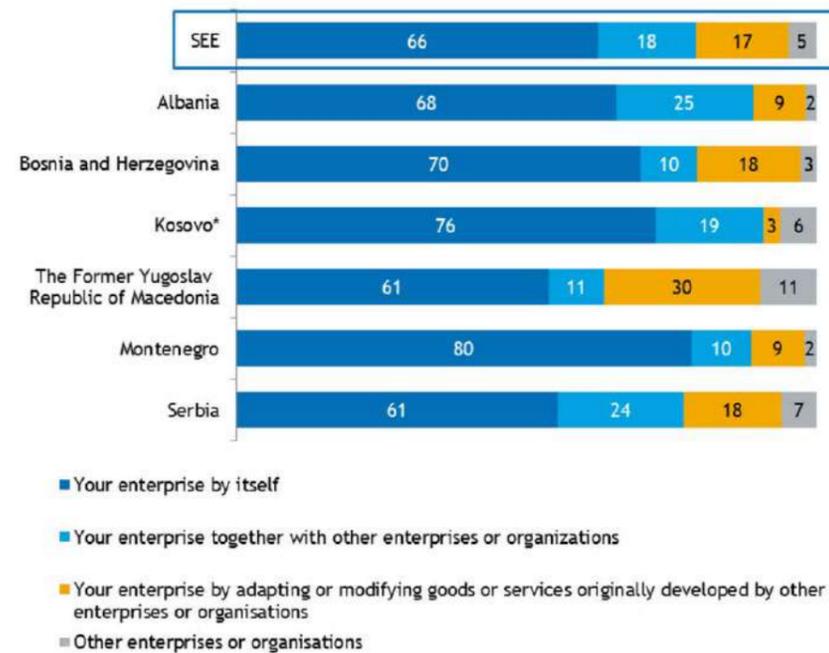
Over one third of SEE businesses (38%) reported introduction of new products or services, or upgrade of existing ones, over the previous three-year period. There are major differences between the economies in this regard. In Bosnia and Herzegovina, over half of companies (56%) have improved or introduced new products or services to the market, while in The Former Yugoslav Republic of Macedonia, this applies to less than a quarter of all businesses surveyed (23%). Montenegro gravitates towards the top of the ranking (48%), while

Albania is much closer to the bottom (27%); Serbia (37%) and Kosovo* (31%) are somewhere in between.

As with the previous question, product/service innovation accelerates with company size. Companies that export their products or services innovate their products/services more often (51%), as do companies operating with foreign assets (55%) and those active in educational-scientific and related fields (49%).

Figure 99: Who developed these product innovations? (NEW QUESTION)

(Respondents who introduced new or significantly improved products and/or services - N=445, %)

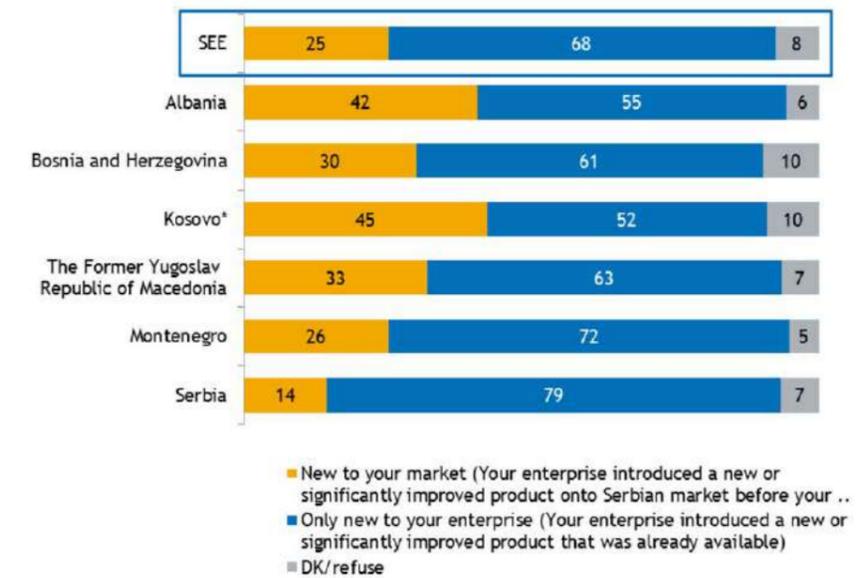


Two thirds of the companies have introduced product/service innovation by themselves (66%). Slightly less than a fifth of companies (18%) have developed new products/services in cooperation with other enterprises or organisations and an additional 17% have developed new products/services by adapting or modifying goods or services originally developed by other enterprise or organisation. There are significant differences between economies in the region in terms of shares of companies which introduced new products/services by themselves, or in cooperation with other enterprises/organisations or by adapting products/services of other enterprises/organisations. Montenegro is the regional leader when it comes to innovation carried out by companies themselves, where 80% of businesses have introduced product/service innovations by themselves. On the other hand, in The Former Yugoslav Republic of Macedonia

(30%) modifying goods or services originally developed by other enterprise or organisation happens more often than in other economies. Larger companies (over 49 employees), as well as those active internationally, modify goods or services developed by other enterprise or organisations more often than others.

Figure 100: Were any of your product innovations (goods or services)...? (NEW QUESTION)

(Respondents who introduced new or significantly improved products and/or services - N=445, %)



At SEE level, a quarter of recent product innovations were new to the economies' respective markets, while more than two thirds were new to the enterprise. In Serbia the highest proportion of the new products or services introduced was new only to the enterprise itself (79%). Companies from Kosovo* (45%)

and Albania (42%) report a much higher percentage of products considered new to their respective markets.

Larger companies (employing between 50 and 249) people are more likely to claim market-level product innovation.

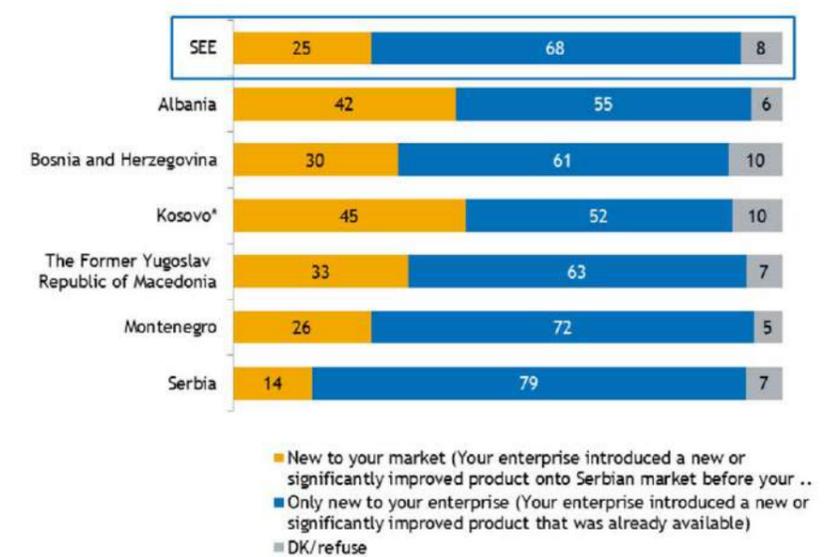
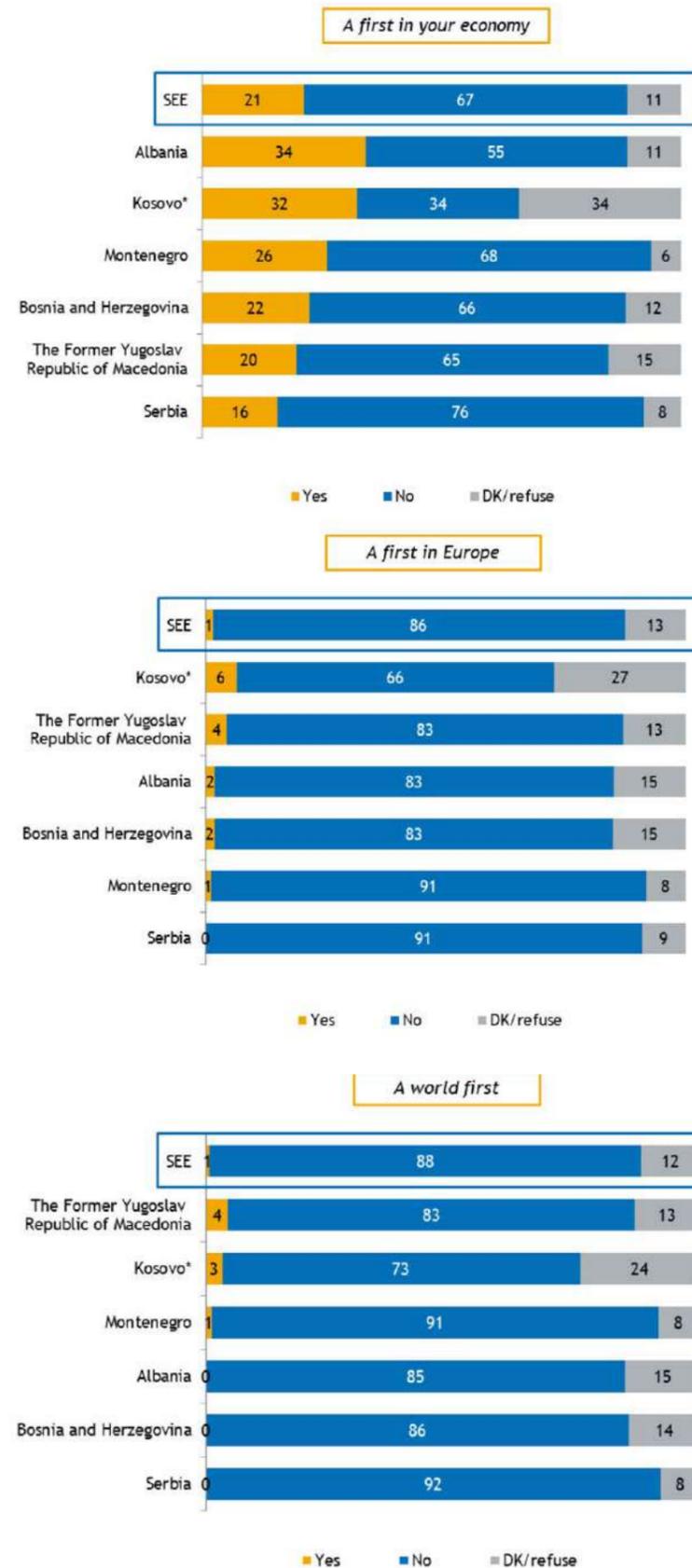


Figure 101: To the best of your knowledge, were any of your product innovations during the three years 2015 to 2017...? (NEW QUESTION)

(Respondents who introduced new or significantly improved products and/or services - N=445, %)

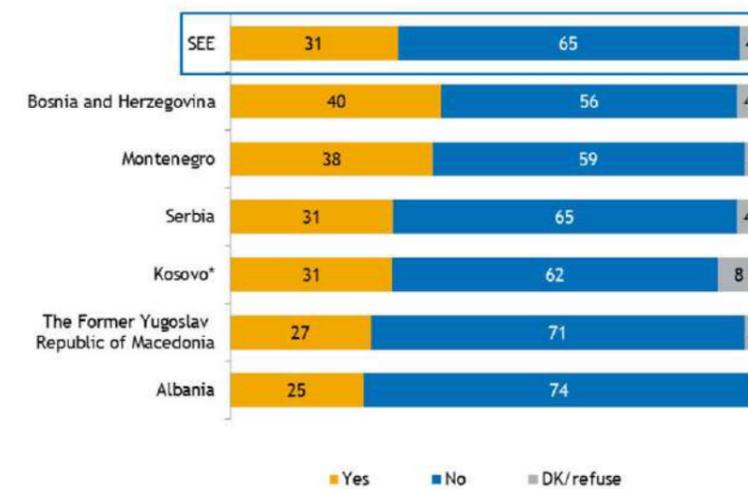


Looking at the breakdown of innovations by market scale estimate, as anticipated, the highest number of product/services innovations were a first for the respective economy (21%), while only 1% of product/service innovations were new to Europe or the world. Interestingly, companies from smaller economies, primarily Kosovo* and The Former Yugoslav Republic of Macedonia, claimed

their product/service innovations were new to European (6% in Kosovo* and 4% in The Former Yugoslav Republic of Macedonia) and global markets (4% in The Former Yugoslav Republic of Macedonia and 3% in Kosovo*). Companies with foreign capital claimed more often that their products/services were new to European and global markets.

Figure 102: Have you introduced new or significantly improved production and/or service delivery processes in the last three years (2015-17)? (NEW QUESTION)

(All respondents - N=1203, share of total, %)



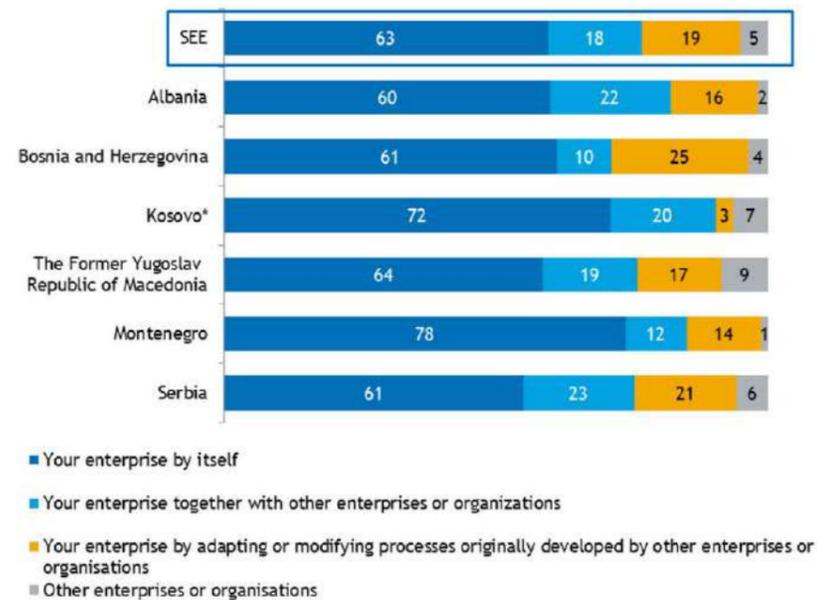
Approximately every third company in the region has introduced new or made improvements to their production and/or service delivery processes over the past three years (31%). This question is also illustrative of the major differences that exist between the economies. In Bosnia and Herzegovina the highest share of businesses in the region, 40%, have introduced new or upgraded production or service delivery processes. At the same time, 74% of businesses in Albania have not introduced new

or upgraded production or service delivery processes over the past three year.

Once more, the largest (61%) and export-oriented (43%) companies tend to innovate their production and/or service delivery processes more. Interestingly, it seems that firms operating in transport, trade or tourism (28%) innovate their production or service delivery processes to a lesser extent than other firms.

Figure 103: Who developed these process innovations? (NEW QUESTION)

(Respondents who introduced new or significantly improved production and/or service delivery processes - N=382, %)



Almost two thirds of SEE businesses have introduced new or upgraded production/service delivery processes by themselves (63%), while one fifth of businesses has developed new or upgraded production/service delivery processes in cooperation with other enterprise or organisations and one fifth by adapting or modifying processes originally developed by other enterprises or organisations.

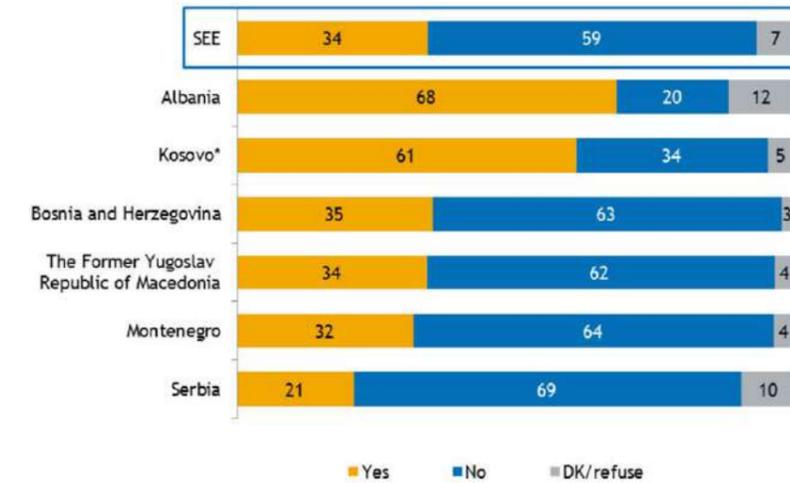
processes by themselves (80%). At the same time businesses in Serbia are more likely to work with other organisations or enterprise to innovate production/service delivery (23%) compared to other economies, while in Bosnia and Herzegovina more businesses modify production/service delivery processes (25%) compared to other economies in the region.

There are significant differences between economies in the region. Most businesses in Montenegro claim to have introduced new or upgraded production/service delivery

Larger companies (over 49 employees), exporters and enterprises operating in heavy industry tend to introduce new or upgrade existing processes more frequently than others.

Figure 104: Were any of your process innovations introduced during the three years 2015 to 2017 new to your market? (NEW QUESTION)

(Respondents who introduced new or significantly improved production and/or service delivery processes - N=382, %)

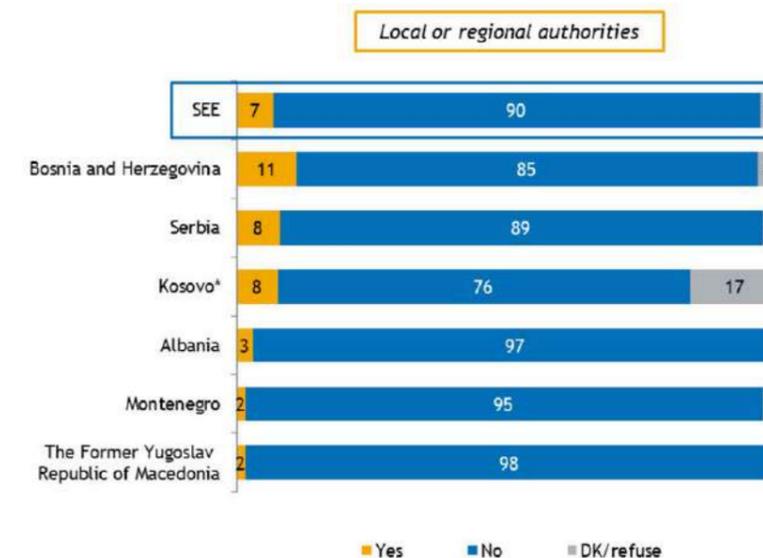


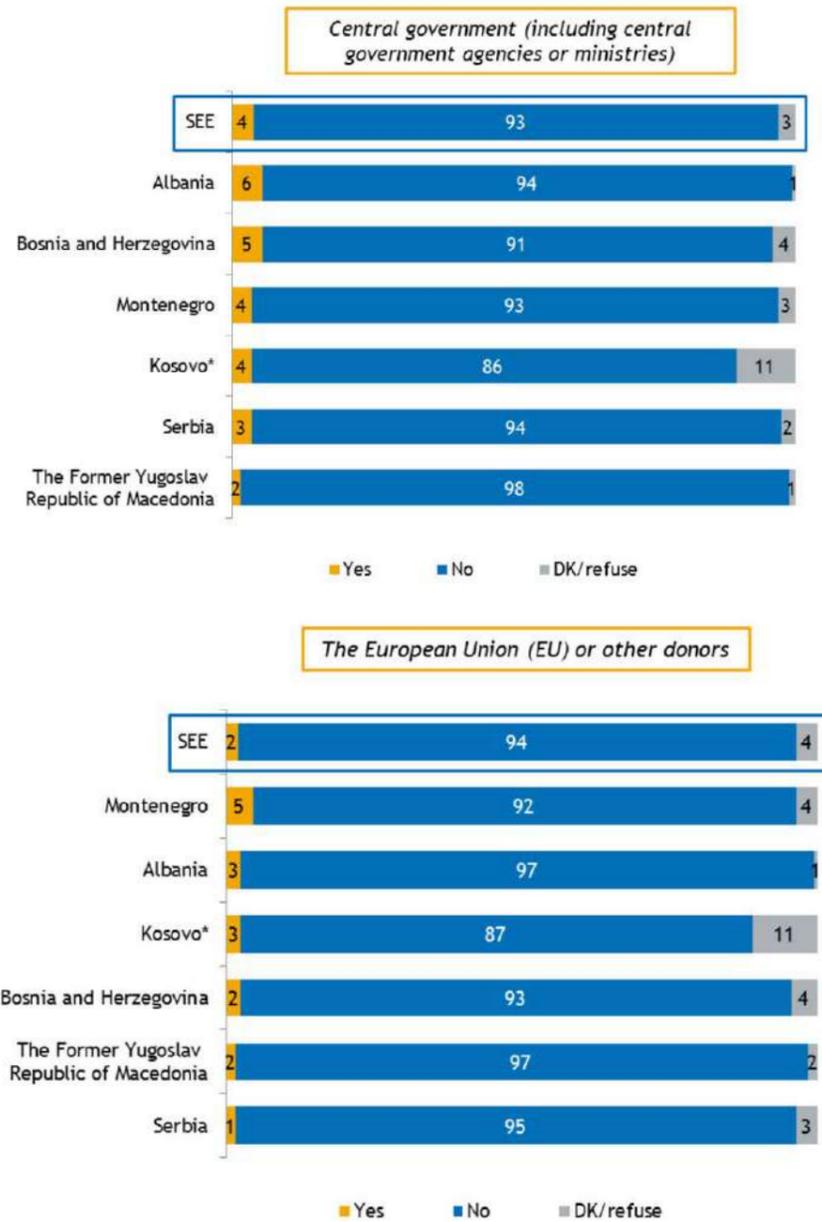
At regional level, a third of process innovations implemented in the past three years were new to the market. Businesses from Albania (68%) and Kosovo* (61%) are more likely to claim market-level innovations than any of their counterparts from the region.

In terms of breakdown by industry, business leaders from industry/mining/construction, as well as education/art/science sectors are more likely to claim market-level process innovations.

Figure 105: During the past three years (2015 to 2017), did your enterprise receive any public and/or donor's financial support for innovation activities from the following levels of government? Include financial support via tax credits or deductions, grants, subsidized loans, and loan guarantees. Exclude R&D and other innovation activities conducted entirely for the public sector under contract. (NEW QUESTION)

(All respondents - N=1203, share of total, %)





The vast majority (90% or more) of innovation were implemented without public or donor funding support. When businesses do receive public support it tends to come from local or regional authorities (7%) rather than the central government (4%). Only 2% of innovation projects were supported by funds from the EU or some other donor.

The SEE is still an area of interest for many foreign donors but funding opportunities are

seldom exploited due to a lack of awareness or know-how by eligible businesses.

There are significant differences in the number of businesses reporting public or donor financial support to innovation. Medium (12%) and large companies (14%) are more successful in attracting public or donor financial support for innovation.

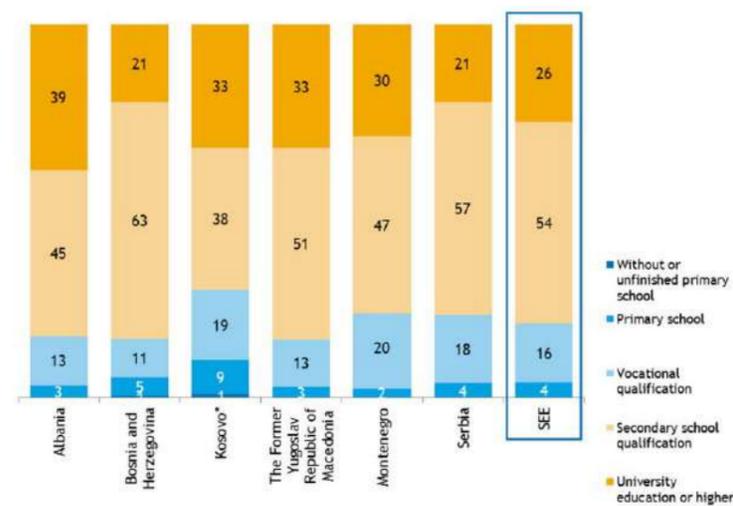
Skills Needs

There are few changes over the previous rounds of this survey. It appears that availability of skilled employees is not a constraint to business in the region, except in Bosnia and Herzegovina. This is likely to change in the near-future should the current development trends persist.

Women are quite disadvantaged in the labour market, as evidenced by the survey, especially in some of the economies, e.g. Kosovo* and Albania.

Figure 106: What percentage of the workforce at your company has the following education levels?

(Respondents who did not mark DK/refuse - N=1176, %)



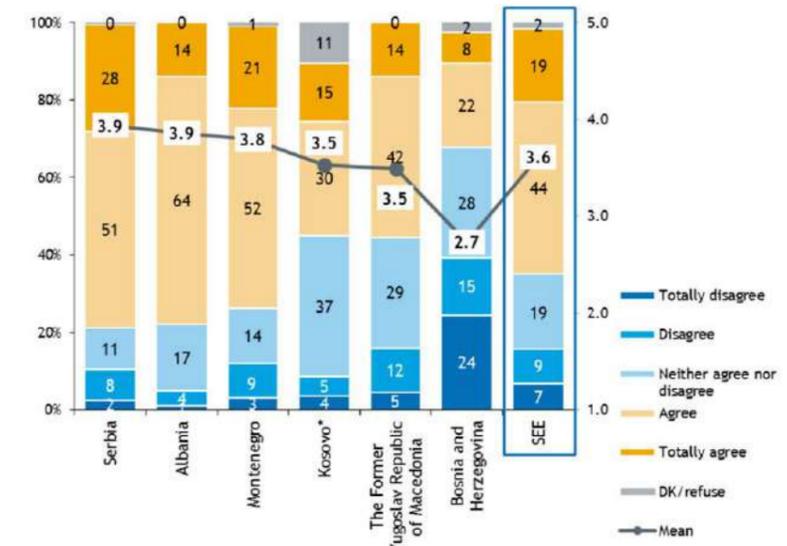
Looking at the employee educational structure for companies surveyed, there are no changes compared to 2016 - most employees hold a secondary school qualification (54%) whereas 26% are university educated. The highest proportion of college graduates are employed by companies in Albania (63%) and

Serbia (54%). Kosovo*, on the other hand, has the highest proportion of employees with no more than a secondary education.

Better educated employees tend to gravitate towards service or education/arts/scientific sectors.

Figure 107: Would you agree that the skills taught in the education system of your economy meet the needs of your company?

(All respondents - N=203, scores are on a scale of 1 to 5 where 1 means totally disagree and 5 totally agree, %, mean)

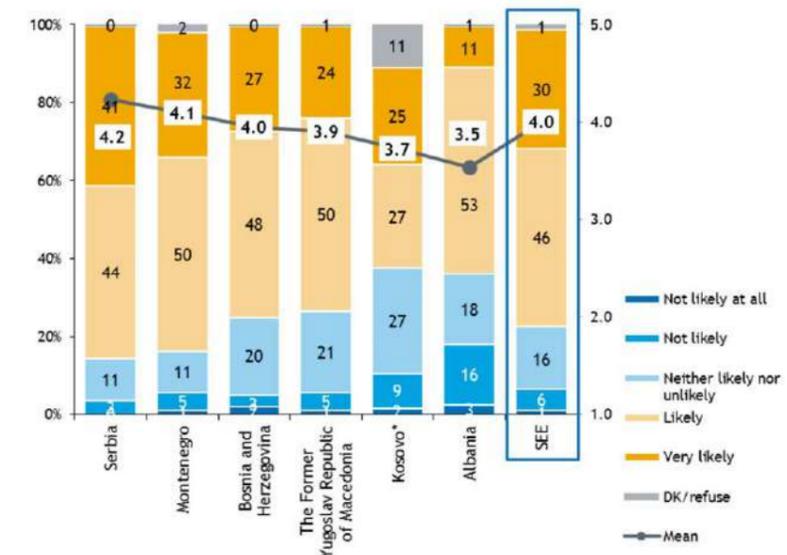


Similar to last year, slightly less than two thirds of SEE employers (63%) are satisfied with the knowledge and skills acquired through the education system in their economy, while approximately one third of respondent disagrees (the average score is 3.6). In Bosnia and Herzegovina as many as 39% of respondents express their dissatisfaction with the education system. Serbia (3.9) and Albania (3.9) are

at the other end of the spectrum with the highest proportion of satisfied respondents. Interestingly, when looking at company sub-groups, the only notable difference is linked to size - employers managing between 50 and 249 people are happier with how their needs are met by the education system (3.8).

Figure 108: How likely would you hire young person whose educational profile completely meets the needs of your business, but without work experience?

(All respondents - N=1203, share of total, %)



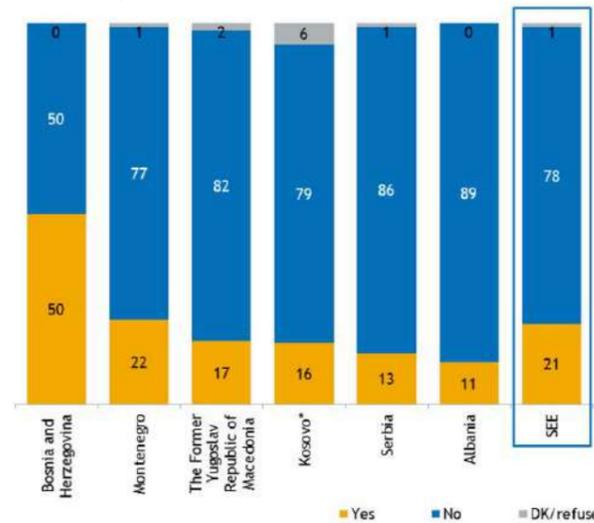
Closely mirroring the 2016 survey results, three quarters of SEE businesses (76%) are happy to recruit educated but inexperienced young people (the average score is 4.0). Firms in Serbia (the average score 4.2), followed by those from Montenegro (4.1) and Bosnia and Herzegovina (4.0), are the most open to hiring

youth. At the same time, Albania remains the least supportive economy for young people only starting out their careers (3.5).

In terms of company results, the larger the company, the greater the opportunity for the young and the educated.

Figure 109: Did you have vacancies over the past 12 months that have proved hard to fill?

(All respondents - N=1203, share of total, %)



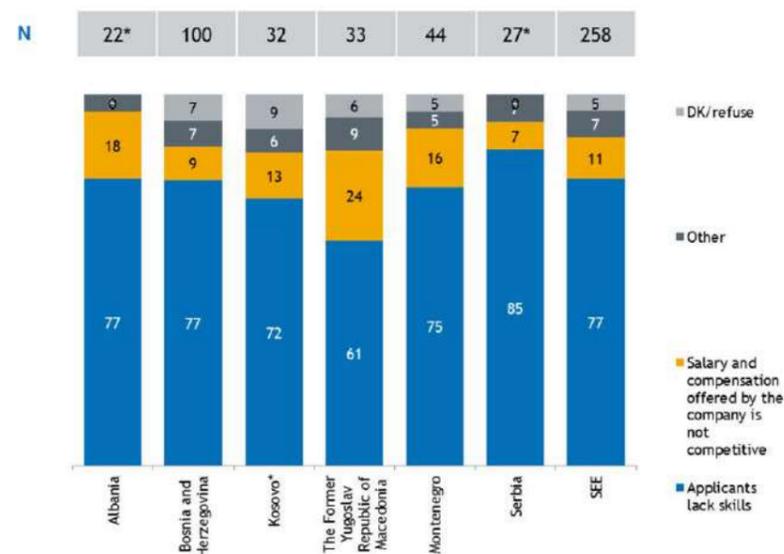
A fifth of company leaders (21%) in the region report hard-to-fill vacancies over the past 12 months, similar to the results for 2016. Businesses from Bosnia and Herzegovina seem to struggle with finding employees with appropriate skills and knowledge significantly more than any other economy in the region (50%); this may help account for the higher

dissatisfaction with the education system expressed by business leaders in Bosnia and Herzegovina (Figure 107).

Companies employing between 10 and 249 people tend to experience more difficulties in identifying suitable hires (both 26%). The same is true for firms active abroad (28%).

Figure 110: Why do you think this is the case?

(Respondents who had difficulty in filling vacancies - N=258, %)



*Small base for valid conclusions

As in 2016, the vast majority of SEE executives attribute their inability to easily fill vacancies to the applicants' inadequate qualifications (77%), and only 11% acknowledge that salary and compensation offered to prospective employees may not be suitable. More employers from The Former Yugoslav Republic of Macedonia (24%) attribute the inability to

find suitable employees to inability to offer competitive salary and compensation than elsewhere in the region.

Looking at company subgroups, there are no significant differences in perception between the categories represented.

Employment Practices

Personal contacts are still relied upon to a greater extent than open recruitment process by the employers. That leads to a distortion in the labour market which is detrimental to business development as it severely restricts access to what is potentially a much larger pool of qualified candidates.

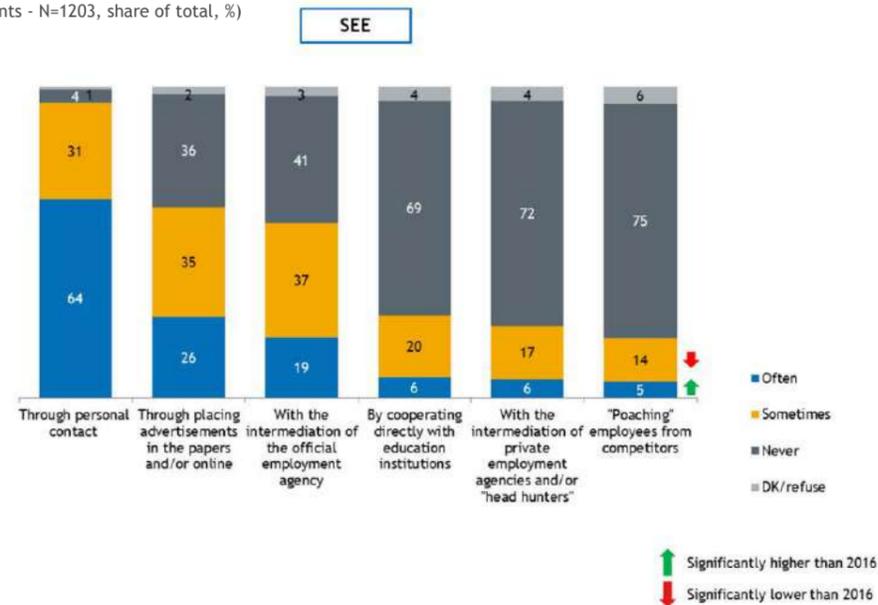
On a more positive side, in principle,

employers are open to hiring across regional borders, though not from third countries, which may reflect a prejudicial attitude towards migrants.

Roma and other minorities continue to suffer from unacceptably high levels of discrimination. This requires a more pronounced commitment by governments in fighting employment discrimination.

Figure 111: How often do you use the following when hiring new employees? Please mark each of the following methods with 1 often, 2 sometimes or 3 never. (Results at the SEE level)

(All respondents - N=1203, share of total, %)



Personal contacts remain the preferred method for recruiting for most SEE companies (64%). Serbia (72%), Montenegro (69%) and The Former Yugoslav Republic of Macedonia (68%) are most likely to rely on personal contacts in identifying new hires. Recruiting through vacancy announcements in print or

online publications comes in second, with 61% of firms using this method. Companies in Montenegro rely on advertising most frequently with 82% of companies publishing vacancy announcements to attract qualified candidates at least occasionally.

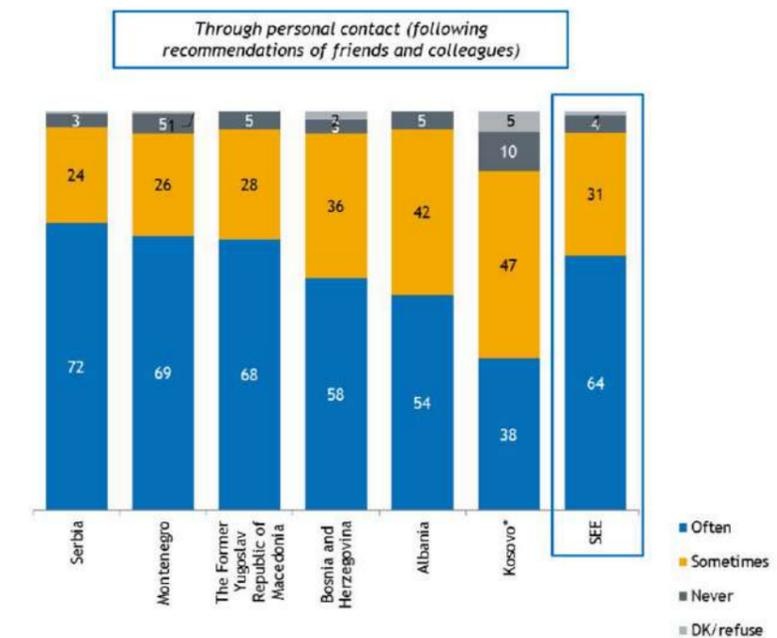
Intermediation by an official employment agency is the third most common recruitment method, with 56% of employers seeking assistance from authorized agencies from time to time. Montenegro is again top of the ranking with significantly above average numbers of businesses routinely using employment intermediaries (32% vs. 19% at the regional level). The other methods listed are used rather infrequently. Similar to last year, 84% of companies surveyed in The Former Yugoslav Republic of Macedonia have never reached out to an education institution to help identify potential recruits. Companies from The Former Yugoslav Republic of Macedonia (83%) and Serbia (81%) overwhelmingly admit to not using "head-hunters" to fill vacancies. The practice of "poaching" workers from competitors

is more widespread in Albania and Kosovo*, as in the previous survey instalment. Overall, there is a modest increase in the number of firms hiring employees away from their competitors (up to 5% in 2017 from 3% in 2016).

There are no changes in trends identified across previous survey instalments with regards to company subgroups - when hiring, larger companies more often advertise vacancies and use employment intermediary services. Exporters are also more likely to place their trust in specialized recruiters. Both larger firms and those active internationally also tend to have closer relationships with institutions of higher learning.

Figure 112: How often do you use the following when hiring new employees? Please mark each of the following methods with 1 often, 2 sometimes or 3 never. (Results by economies)

(All respondents - N=1203, share of total, %)



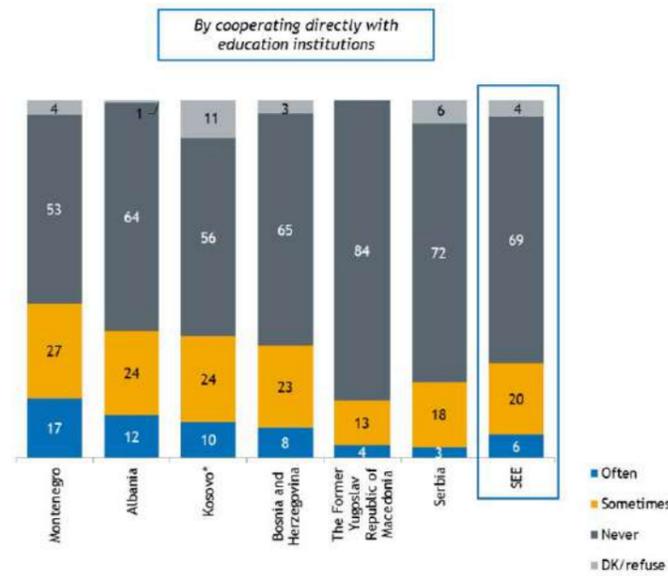
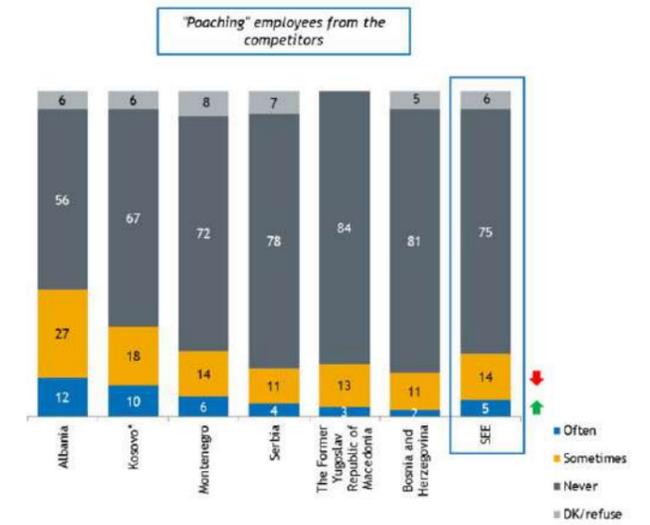
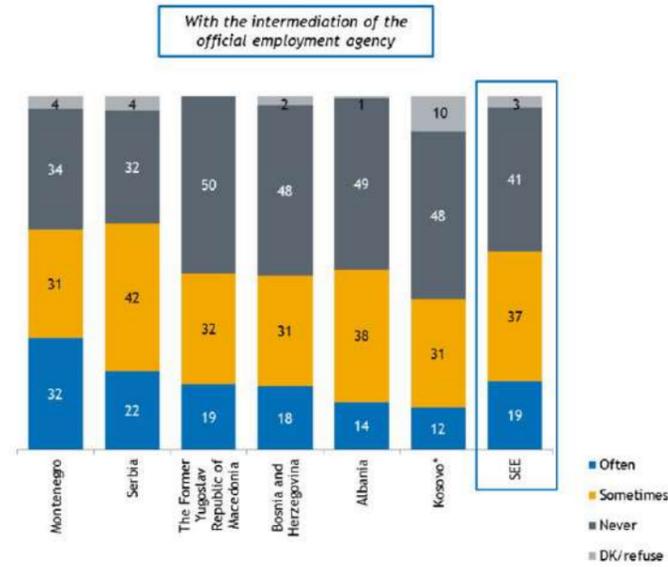
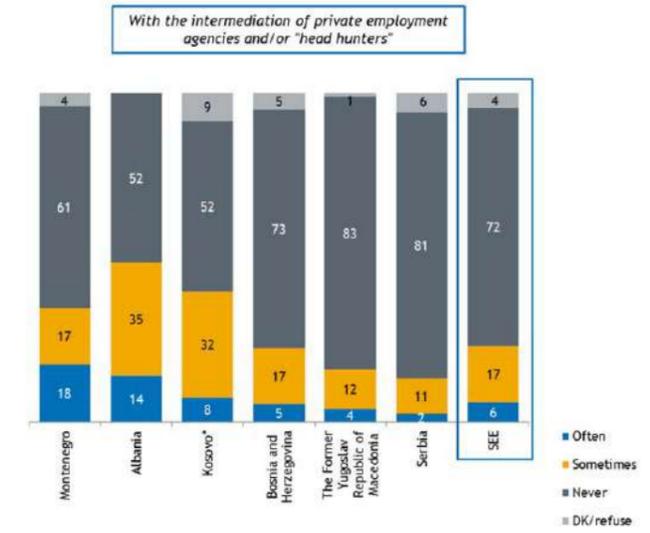
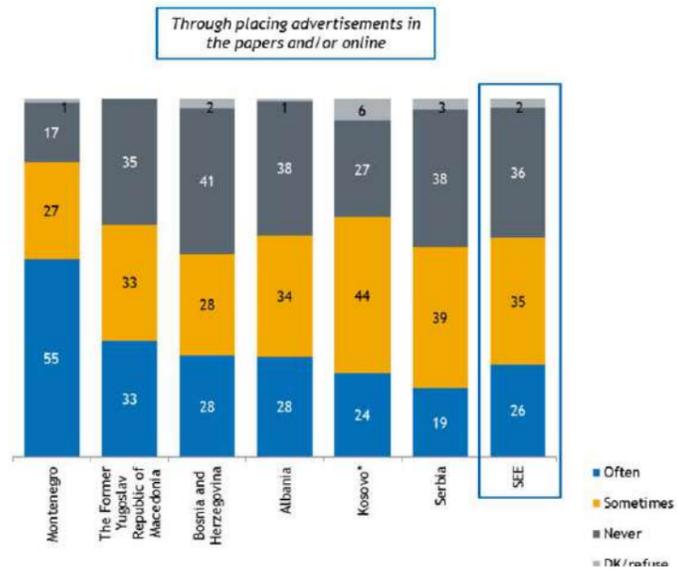
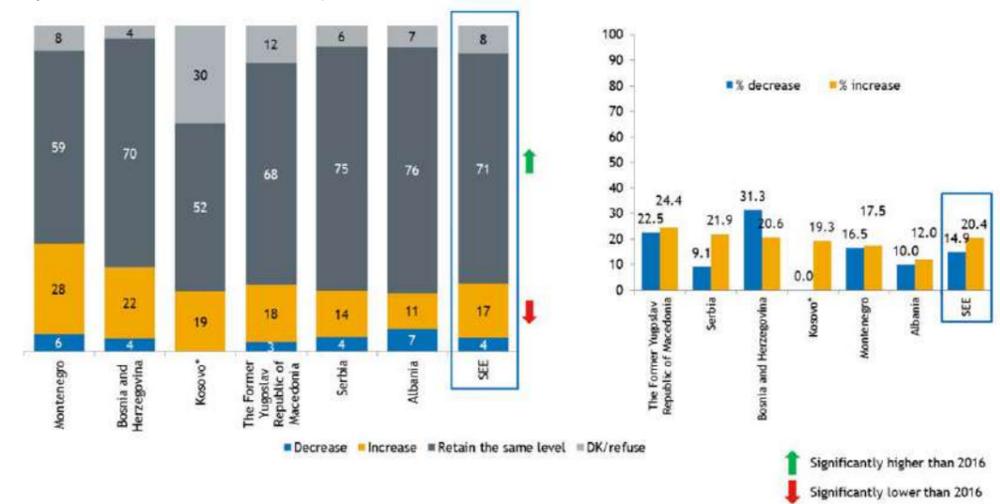


Figure 113: If you could change the number of full-time workers your company currently employs without any restrictions, what would be your optimal level of employment as a percent of your existing workforce? Would you decrease, increase or retain the same level of employees?

(All respondents - N=1203, share of total, %)



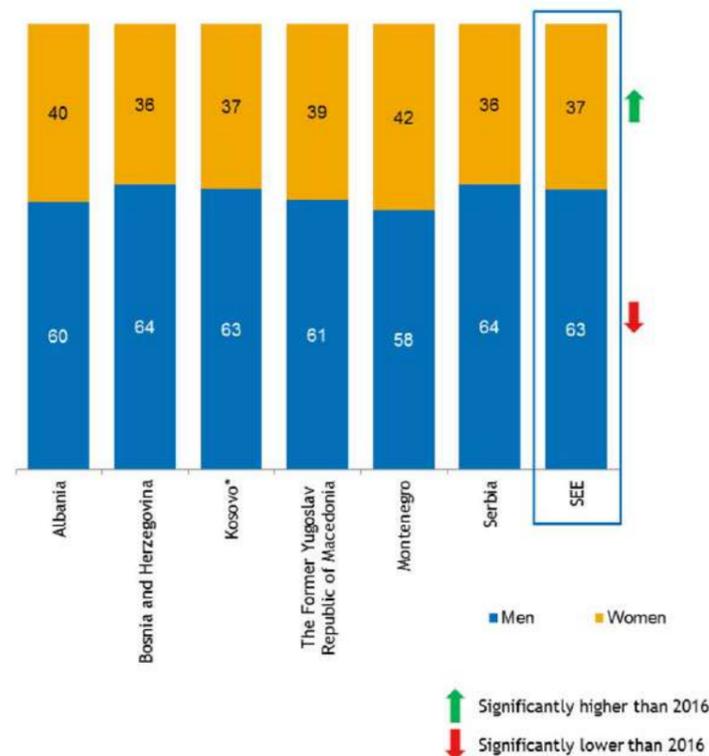
Looking at previous survey instalments, the percentage of business leaders who feel comfortable with retaining their workforce at present levels has steadily grown (from 61% in 2015 through 67% in 2016 to 71% in 2017). At the same time, the number of managers looking to hire more people has decreased over time (down to 17% in 2017 from 22% in 2016 and 26% in 2015). Businesses looking to trim their workforce are a small minority (4%). At regional level, the average percentage of estimated optimal employment growth stands at 20.4%. A larger proportion of Montenegrin

executives would consider growing their current workforce (28%), while their counterparts from The Former Yugoslav Republic of Macedonia would increase it by the highest relative percentage (24.4%). Business leaders from Bosnia and Herzegovina are by far most likely to pursue reductions in staffing (31.1%).

A more detailed analysis shows that larger companies, as well as those operating in foreign markets, are more inclined to boost their employment figures.

Figure 114: Out of the total number, how many of your employees are men and how many women?

(All respondents - N=1430, share of total, %)

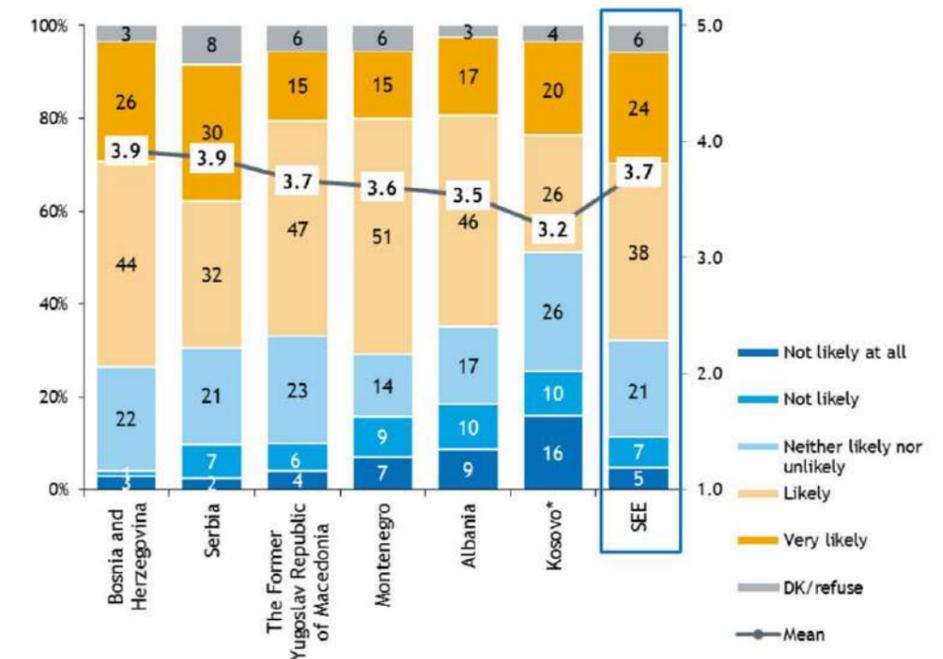


Despite a slight increase in the number of women employees (37% in 2017 vs. 35% in 2016), the gender discrepancy across the SEE corporate landscape remains daunting with men now making up 63% of the regional labour force. There are no significant statistical differences between the economies in this regard.

Looking at company subgroups, female job seekers are much more likely to find employment in educational/arts/scientific professions (49%). The same is true for firms focused exclusively on domestic markets (38%) as well as those operating with foreign assets (45%).

Figure 115: How likely would you hire a Roma person whose educational profile and experience completely meet the needs of your business?

(All respondents - N=1203, share of total, %)



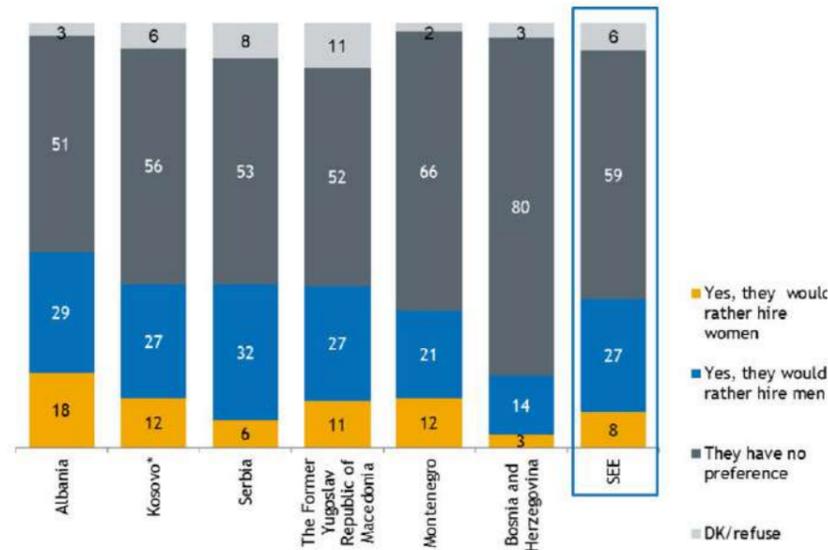
Between the 12% of business leaders who would not hire a Roma person regardless of their job qualifications and another 21% who are unsure, as many as a third of all respondents hold a strong prejudice against the Roma community. This is a disturbing level of bigotry on display in the region and something that may require a stronger engagement by relevant authorities in raising awareness but also implementing anti-discrimination measures. As in 2016, Bosnia and Herzegovina (3.9) leads

the way with some 70% of firms happy to hire Roma. Serbia comes in second with the same average score, but a somewhat lower percentage of like-minded peers (62%). Once again, Kosovo* businesses are the least likely to recruit members of this ethnic group (3.2).

Analysis by company type shows that bigger companies (50 and more employees), export and industry-oriented corporations are significantly more willing to hire Roma.

Figure 116: In your opinion, do companies like yours have a gender preference in terms of hiring? (NEW QUESTION)

(All respondents - N=1203, share of total, %)

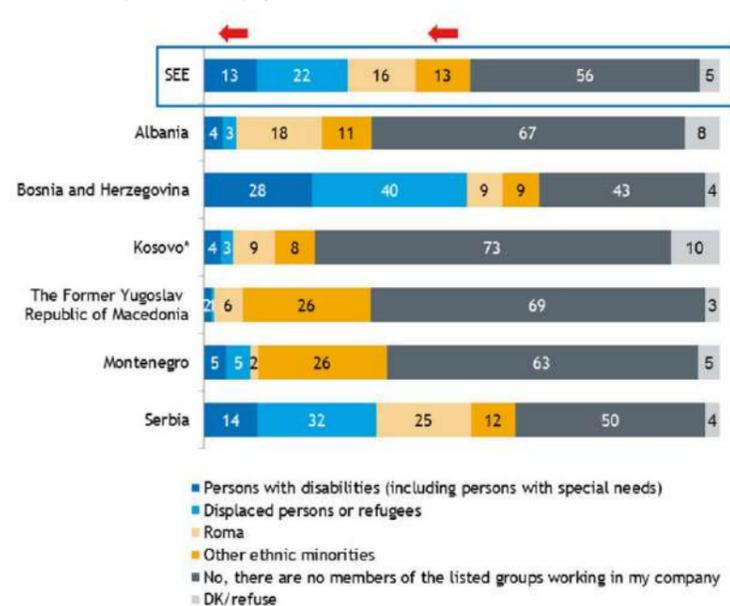


Most SEE business representatives (59%) feel that gender does not play a role in hiring. At the same time, more than a quarter of all respondents (27%) prefer to employ men while only 8% have a preference for women employees. As many as 80% of businesses in Bosnia and Herzegovina express no gender preference, making them the runaway leaders for the region.

In contrast to agriculture (56%) and heavy industry (51%), the service sector (61%) as well as education and related fields (67%) are more likely to practice gender equality in hiring. Export oriented companies are less likely to discriminate based on gender than their counterparts that exclusively service the domestic market.

Figure 117: Do you have somebody from the below mentioned vulnerable groups working in your company?

(All respondents - N=1203, share of total, %)



Almost three fifths (56%) of private companies in the SEE region do not employ members of socially vulnerable groups. While this is concerning on its own, the fact that this represents a decrease to last year's numbers is especially worrisome; the number of companies employing ethnic minorities is down to 13% from 24% in 2016 while persons with disabilities are only found in 13% of surveyed companies, down from 19% in 2016. Displaced persons and/or refugees (mainly referring to those individuals displaced in the 1990s across former Yugoslavia) remain the most numerous category of the vulnerable population - some 22% of companies have them on payroll. Roughly every sixth manager reports having an employee from the Roma community.

As with the two previous waves, Bosnia and Herzegovina reports substantially higher

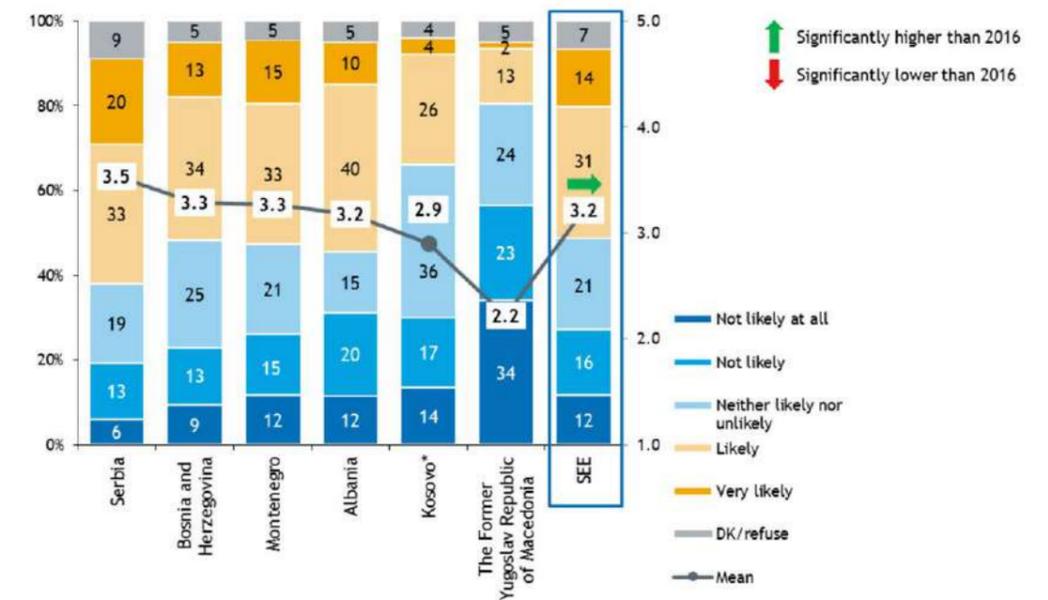
numbers of employees with disabilities as well as those suffering some form of displacement, 28% and 40% respectively. Serbia is next with 14% and 32%.

Survey results suggest Roma community members have a much better chance of securing employment in Serbia (25%) and Albania (18%), while members of other ethnic minorities are more likely to be hired in Montenegro and The Former Yugoslav Republic of Macedonia (both at 26%).

Similar to 2016, larger companies tend to be more open towards minority hires and applicants from other vulnerable groups. Firms in industrial fields and those active outside the borders of their own economy are also more open to hiring from within the ranks of the vulnerable communities.

Figure 118: How likely would you employ workers from abroad in your company?

(All respondents - N=1203, share of total, %, mean)



In comparison to the two previous survey instalments, the level of trust in the foreign labour force among SEE business representatives is gradually increasing (the average score is 3.2 vs. 2.9 in 2016 vs. 2.8 in 2015). More than two fifths of companies surveyed (45%) are

likely to employ workers from abroad while 28% admit that they are not open to foreign hires. A fifth of all respondents is undecided. As with the 2016 survey, The Former Yugoslav Republic of Macedonia (2.2) and Kosovo* (2.9) show the least inclination to hire foreign. All

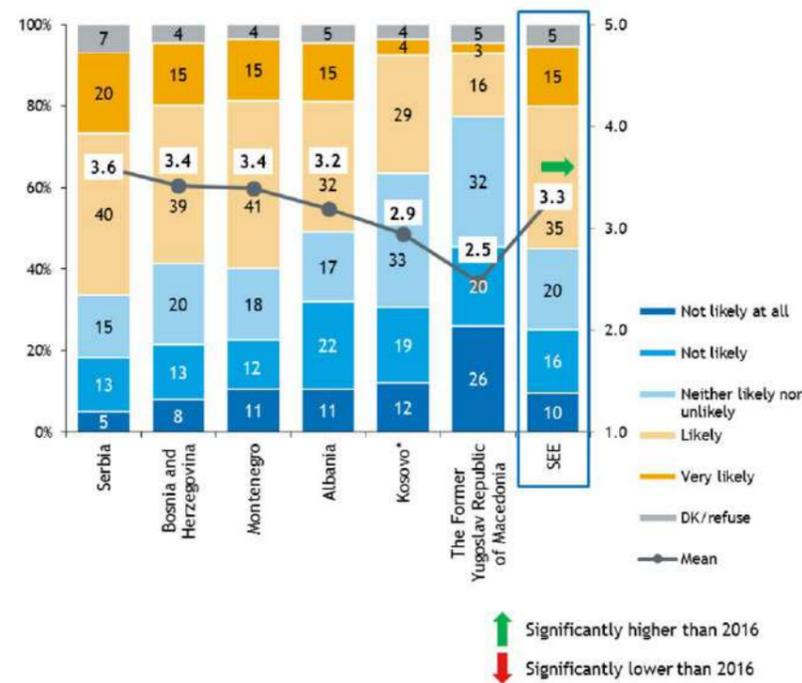
other economies are more willing to engage them than they were a year ago. This is especially prevalent in Serbia which now leads the way with 53% of respondents who have a positive attitude to foreign workers (up to 3.5 in 2017 from 3.0 in 2016).

In terms of company subgroups, this year's results broadly follow those from 2016 and 2015

- readiness to reinforce staff with foreign employees increases with company size as well as export activity (understandably, companies active in international markets need international expertise and knowledge). Furthermore, heavy industry leaders (3.6) as well as those with foreign capital (3.7) are more willing to hire foreigners.

Figure 119: How likely would you employ workers from the SEE region in your company?

(All respondents - N=1203, share of total, %, mean)



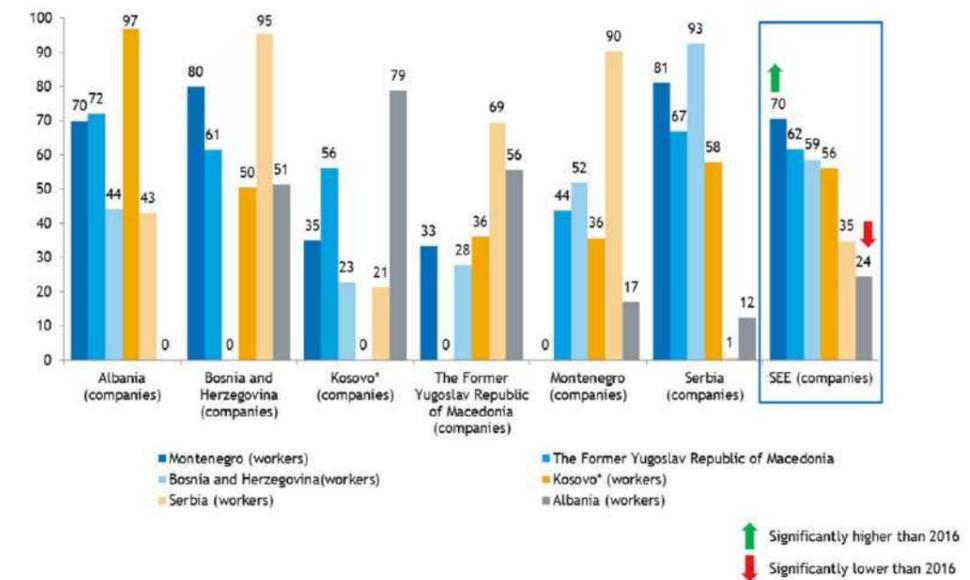
Interestingly, despite all the regional tension and past differences between the economies, SEE company leaders are more likely to employ people from neighbouring economies than those coming from third countries (the average score has now increased to 3.3 from 3.0 in 2016). Overall, half of all respondents indicate that they would hire from the region while a quarter admit that they would not. Once again, The Former Yugoslav Republic of Macedonia (2.5) and Kosovo* (2.9) have the highest proportion of businesses that would not consider regional hires. Serbian businesses,

on the other hand, are most likely to recruit from the region (3.6).

Larger companies, exporters, firms dealing with industrial manufacturing and those with foreign capital attend to be more welcoming towards the SEE workforce.

Figure 120: You said that you would employ workers from the SEE region in your company, from which economy/economies exactly?

(Respondents who would likely employ workers from the region - N=537, %)

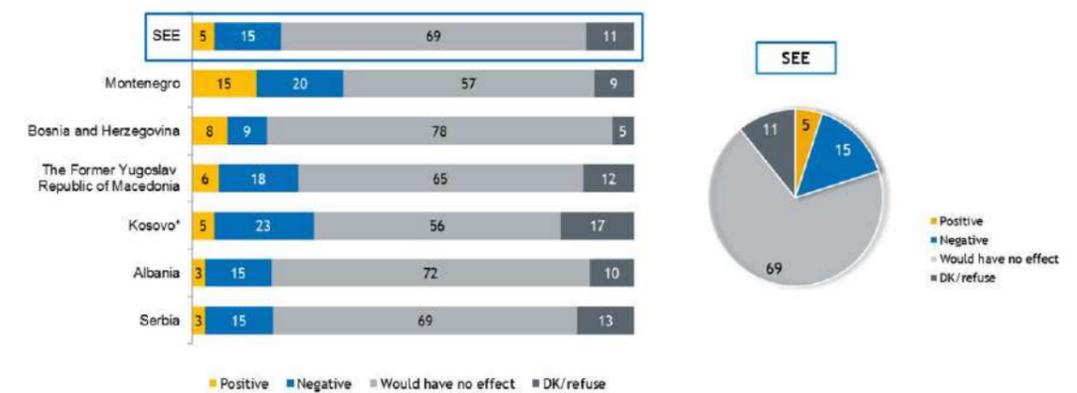


As noted above, half of all surveyed companies would consider recruiting from the region. Montenegrins seem to be especially in demand and lead the region. Some 70% of respondents indicate that they would hire workers from Montenegro, an increase of 8% from 2015. Montenegrins are first choice across all economies except for Kosovo* and The Former Yugoslav Republic of Macedonia. At the same time, Albanian employees are significantly less popular than last year (down to 24% in

2017 from 39% in 2016). Taking into account preferences by individual economies, as in earlier surveys, Bosnia and Herzegovina and Serbia would prefer to trade workers with each other, as would Kosovo* and Albania. Serbian workers are especially well received by employers in Montenegro and The Former Yugoslav Republic of Macedonia.

Figure 121: Do you think that employing Roma persons would affect company sales or the working environment in a positive or a negative way? (NEW QUESTION)

(All respondents - N=1203, share of total, %)



The majority of SEE corporate leaders (69%) feel that Roma employees would have no impact on their sales or the working environment. What is deeply concerning is that respondents who consider Roma hires to be detrimental to their company's working environment (15%) outnumber by three times those who consider their employment beneficial (5%).

Montenegrin companies are more likely to view Roma hires in a positive light (15%), while Bosnia and Herzegovina boasts the fewest respondents who view Roma employees' contributions negatively (9%).

Results by company subgroups indicate that smallest firms (up to 9 employees) and those not active abroad are least accepting of Roma in the workplace.

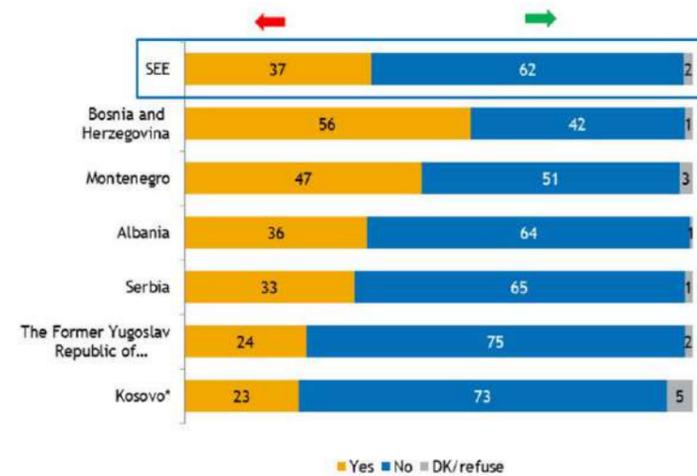
Investment in Employees

There appears to be a decrease in interest to provide professional development by employers.

Continued preference for public over private employment is a victory for job security over probability of advancement and higher pay.

Figure 122: Over the past 12 months, has your business funded or arranged any training and development for staff in the organization, including any informal on-the-job training, except training required by the law?

(All respondents - N=1203, share of total, %)



↑ Significantly higher than 2016
↓ Significantly lower than 2016

The proportion of SEE businesses that have provided training opportunities for their employees is the smallest across all surveys conducted thus far (down to 37% in 2017 from 42% in both 2016 and 2015). While this indicates a smaller investment in employee development, it could also be symptomatic of the companies' need to focus more on current operations to meet increasing demand resulting from improvements in the economic climate.

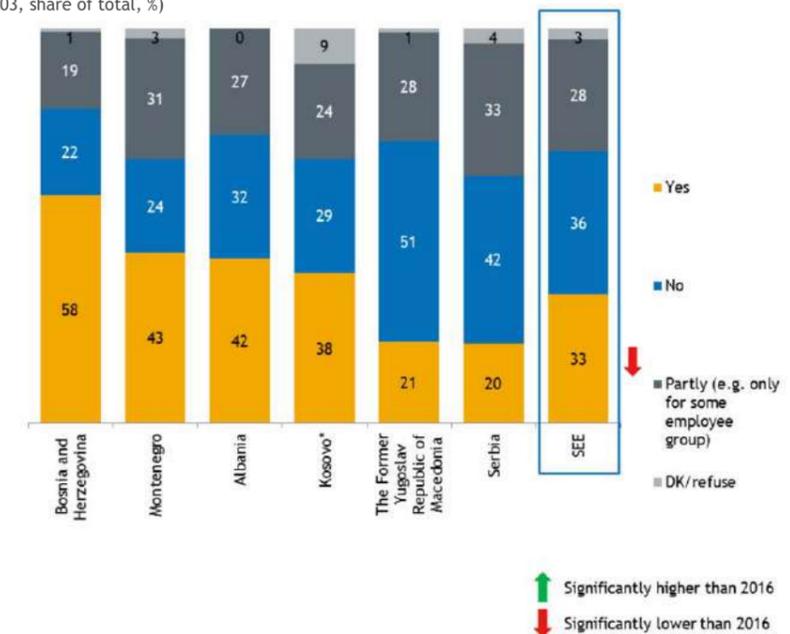
As previously, companies in Bosnia and Herzegovina are most likely to provide their staff with training opportunities (56% of all

companies surveyed in the economy) while businesses in Kosovo* (23%) and The Former Yugoslav Republic of Macedonia (24%) invest the least in employee development.

The importance placed on continuous learning tends to grow with company size. Internationally active firms seem much more interested in improving their performance through investment in innovation, as already illustrated, as well as through staff training and development. This is also true of companies with foreign capital, as well as for educational/arts/scientific institutions.

Figure 123: Thinking about skills requirements in your company, does your company regularly review the skill and training needs of individual employees?

(All respondents - N=1203, share of total, %)



At regional level, a third of all businesses claim they regularly review the skills and training needs of their workforce, which is a significant drop from 2016 (from 40% to 33%). Accordingly, the number of managers who report no effort to review their employees' training needs has grown to record levels as far as this survey is concerned (36%).

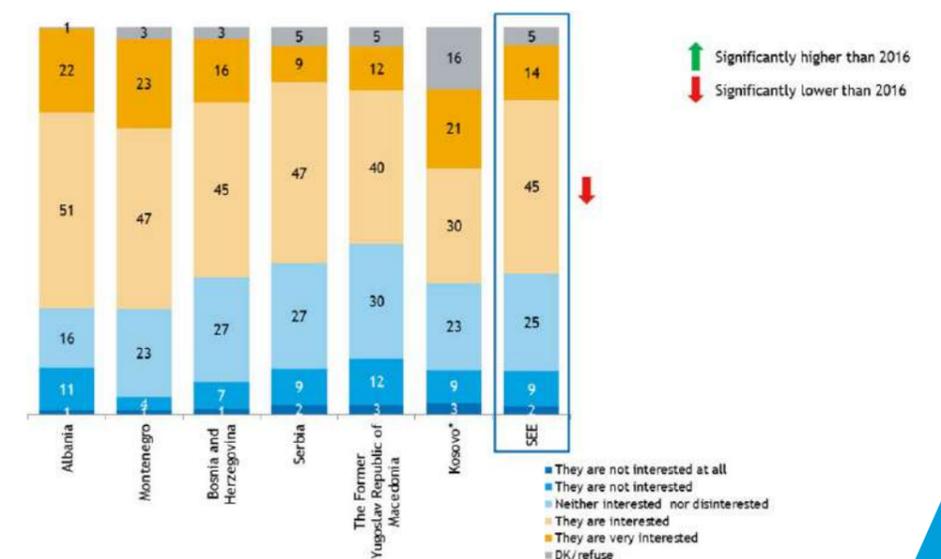
Businesses from Bosnia and Herzegovina seem to be most committed to identifying employee

skill gaps (58%), while Serbia records the biggest change in this regard; only 20% of enterprises now review employee skills versus 35% in 2016.

Assessing employee skills and training needs is more prevalent among larger enterprises. It is also more commonly found in companies that export, have foreign capital, and operate in educational and related fields.

Figure 124: 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=1203, share of total, %)



↑ Significantly higher than 2016
↓ Significantly lower than 2016

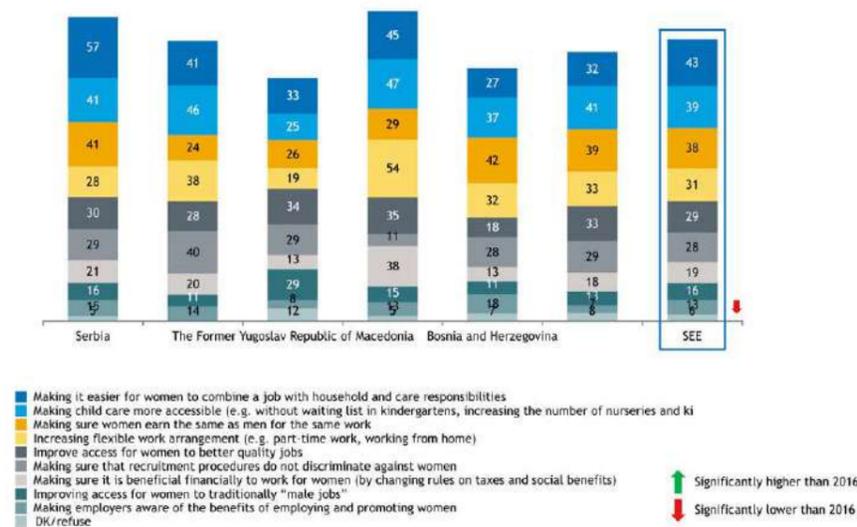
While managers surveyed seem to question the willingness of their staff to acquire new skills and qualifications (only 59% describe their employees as interested, down from 67% in 2017) this could in large part be attributed to major fluctuations within individual economies. According to their employers, the employees in Albania (73%) and Montenegro (70%) have grown more assertive and now lead the way in the region. At the other end of the

spectrum, Kosovo*, meanwhile, has experienced a significant decline in training interest, dropping down to the bottom of the group from topping it in 2016.

In terms of company subgroups, employees of larger companies (50 and more people) as well as of those operating in industrial and educational fields appear better motivated to develop their skills and knowledge.

Figure 125: In your opinion, what are the most effective ways to increase the number of women in the labour market?

(All respondents - N=1203, share of total, %)



Multiple answers question

There is no major departure in this regard from 2016; 43% of survey respondents feel that striking the right balance between household responsibilities and their professional obligations is a critical precondition for increasing the number of women in the workforce. A slightly lower but still sizable number of respondents prioritize better access to childcare (39%), and income equality with men (38%). Flexible working arrangements (31%), better quality jobs for women (29%) as well as anti-discrimination rules (28%) are also often cited.

The results differ from economy to economy. Serbian companies most frequently cite

the need to better integrate work with family life (57%). Along with their counterparts from Bosnia and Herzegovina, Serbian business leaders frequently cite income equality as another important consideration for better integration of women in the workplace (42% and 41% respectively).

Firms in Kosovo* more often cite the importance of flexible working arrangements (54%) and the need to raise employer awareness of the benefits of hiring women (38%).

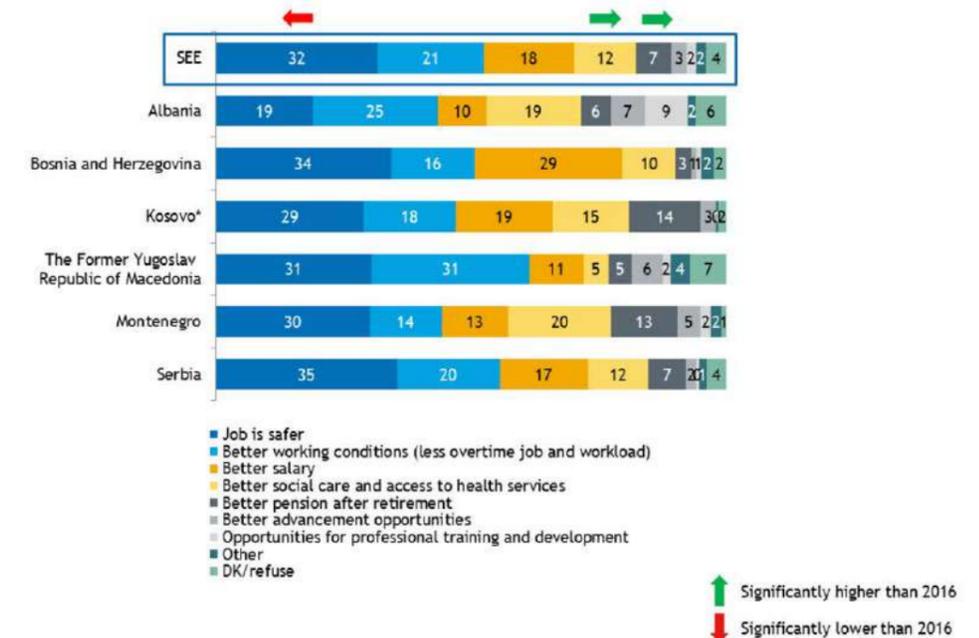
Executives from The Former Yugoslav Republic of Macedonia are especially supportive of measures that remove barriers into traditionally “male” jobs (29%).

Looking at company subgroups, representatives of largest companies consider equality in compensation to be a particularly effective

measure (51%), while their counterparts managing medium-sized enterprises prioritize a better work-life balance (53%).

Figure 126: In your opinion, what is the main reason why people prefer to work in the public sector?

(All respondents - N=1203, share of total, %)



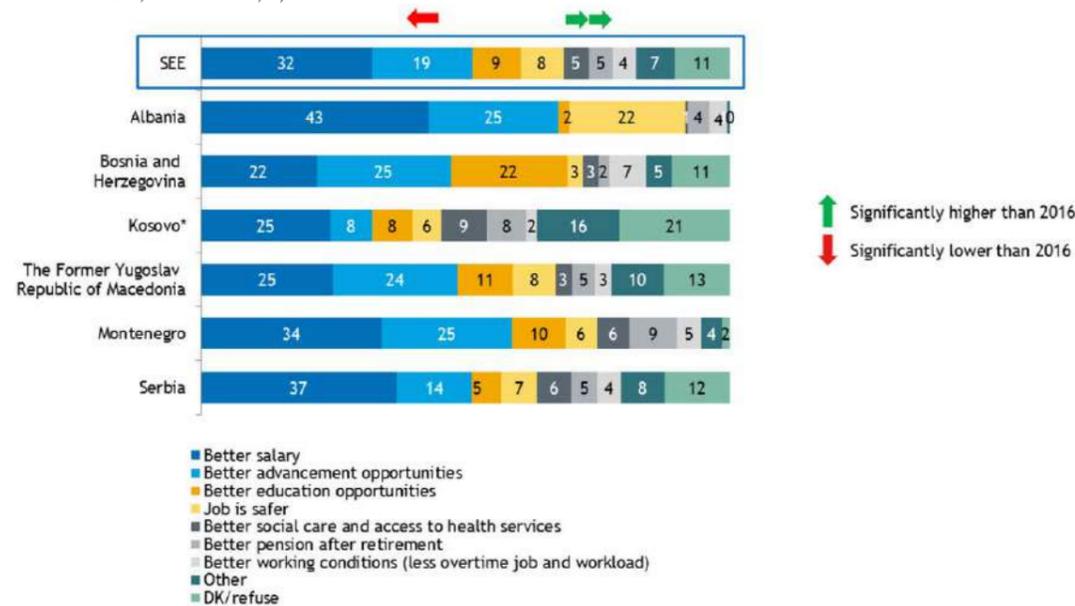
As has become standard, job security is seen as the chief culprit for the relative popularity of public sector jobs but to a significantly lesser extent (down to 32% in 2017 from 41% in 2016). Better working conditions remain second in the ranking with 21%, followed by a better salary with 18%. There has been a marked increase in the number of employers who recognize the perceived superiority of social services and health care provided by public employers (up to 12% from 7% in 2016) and better pensions (up to 7% from 3% in 2016). Better remuneration is ranked highest in Bosnia and Herzegovina (29%), suggesting either unusually high salaries in the public sector or low levels of remuneration available in the private. At the same time, companies in The

Former Yugoslav Republic of Macedonia rate favourable working conditions as the principle motivation for public sector jobs (31%). While respondents in Kosovo* rate retirement benefits higher than any of their regional counterparts (14%), Albanian firms prioritize better social and health services (19%).

Looking at company size, representatives of medium and large enterprises tend to identify better working conditions and job security more frequently than heads of smaller firms; this is also the case with non-exporters (34%) and exporters (28%).

Figure 127: Why does someone rather choose to work in the private sector?

(All respondents - N=1203, share of total, %)



According to the SEE business community, a better salary is still the key reason to prefer employment in the private sector (32%). Better career advancement opportunities remain in second, although down to 19% from 23% in 2016. Better opportunities for further education and professional development are third with 9%.

Albanian (43%) and Serbian (37%) businesspeople cite higher remuneration as the main driver more often than others. As in the previous survey instalment, and somewhat

counterintuitively, Albanian firms most frequently cite job security as the perceived advantage of private sector employment (22%). At the same time and to the same extent, business leaders from Bosnia and Herzegovina cite better professional development opportunities as the chief motivation (22%).

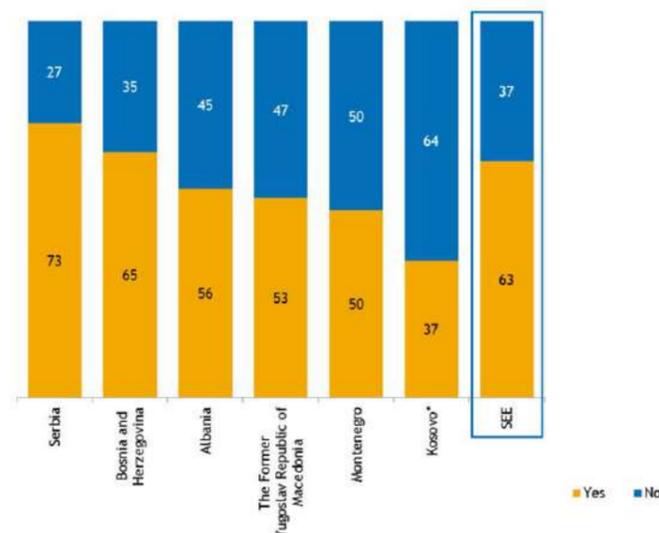
Managers of companies employing more than 250 people (52%) are more prevalent in the group that singles out superior remuneration as the chief motivator.

Roughly two thirds of surveyed businesses are aware of the Regional Cooperation Council (63%), with respondents from Serbia and Bosnia and Herzegovina demonstrating a higher level of awareness than their counterparts from the rest of the region (73% and 65%, respectively).

Further analysis shows that the Regional Cooperation Council is better known among companies employing 50 and more people, firms dealing with industry/mining/construction (71%), as well as among exporters (69%).

Figure 128: Have you heard of the Regional Cooperation Council? (NEW QUESTION)

(All respondents - N=1203, share of total, %)

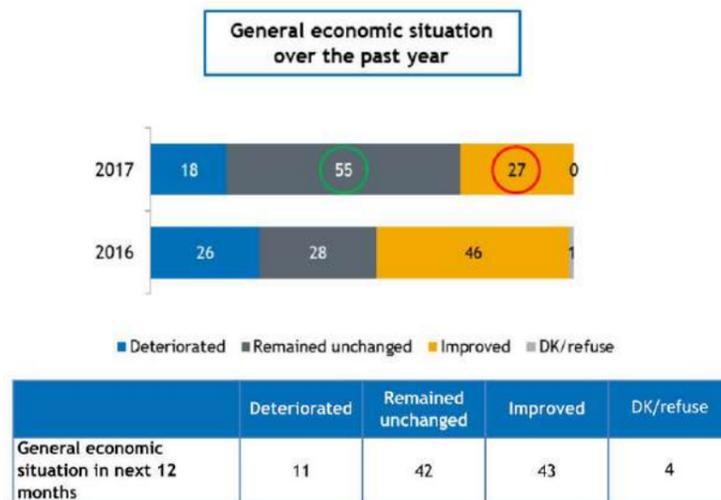


Focus on Large Companies

Perceptions of the General Business Environment and Economic Trends

Executives of large companies seem to have tempered their estimation of the general economic climate over the past 12 months; the percentage of those who now describe the

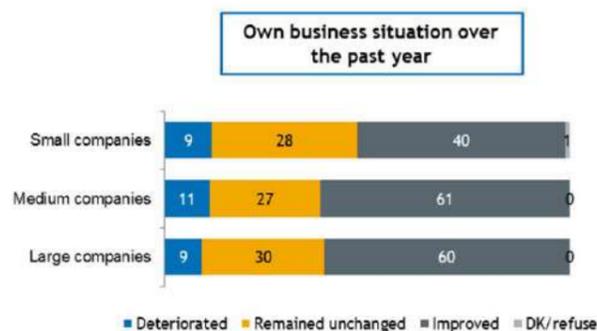
situation as stagnant has doubled since 2016. This is corroborated by far fewer managers who report progress - this number is now down to 27% from 46% in 2016.



Gloomier assessments of the current situation seem to have rubbed off on projections for the future. While the number of big companies who expect the situation to deteriorate has gone down (11% in 2017 from 17% in 2016), the executives surveyed expect to see stagnation

and progress in almost equal numbers:

As has become standard, when asked to assess their own business situation, the respondents were considerably cheerier than their counterparts heading up small firms.



Three quarters of business leaders employing more than 250 people stress the importance of regional stability and cooperation. In addition,

the group's belief in the benefits of EU membership has grown stronger since (up to 63% in 2017 from 51% in 2016).

Business Trends in SEE

As might be expected, large companies tend to be more confident of their market position in the coming year, spurred on in large part by demand over the past 12 months.

affect their company's total costs (up to 68% in 2017 from 40% in 2016). In terms of investment, the biggest firms most clearly recognize the importance of biological assets. In addition, they are much more ecologically aware with 96% of respondents citing some attempt to mitigate their business' harmful effects on the environment.

Three fifths of executives surveyed (up from two fifths in 2016) are ready to boost their workforce in order to deal with rising demand, in full knowledge that this will negatively

	Decreased	Mostly unchanged	Increased	DK/refuse
Demand in past 12 months	6	23	71	0
Demand in next 12 months	2	24	72	2

Business Environment in SEE

The main concerns of the largest market players have shifted somewhat in comparison to last year. Interestingly, they are now most concerned unfair competition, followed by the overall macroeconomic situation, taxation problems and customs and trade regulations. Their key concerns broadly match those of smaller-sized enterprises, but anxieties regarding external factors that can impact business, such as street crime, social unrest and violent conflicts, grow in proportion to company size.

require improvement. Policy making needs to more consistent, as a matter of priority. Respondents in this group also feel that paperwork requirements for the obtaining of relevant licenses and permits need to be simplified.

When assessing the features of the business environment, large companies recognize recent progress in market size and potential, technological innovation and capabilities, the legal and regulatory framework as well as improvements in physical infrastructure. Larger companies tend to be more satisfied across all four aspects to a greater extent than their smaller counterparts.

Looking at government performance, leaders of big corporations tend to be more satisfied than not, but there are still many aspects that

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

	Small companies	Medium companies	Large companies
Market size and potential	3.1	3.2	3.5
Technological innovation and capabilities	3.4	3.3	3.5
Business-friendly legal and regulatory environment	2.9	3.0	3.4
Physical infrastructure	3.2	3.1	3.4

Three fifths of executives surveyed (up from two fifths in 2016) are ready to boost their workforce in order to deal with rising demand, in full knowledge that this will negatively affect their company's total costs (up to 68% in 2017 from 40% in 2016). In terms

of investment, the biggest firms most clearly recognize the importance of biological assets. In addition, they are much more ecologically aware with 96% of respondents citing some attempt to mitigate their business' harmful effects on the environment.

Legal and Regulatory Framework

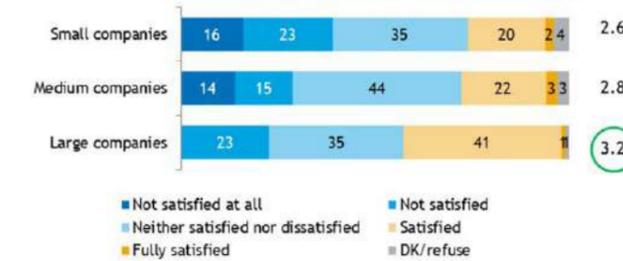
While three quarters of companies with more than 250 employees feel that the authorities should pay more attention to issues facing businesses, they are more positive in their appraisal of the government's efficiency than their colleagues in small and medium enterprises. Large corporations tend to be more satisfied with the overall performance of public administration when it comes to their relationship with the private sector.

The fact that a significantly lower percentage of large firms have withdrawn from a tender or a public procurement exercise (down to 13% in 2017 from 27% in 2016) seems to indicate a growing confidence in the authorities and their handling of purchasing processes. The share of the public procurement market in annual turnover of big companies conforms to those of smaller-sized enterprises and is approximate to the regional average (32%).

Still, the interaction between large companies and public procuring entities sporadic, and this likely indicates a general lack of interest by the corporations.

Compared to previous years, a significant improvement in the opinion on the government's policy and legislative making processes has been noted. Nonetheless, the majority of respondents still call for closer cooperation with the private sector. Larger companies have, however, been noticeably less vocal in their criticism than other company types.

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



The vast majority of large enterprises (97%) encounter legal or regulatory barriers in their work. Looking at the ranking of legal or regulatory issues encountered by businesses, labour policies have received more attention recently, indicating changes in the relevant frameworks in the region. Employment regulations are now cited as problematic by 40%

of respondents (up from 25% in 2016) putting them above taxation (32%) and in first place. Health and safety regulations have also become more important to businesses (up to 22% in 2017 from just 5% in 2016). Predictably, these regulatory concerns are felt much more keenly by the biggest market players than by small and medium enterprises.

	Employment regulations	Tax-related	Health and safety regulations	Minimum wage regulations	No specific regulations/all regulations	Environmental regulations	Trading standards	Planning/building/development	Working time	Providing information/record-keeping	Pensions
Large companies	40	32	22	18	17	13	11	8	5	5	5
Medium companies	26	34	12	16	18	9	15	23	3	5	6
Small companies	17	32	11	20	14	9	13	11	4	7	7

Main obstacles

Roughly a third (32%) of large company leaders surveyed report attempting to resolve disputes through arbitration courts in the past

three years, higher than the regional average (20%), but significantly lower than the 2016 figure (56%).

Accessibility of Loans

While a major portion of a large company's working capital and new fixed investments comes from internal funds i.e. from retained

earnings, this share is much greater for smaller enterprises.

	Small companies	Medium companies	Large companies
What proportion of your company's working capital and new fixed investment has been financed from internal funds/retained earnings?	56	64	30

A bank loan is the second most cited source of capital for large companies, addressing some 11% of their needs, while they also tend to rely on leasing arrangements to a greater extent than small and medium enterprises. Similar to the results of the previous survey instalment, businesses employing 50 and more

people borrow from banks more frequently than those with a smaller staff. Two fifths of respondents who lead the biggest firms surveyed indicate that they have applied for a bank loan recently and only one has received a notice of rejection..

Corruption

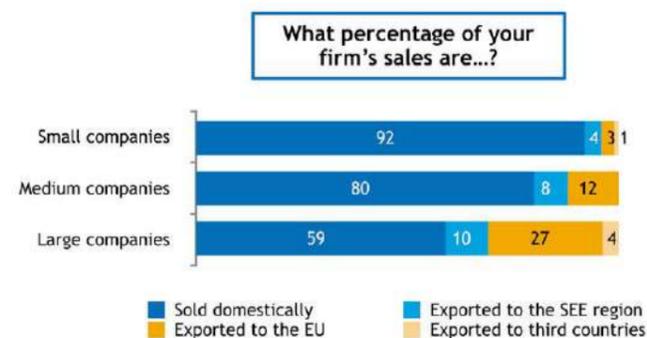
Heads of large companies, in contrast to those leading small and medium sized enterprises, are more likely to acknowledge the practice of irregular payments/gifts; they are also more capable of estimating the actual amount of the payments. The majority of respondents representing big companies claim never to have made unofficial payments/gifts for any

reason. Half of all respondents in this category believe that corruption is best addressed reporting it to the relevant authorities. It is a sobering statistic that the number of executives who feel that corruption cannot be curbed has grown substantially, from 11% in 2016 to 28% in 2017.

Trade and Investment

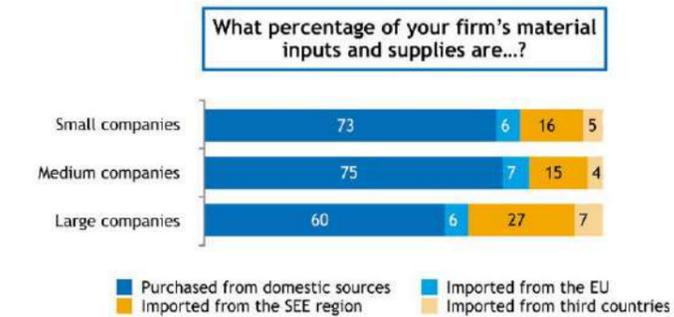
As anticipated, large companies are convincingly the most ambitious and most proactive expanding their business to foreign markets - nearly two fifths (37%) have already invested abroad or plan to do so in the coming period (the regional average across all companies is only 8%). When asked to identify the most

challenging aspect of investing abroad, business leaders in this group most frequently cite the size and potential of the new market. In addition, with 41% of their goods produced for foreign markets, large companies remain the export leaders in the region.



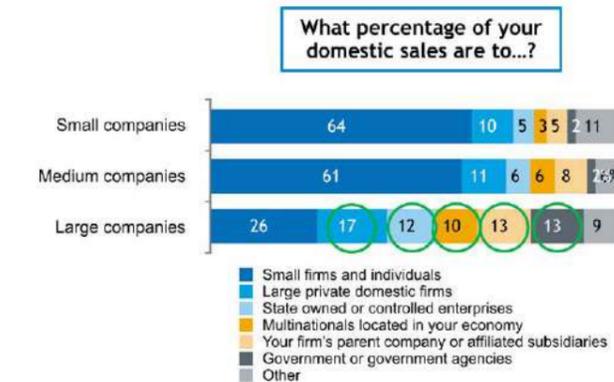
Although large companies source most raw materials domestically (59%), imports from

the EU and third countries tend to make up a higher share of their inputs.



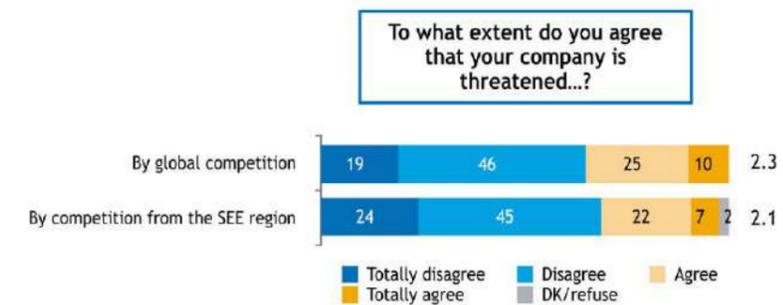
Similar to other types of firms, large companies mostly sell to small businesses and individuals (26%), followed by large private domestic firms (17%). Unlike other companies,

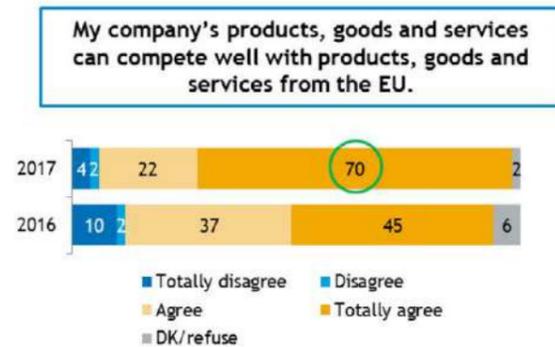
though, they also sell much more to government agencies, parent or sister companies, multinationals in their economy and state-owned enterprises.



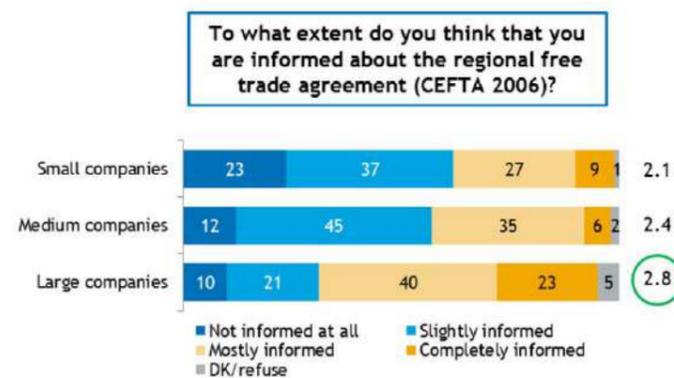
There are some encouraging improvements to last year in the duration of customs procedures relating to both exported and imported goods. Namely, the majority of large companies interviewed complete customs clearance in just 2 days.

Executives of big firms do not feel threatened by foreign market rivals no matter where they come from. Furthermore, it appears that, over the previous year, they have become even more confident of their own ability to compete internationally.

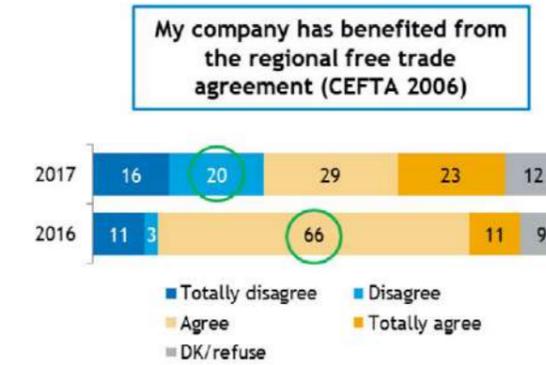




As before, companies employing more than 250 people attach more significance to CEFTA than small and medium enterprises.



Half of all respondents in this category feel that they have benefited from the regional free trade agreement, a significant drop from 77% in 2016. Nonetheless, the group who find it easier to export to the CEFTA region than to the EU are still the most numerous (40%).



As with the previous survey instalment, there is consensus among companies of all sizes that government and other public sector buyers

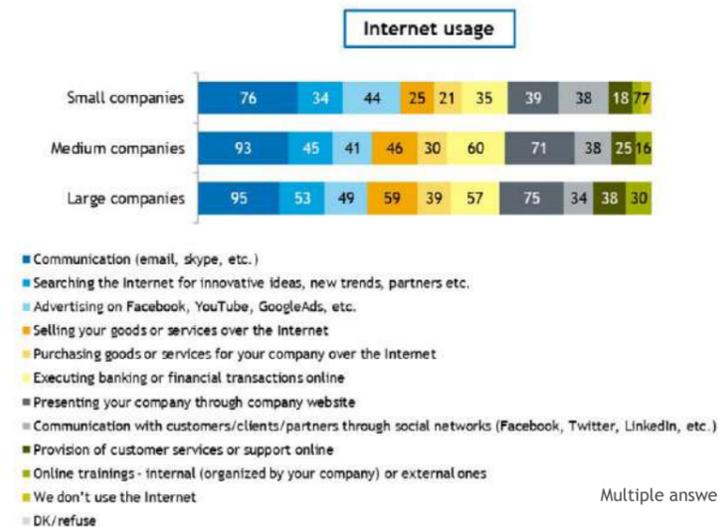
should prioritize purchasing from domestic suppliers.

Innovation and Technology

Overall, the proportion of companies innovating and successfully acquiring and deploying new technology grows with their size.

communication and sales and customer support to a greater extent than their small and medium sized counterparts. Large companies are also more likely to create their own websites and provide online training opportunities for their staff.

As anticipated, there are no large companies without an Internet connection. Executives surveyed report using the Internet in daily



Large companies are more likely to engage universities in product or service development (34%) but this number has declined significantly since last year (54%). Large companies are also more likely to invest in improving existing

products and services (83%) as well as production or delivery processes (61%).

Collaboration with universities (2015 - 2017)	Yes	No
Small companies	6	91
Medium companies	13	86
Large companies	34	59
Introducing new or improving products/services (2015 -2017)	Yes	No
Small companies	33	64
Medium companies	48	50
Large companies	83	17
Introducing new or improving production/delivery processes (2015 - 2017)	Yes	No
Small companies	28	68
Medium companies	45	52
Large companies	61	39

State and local authorities appear to be more supportive of large enterprises. This is not surprising, having in mind both the needs and

capacities of the biggest firms, as well as the targeting of private sector incentive schemes commonly employed by governments.

Skills Needs

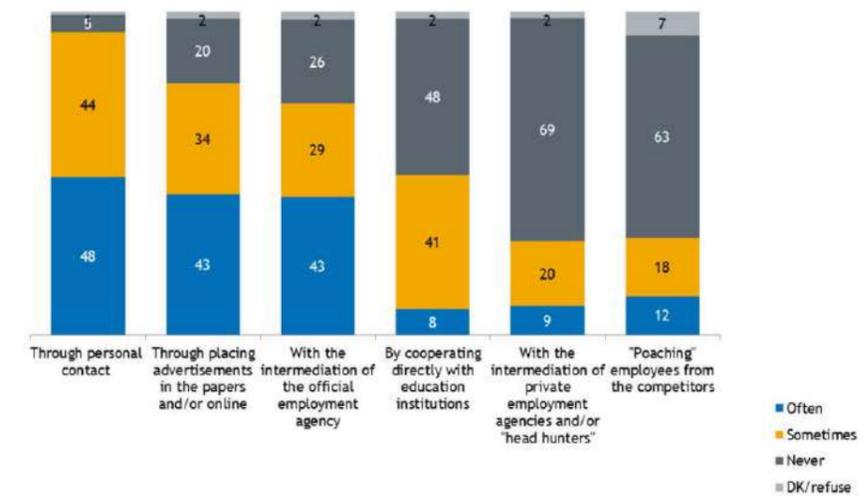
As with previous survey instalments, company size does not appear to be linked to the employees' educational structure. Executives in charge of enterprises with 250 and more employees are quite satisfied with the education system in their economy (the average score is 3.6), a claim corroborated by their

overwhelming openness towards hiring young professionals lacking professional experience (96%). This willingness to welcome younger talent could be behind a decrease in the number of large firms reporting hard-to-fill vacancies over the past 12 months (down to 23% in 2017 from 41% in 2016).

Employment Practices

While heads of big firms acknowledge the importance of word-of-mouth recommendations when hiring, they tend to opt for more formal recruitment tools to a much higher degree than their small and medium counterparts - 43% of respondents report frequently placing

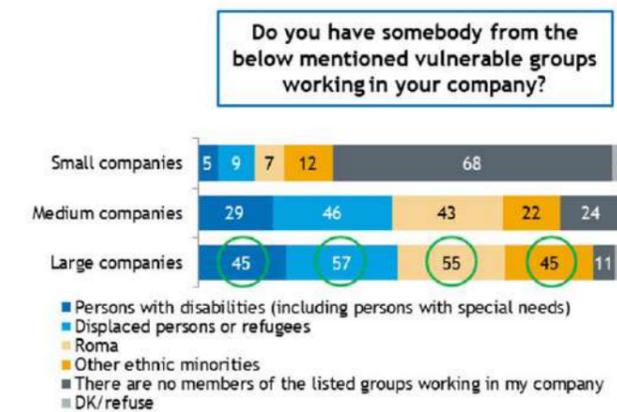
vacancy announcements and soliciting the national employment agency for assistance. They are also most likely to collaborate with education institutions and "poach" staff from competitors.



When asked about optimal workforce size, 60% of large business representatives would retain the current number of employees; a quarter would increase it while 13% admit that they would consider staff reductions.

better chance of landing a job in larger companies, and especially those with more than 250 employees. This is especially true of Roma hires - 84% of biggest firms are happy to hire them (75% in medium-sized and 58% in small-sized enterprises).

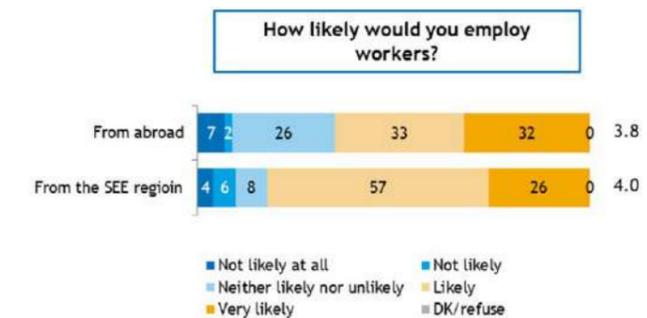
Members of vulnerable groups have a far



Multiple answers question

Similarly, large companies are more willing to engage foreign personnel, with special

affection for employees coming from the neighbourhood.



Investment in Employees

Although big company executives report a lower level of investment in staff development (down to 74% in 2017 from 91% in 2016), they are still much more likely to provide their staff with training opportunities than managers of surveyed small and medium enterprises.

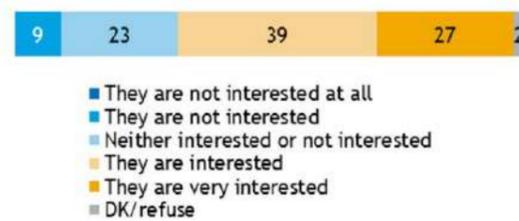
The vast majority of companies surveyed (85%) regularly review the skills and training needs of at least some group of employees while 45% do it across the organisation.



A perceived decrease in employee interest when it comes to acquiring additional qualifications (down to 66% in 2017 from 80% in 2016) seems to go hand in hand with an increase in reluctance by employers to provide training

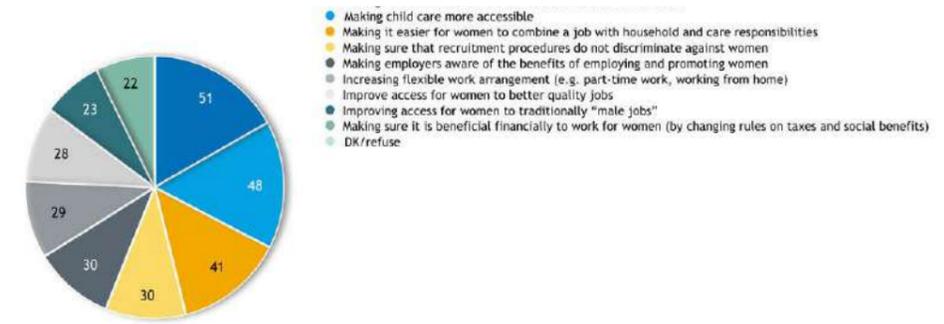
opportunities (or it could, alternatively, excuse it). Still, two thirds of employees are described as interested in professional development opportunities.

Readiness of employees to acquire new qualifications



When asked about the most effective ways to increase the number of women in the workforce, as in 2016, representatives of large companies primarily emphasize the need for equality in pay (51%), as well as more accessible child care (48%). Unlike with all other

company types, a sizable number of business leaders in this category feel that employer awareness of the benefits of hiring and promoting women needs to be raised (30% vs. 13% at the regional level).



Multiple answers question

In keeping with the overall trend, albeit to a higher extent, leaders of large companies identify job security as the main driver for

employment in the public sector (45%). They also attribute more importance to better working conditions (36%) in the public sector.

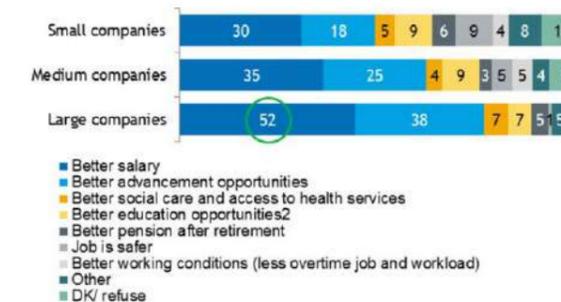
Reasons for choosing public sector



Salary is recognized as a key incentive for private sector employment at an above average level (52% for large companies versus 32% for

the region). Greater career advancement opportunities come in second (38%).

Reasons for choosing private sector

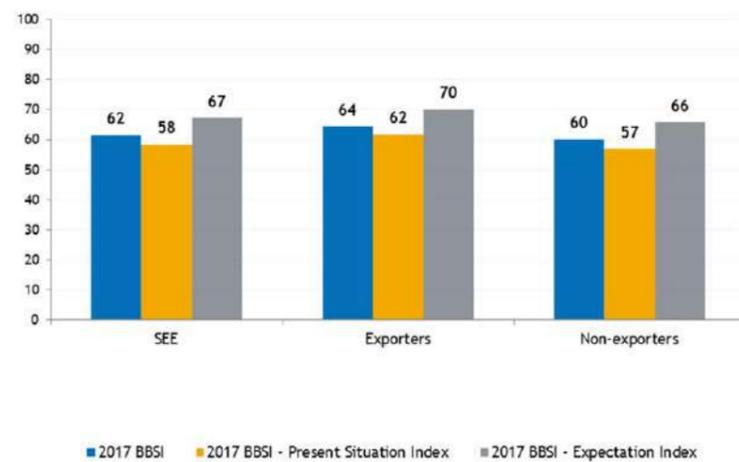


Focus on Exporters

Perceptions of the General Business Environment and Economic Trends

A third of companies interviewed export their products and services.

Looking at both the current situation and expectations for the future, exporters on average display a more positive outlook than their counterparts managing companies with a solely domestic orientation.



Almost half of respondents in this group (47%) feel that the general economic situation has remained unchanged over the past twelve months. Despite stagnation being the

prevalent view, a significant proportion of executives are optimistic and expect to see progress in the near term (38%).

	Deteriorated	Remained unchanged	Improved	DK/ refuse
General economic situation in the past 12 months	29	47	23	0
General economic situation in the next 12 months	16	40	38	6

A bright outlook accompanied by an expected increase in the number of employees seem to be noteworthy features of export-oriented companies; a significant proportion of exporters expect to see improvements in their

business (47%), alongside increases in the workforce (44%). For non-exporting companies, those numbers are a more modest 37% and 29%, respectively.



As expected, exporters are strongly supportive of EU accession (61%) and a closer relationship

between the region's economies (81%).

Business Trends in SEE

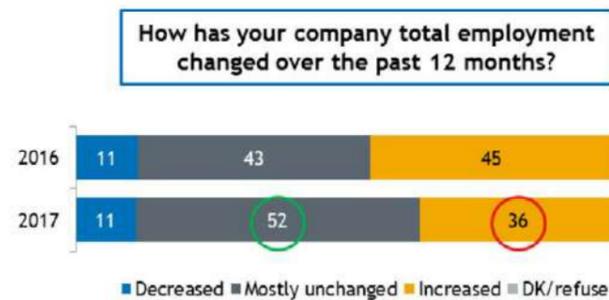
Bearing in mind that the majority of export-oriented businesses experienced an increase in demand over the past 12 months

(51%), an even higher number (58%) fully expect further growth in the coming year.

	Deteriorated	Remained unchanged	Improved	DK/refuse
Demand over the past 12 months	9	41	51	0
Demand over the next 12 months	6	31	58	5

Compared to 2016, executives of businesses operating abroad appear to be more cautious regarding any increase in the number of

employees but to a lesser extent than managers surveyed small and medium enterprises.



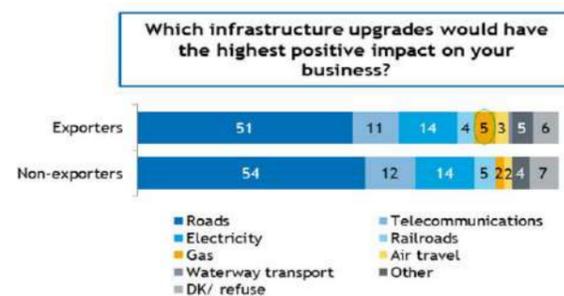
Similar to other company types, during 2017, exporters channelled much of their investment into property, plant and equipment (41%). In comparison to companies operating solely in the domestic market (15%), exporters made a more long term financial investments

(18%). Finally, exporters tend to be much more mindful of their ecological footprint - more than four fifths took at least some steps to mitigate the impact of their operations on the environment.

Business Environment in SEE

Leaders of both exporters and non-exporters overwhelmingly feel that road improvement would be most beneficial to the further development of their business. Both

types of companies also share their second and third ranked priorities, electricity and telecommunication.



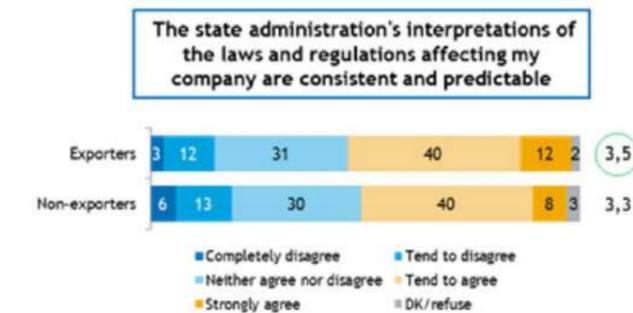
Export-oriented firms are most concerned with the unstable macroeconomic situation (2.5), closely followed by taxation (2.6) and unfair competition (2.6). In addition, as might

be expected, exporters toil under customs and trade regulations (2.7) significantly more than companies operating in the domestic market only.

Legal and Regulatory Framework

The survey suggests that a company's export status does not impact its perception of the government and its relationship with the private sector. The overall impression is that businesses are relatively content with services on offer, and the conduct of government agencies, except when it comes developing new

legislation where they feel completely side-tracked (2.8). Exporters have become more satisfied with the clarity and consistency of laws and regulations as well as their interpretation by competent authorities. The latter is also true in view of non-exporters as well.



Still, when asked to assess the percentage of sales and wage costs reported for tax purposes leaders of large businesses were more sceptical than their small and medium sized counterparts; the perception of big business is that only 62% of total annual sales are reported for taxation, along with 63% of the company's wage bill. The figure is 71% for small and medium enterprises across both categories, sales and wage bill.

public procuring entities, it seems to be at a satisfactory level.

There is a drop in the number of export companies that have withdrawn from a public tender over the previous 3 years (down to 26% in 2017 from 36% in 2016). The share of the public procurement market in their annual turnover is at about the regional average (30%). In terms of their interaction with

The vast majority of respondents (94%) claim that the success of their business is impeded by legislation. Although to smaller extent than in 2016 (48%), taxation remains the most problematic (36%), followed by employment regulations (22%). Approximately every sixth respondent (17%) feels that all laws and regulations represent a threat to their business' operations and growth. The same number finds trading standards particularly challenging. Compared to non-exporters, export-oriented companies are more concerned about environmental regulations, but less worried about minimum wage restrictions.

	Tax-related	Employment regulations	No specific regulation/all regulations	Trading standards	Planning/building/development	Providing information/record-keeping	Minimum wage regulations	Environmental regulations	None - no regulations an obstacle	Health and safety regulations	Pensions	Working time
Exporters	36	22	17	17	13	7	16	14	6	14	7	3
Non-exporters	33	22	16	13	13	6	21	9	12	12	8	3

Main obstacles

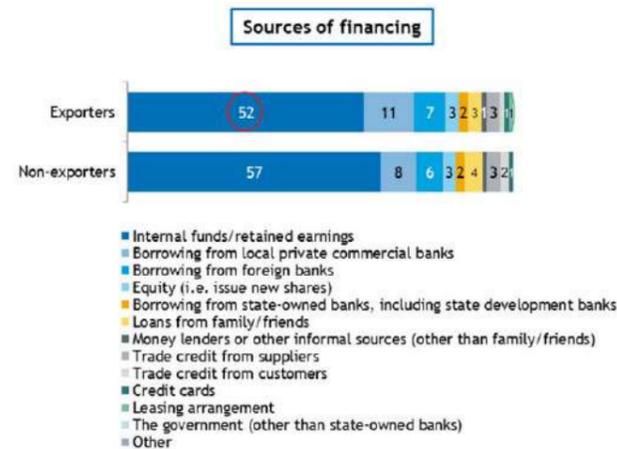
The percentage of exporters who report arbitration proceedings over the past three years is somewhat lower than before (down to 28%

in 2017 from 35% in 2016), but still significantly higher than with non-exporters (16%).

Accessibility of Loans

As with the 2016 survey, both company groups analysed here rely primarily on internal funds i.e. retained earnings, but exporters (52%) to a lesser extent than firms operating in the domestic market (57%). This is likely influenced by a greater readiness of exporters to seek

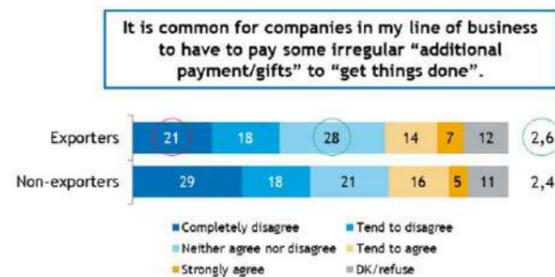
commercial loans - two fifths have applied for a bank loan over the previous year against only a quarter of non-exporters. Respondents surveyed report that the loan process takes 15 days on average.



Corruption

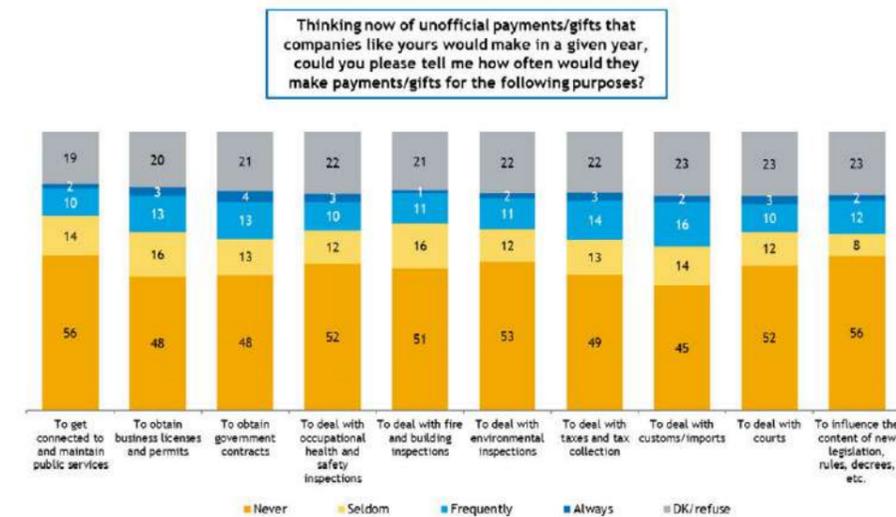
Some two fifths of export-oriented businesses do not find informal payments “to get things done” common in their economy, while a fifth do. Despite the prevalently positive

assessment, exporters are still more likely to report perceptions of impropriety than companies operating solely on the domestic market.



When asked to comment on the prevalence of corruption in certain fields, most respondents (about half) claim that it does not happen.

Customs authorities tend to be viewed with most suspicion but even there the majority report no wrongdoing.



Two fifths of exporters find that reporting corruption to the relevant authorities via official channels is the most effective way to combat

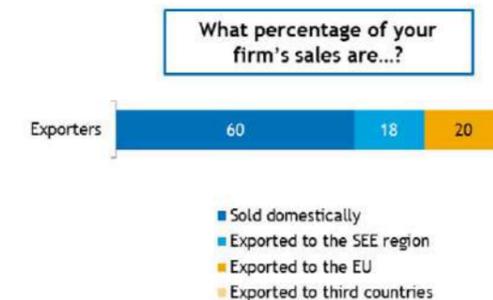
it. This is followed by informing journalists (12%), while a quarter are still unsure whether there is a viable strategy to combat graft.

Trade and Investment

Interestingly, slightly more than a fifth (22%) of surveyed export companies willing to invest abroad are most interested in the SEE region (69%), followed by the EU (50%). Conquering new markets is overwhelmingly their key motivation (the average score is 2.1), followed by their desire to cut down on production costs (2.9). When deciding where to invest, exporters are primarily driven by market size

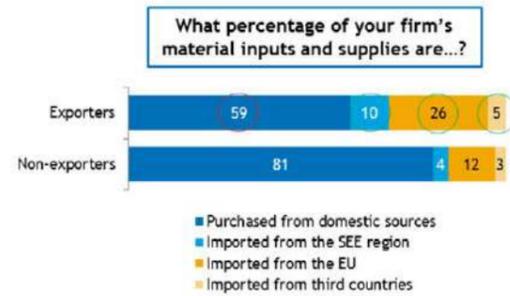
and potential, tax rates and existing legal environment (for all three aspects the average score is 4.5).

As with previous survey instalments, the highest percentage of sales are made domestically (60%), 20% are exported to the EU, 18% go to the SEE economies and 3% are sold in the rest of the world.



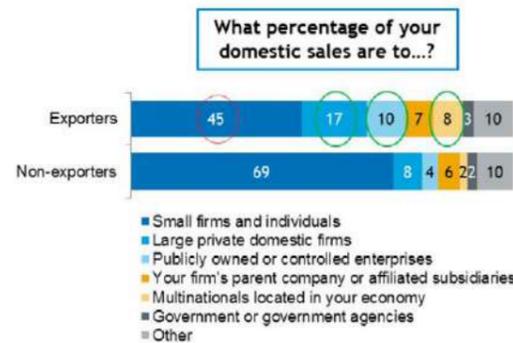
Compared to companies limited to a single market, exporters again tend to import more: although 59% of their inputs are supplied from

domestic sources, 26% are imported from the EU, 10% are purchased in neighbouring markets, and 5% come from third countries



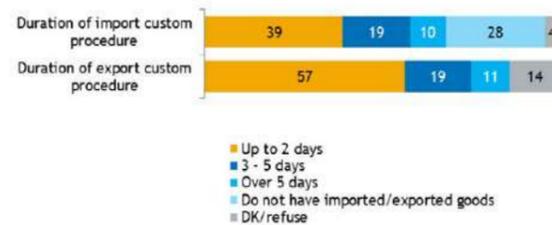
While the main domestic buyers for both exporters and non-exporters are small firms and individuals, their share in exporters' sales is noticeably lower (45% vs. 69%). Export companies tend to sell to large private domestic

firms (17%), publicly owned or controlled enterprises (10%) and multinationals located in their economy (8%) more than non-exporters.



Once again, companies operating internationally seem to be far more satisfied with the average duration of the export customs process,

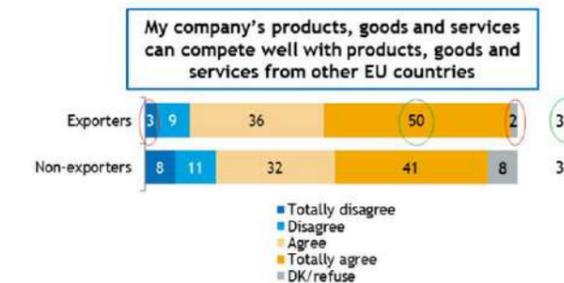
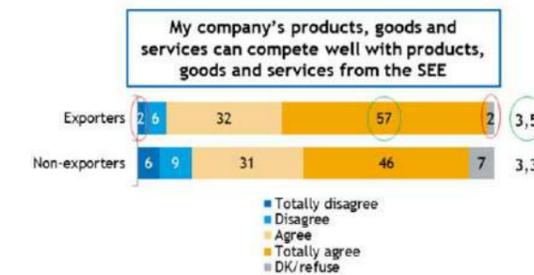
as opposed to the length of the import clearance procedure.



Roughly 70% of export companies interviewed sell to the SEE region (69%). As usual, in this context business leaders are especially worried about the bureaucratic requirement to provide hardcopy documents and/or certifications (28%), followed by unnecessary physical examinations or inspections, and the need for licenses or permits (both 18%).

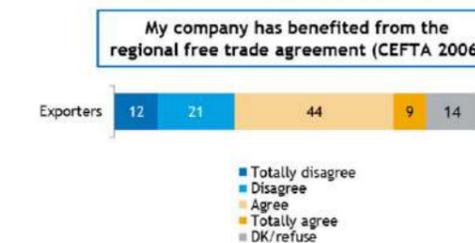
not feel threatened by global (54%) and SEE competition (62%), likely due to their better awareness of the international market, they remain more conservative in their assessment of the competition. At the same time, exporters display a higher level of self-confidence when it comes to the market power of their goods against those of their foreign competitors.

Even though most exporters claim they do



Naturally, export-oriented business leaders are significantly more familiar with CEFTA than their counterparts focused on domestic markets only. Still, a half admit they are not informed enough about its provisions.

Out of those who are familiar with CEFTA, 53% feel their company has benefited from the agreement.



Although to a lesser extent than before, exporters still support granting local suppliers a

privileged position in public procurements at home (down to 64% in 2017 from 72% in 2016).

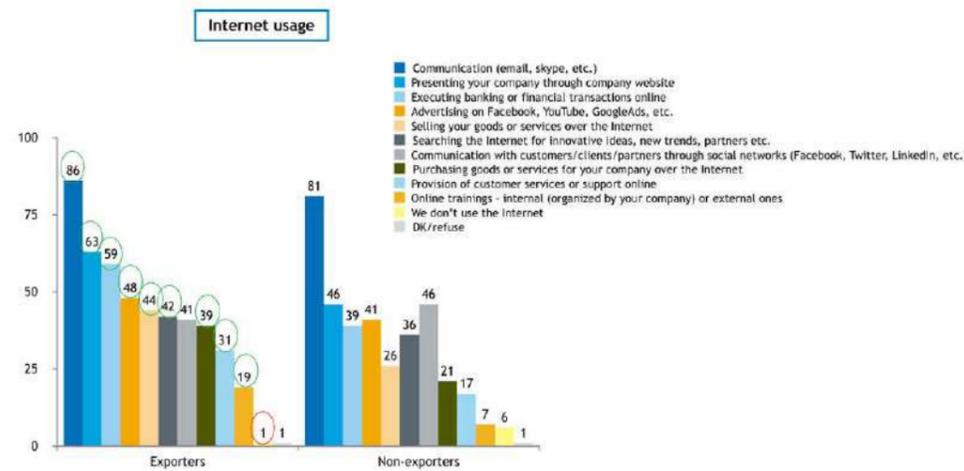
In terms of perceived market openness within the SEE region, once again Serbia comes out on top while Albania is seen as the most closed

economy and finds itself at the bottom of the regional ranking.

Innovation and Technology

Similar to the previous survey instalment, companies operating outside of the borders of their own economy use the Internet for all

listed purposes considerably more often than non-exporters. Still, Internet usage for most aspects reviewed has declined since 2016.



Multiple answers question

Recently, exporters have begun to experience Internet security problems to a significantly greater degree than companies operating in domestic markets only.

of the current portfolios. Namely, exporters are much more committed to improving existing products or services, as well as delivery processes. In addition, they tend to have better cooperation with universities, aimed at facilitating research and development of new products or processes.

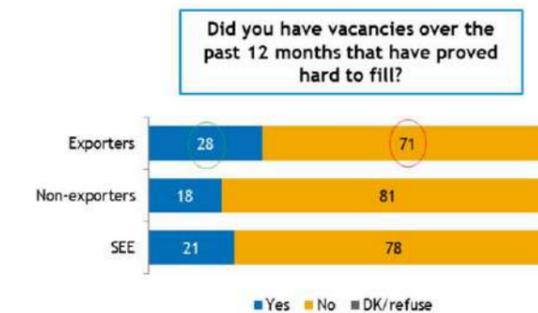
Another striking difference between these two groups of companies refers to upgrades

Collaboration with universities (2015 - 2017)	Yes	No
Exporters	16	80
Non-exporters	6	93
Introducing new or improving products/services (2015 -2017)		
Exporters	51	45
Non-exporters	32	66
Introducing new or improving production/delivery processes (2015 - 2017)		
Exporters	43	54
Non-exporters	26	70

Skills Needs

Looking at the employee education structure for both types of companies under review here, there are no major differences between exporters and non-exporters. Both groups are relatively satisfied with how the schooling system in their respective economy meets the needs of their business (the average score is 3.6 in both cases). Also, they seem happy to

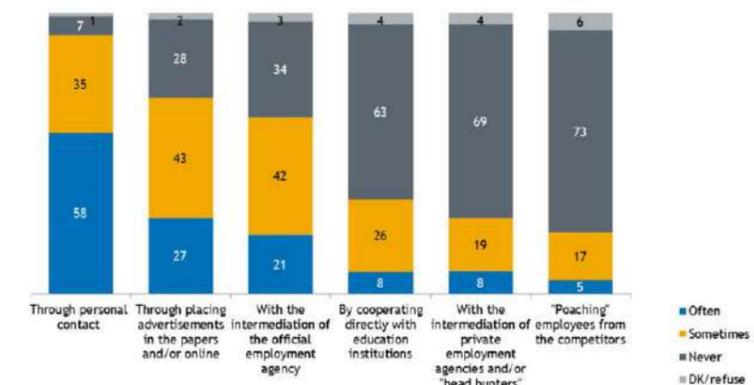
open their doors to well-educated but inexperienced young people (4.0 for both groups). Recruitment does throw up one significant difference between the two; as in 2016, export-oriented companies have struggled more regularly to fill vacancies with competent recruits.



Employment Practices

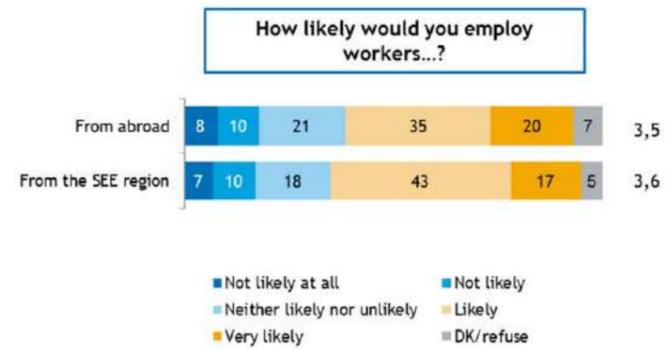
During the recruitment process, international market players predominantly use personal referrals - 93% rely on them at least sometimes, while 58% do so frequently. The second most common method of hiring new employees is public advertisement through newspaper or online ads with 70% of respondents occasionally deploying this recruitment tool. Compared to non-exporters, exporters have more confidence in public and private

employment agencies. Although to a somewhat lesser extent than last year, exporters are also more likely to contact universities for recruitment assistance. This indicates that the stated increase in desire by employers to recruit educated but inexperienced individuals has not resulted in a more proactive strategy to attract recent graduates.



Some three fifths (62%) of exporters seem to have found their ideal staffing level and are happy to retain their current number of employees. At the same time, almost a quarter of exporters (23%) would bring in more employees, against just 14% for non-exporters. A mere 5% feel that a downsizing of their staff would be beneficial to their business. Although the majority of export firms (65%)

claim no gender preference in hiring, a basic examination of numbers show that exporters tend to employ more men than companies operating on the domestic market only. At the same time, applicants from vulnerable groups are much more likely to find employment in an export company, as are workers from abroad, regardless of their place of origin.



Investment in Employees

In line with the overall trend, over the past 12 months exporters invested less of their time in organizing trainings (down to 48% in 2017 from 61% in 2016) and reviewing the development needs of all employees (down to 41% in 2017 from 52% in 2016). Nonetheless, exporters are more committed to staff development than non-exporters; nearly a half (48%) provided

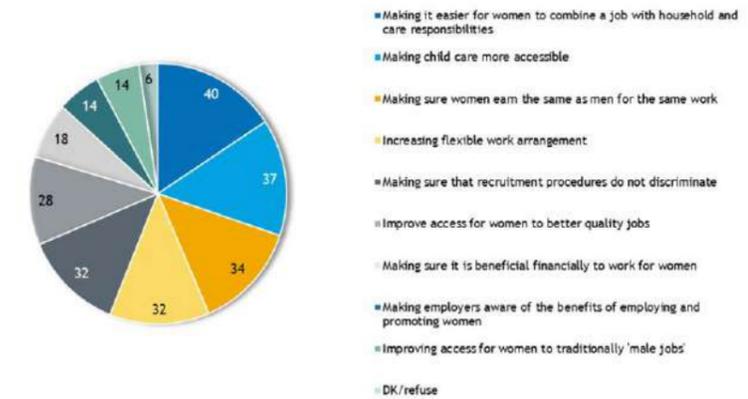
trainings versus 31% of non-exporters, while two fifths regularly review the needs of their workforce (29% for non-exporters).

According to their employers, most workers in export-oriented companies are ready to embrace new qualifications and know how to benefit from them.



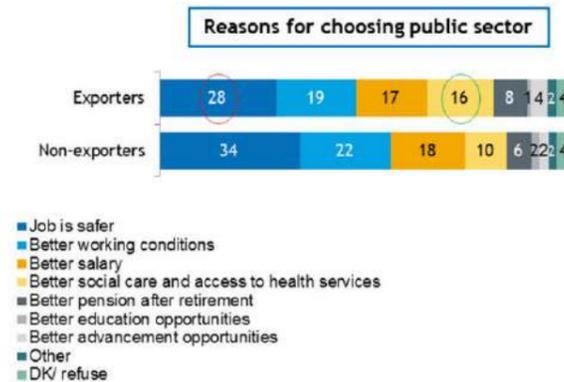
When it comes to improving the position of women and increasing their number in the workplace, the majority of exporters believe that striking a work-home balance would

make the biggest difference (40%). More accessible child care is the second best rated integration strategy (37%).



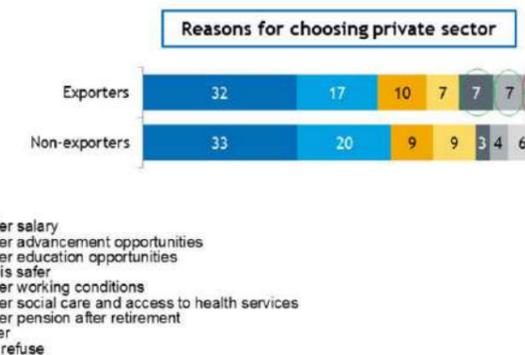
Both groups feel that job security is the chief reason why employment in the public sector is preferred, but this view is still more prevalent in the ranks of the non-exporters. At the

same time, exporters more frequently highlight better social and health care as factors that attract prospective employees to seek employment in the public sector.



Representatives of both export and non-export companies agree that better remuneration

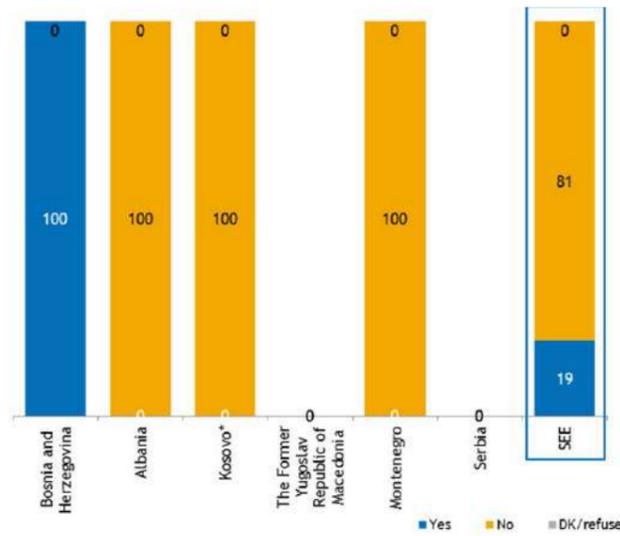
remains convincingly the biggest comparative advantage of a private sector career.



Appendix

Figure 129: Is the shareholder equity of your company foreign to some extent?

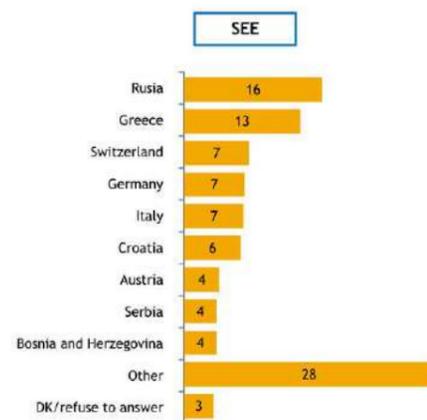
(Respondents who state that largest shareholder(s) in their company is/are bank, investment fund or managers of the firm - N=10*, %)



*Small base for valid conclusions

Figure 130: Can you please tell me where the capital comes from (country of origin)?

(Respondents who state that shareholder equity of their company is foreign to some extent, N=43, %)



Conclusions and Recommendations

Increased openness and growth in exports are the driving forces of economic development in the region, a fact that should greatly inform policy making by the economies.

At the same time, businesses remain largely unhappy with what they perceive to be a debilitating operating environment created and fostered by the region's governments. The prevalent perception of cumbersome taxation and regulatory regimes necessitates a more structured public-private dialogue while more private-sector involvement in economic policy making is essential. Macroeconomic stability and improved taxation would likely have the most positive influence on economic performance.

Some encouraging developments in the relationship between business and government should help chart the course for a more serious effort at government reform - public procurement agencies seem to be a good starting model for better customer satisfaction, with 93% satisfied clients. Concerns over growing wages and their possibly detrimental effect on business development do not seem to be borne out by empirical evidence.

The region would greatly benefit from a more coherent industrial policy not based solely on incentivizing foreign investments. Public funds could be better spent driving innovation and

entrepreneurship, with the promising digital sector an excellent candidate for more government support. Any movement in this regard is dependent on the continued openness of the region to the world, however.

While concerns over traditional corruption have lessened, unfair competitive practices are a growing source of anxiety across the region requiring greater government involvement.

Workforce availability is likely to have a more prominent role in future survey instalments; already, three quarters of large exporters struggle to fill vacancies. This may indicate the need for further adjustments in the education sector to bridge the gap to the labour market.

Regional stability and cooperation are essential for further growth, especially for large exporters.

Note on Methodology

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

Questionnaire

The questionnaire was provided by the RCC. It was originally written in English and subsequently translated into six local languages, with the exception of Kosovo* where both Albanian and Serbian versions of the questionnaire were used, and The Former Yugoslav Republic of Macedonia where questionnaires in two different languages were also used. The RCC reviewed and approved the translations of the questionnaire.

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

Interviewers

The survey was conducted by the GfK in all economies, except for Montenegro where De Facto Consultancy was hired as a subcontractor. All interviewers were given written instructions containing general description of

the questionnaire, of the method of selecting addresses for the interviews and of the respondent selection process. In addition to providing written instructions, GfK has organized training for interviewers which explained research goals. Moreover, project coordinators examined the entire digital questionnaire jointly with the examiners and emphasized some important elements (especially the need to read individual answers where one or more answers were possible, etc.).

Sample

Business Opinion Survey was conducted on the N=200 companies for each economy, with the total of 1200 companies for the SEE region. The survey encompassed:

- companies of various sizes - micro (4 - 9 employees), small (10 - 49 employees);
- medium (50 - 249 employees) and large (more than 250 employees);
- various business (21 business fields according to NACE classification);
- companies which are not majority-owned publicly or by government;
- companies established earlier than 2015;

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

Interviewing Procedure

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

a) Company selection

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

b) Telephone recruitment

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

In telephone conversations the interviewer presented the idea and the objectives of the survey to the respondent and then attempted to arrange a face-to-face interview. The interviewer needed to be very familiar with the project, but also to be eloquent, persuasive, polite and persistent. The described lists contained the company's name, address and telephone number and, in some cases, the name of contact person. In cases in which a person from the list believed they are not qualified to discuss the topics mentioned, the interviewer asked to be referred to a person who is more competent. A similar request was

made when no contact person was indicated on the list.

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

Sample Structure

Figure 131: Sample structure by respondent's position

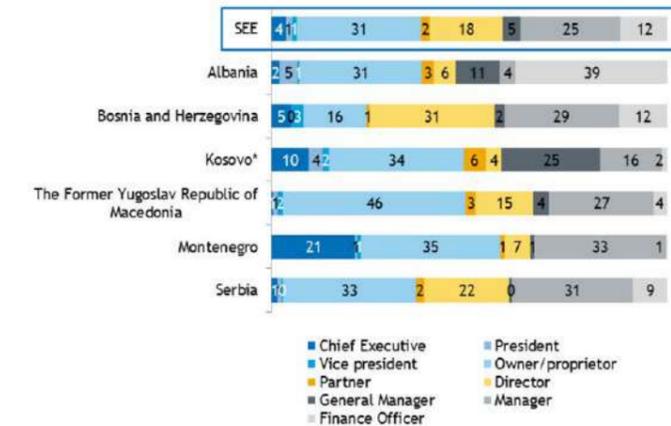


Figure 132: Sample structure by largest shareholder

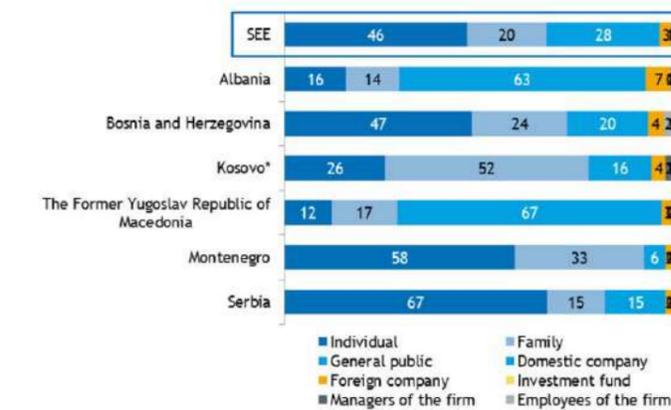


Figure 133: Sample structure by number of employees

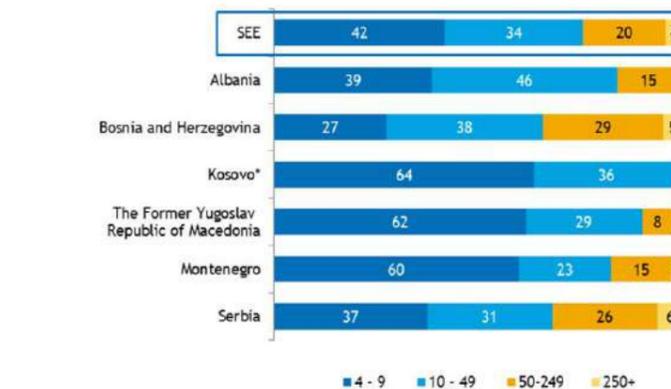


Figure 134: Sample structure by business area

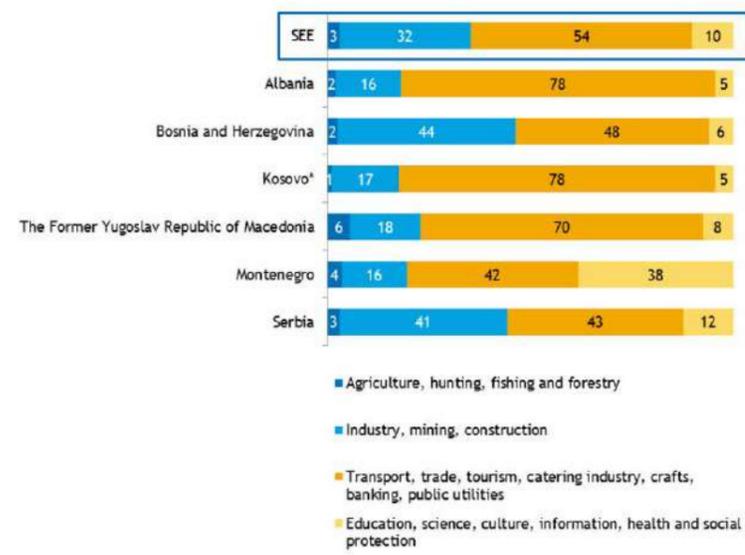
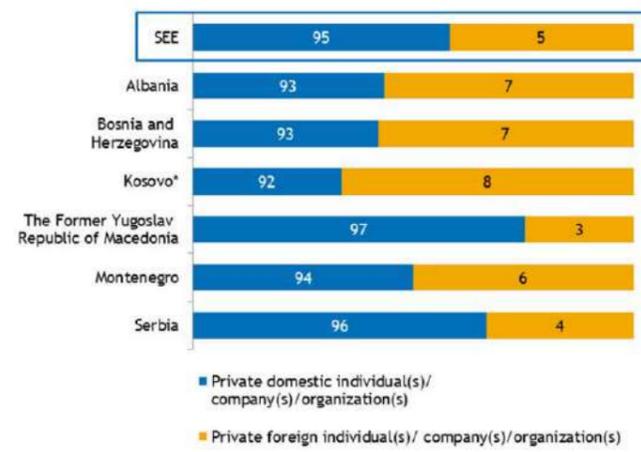


Figure 135: Sample structure by ownership





[10]
YEARS
Powered
by RCC.



@rccint



RegionalCooperationCouncil



RCCSec

Trg Bosne i Hercegovine 1/V
71000 Sarajevo
Bosnia and Herzegovina

Tel: +387 33 561 700
Fax: +387 33 561 701

E-mail: rcc@rcc.int
www.rcc.int



9 772490 258001