



RegionalCooperationCouncil

BALKAN

BAROMETER

2019

**BUSINESS  
OPINION**  
Analytical  
report



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# FOREWORD

Welcome to the fifth instalment of the Balkan Barometer, an annual survey of regional perceptions and attitudes across a wide array of social, political and economic factors impacting life in South East Europe (SEE). Over the past five years, the Barometer has become a signature product of the Regional Cooperation Council (RCC), helping both steer and evaluate our work in bringing the region closer together while also informing policymakers, businesses, academia, civil society organisations, media and others in the SEE and beyond.

The Barometer was first created in 2015 to augment a statistics-dependant monitoring regime, designed to track the implementation of the SEE 2020 Strategy, with soft, perception-based indicators recording changes in popular opinion. Since its inception, the Barometer has witnessed a period of largely uninterrupted economic growth with some 748,000 jobs added to the six Western Balkans economies, alongside a gradual balancing of long-standing trade deficits, greatly improving the region’s macroeconomic outlook.

This edition of the Barometer is **modestly optimistic**, and it shows growing support for EU membership with more than half of all respondents viewing EU accession favourably, a first since the Barometer’s inception in 2015. Regional cooperation continues to be important to an overwhelming majority of respondents. Overall, the region has grown more positive both about its present situation as well as its outlook for the future, indicating a **growing level of confidence in the financial stability** of the six SEE economies.

Not all the news has been good, however. This past year has seen **mounting concern about outward migration**, further stoking anxieties about a shortage of skilled labour in domestic markets. Losses in human capital through emigration are exacerbated by low fertility rates in most of the region’s economies and a growing discrepancy between the skills acquired in education and those demanded on the job market, with the latter especially prominent in this edition of the survey. To mitigate the adverse effects of “brain drain” on the region’s economic prospects, SEE governments need to address this issue openly and proactively, all the while engaging with the EU, as the most common receiving la-

bour market. **Emigration needs to be better harnessed for its developmental potential** through attracting more investment, enabling knowledge transfer and accessing technology currently not obtainable in the region. In parallel, the region’s economies must devise viable coping strategies for how to address the widening gap between supply and demand on the already underperforming labour market while simultaneously managing **high inactivity rates, especially among women** - this requires a comprehensive and open debate across all six of the economies.

Hopefully, this year’s Barometer will help start this discussion, and many others, through providing some insight into the SEE community’s thinking.

As ever, we must acknowledge the contributions of this very community to the Barometer and this process, as without them the survey would not have been possible. Furthermore, I would like to extend my appreciation to the team that invested substantial effort, patience and time in administering the survey and creating this report; I hope you will enjoy reading it as much as we have enjoyed putting it together.

# INTRODUCTION

The fifth edition of the Balkan Barometer represents another chapter in the continuous evolution of the region's foremost survey of public and business opinion. What started off as an attempt to measure impact of regional actions launched under the umbrella of the SEE 2020 Strategy process has now largely outgrown its monitoring role and is a recognised source of reliable regional data widely employed and referenced by media, civil society and decision makers alike.

Since its inception, the Barometer has undergone a series of changes in an attempt to reflect the rapidly changing regional landscape in a comprehensive and holistic fashion. The regular emergence of social and economic challenges, whether global or local, has seldom been unaccompanied by regional ripples and the Barometer has always been there to record their effects on the SEE community. In particular, the Barometer remains a valuable guide to frequently shifting attitudes towards integration, both at regional and EU levels, helping inform the work of policymakers and other interested regional stakeholders.

The RCC's work in introducing the SEE 2020 Strategy in 2013 was a major milestone, providing an enabling regional framework to augment and support economy-level efforts by participating governments while also serving as a rallying platform for all interested, and relevant, regional actors. The Barometer was introduced to help track progress in meeting the Strategy's ambitious objectives, providing subjective validation of statistical data supplied by the economies. With the Strategy scheduled to elapse in 2020, the Barometer is expected to serve a much broader range of purposes in the future, to include helping craft a post-2020 agenda that will be more in tune with the SEE community's immediate needs and interests based on five years-worth of data. This will, hopefully, help bridge the gap between decision makers charged with creating policy, and the communities they are mandated to serve, addressing, in the process, the shortage of confidence in democratic institutions, a defining feature of each and every Barometer to date.

There will still be a monitoring role for the Barometer, however. The RCC will focus much of its energy in the coming period towards the implementation of the Multi-annual Action Plan for a Regional Economic Area in the Western Balkans (MAP REA), entrusted to the RCC following the Trieste meeting of the Berlin Process. The process is expected to enable the unobstructed flow of capital, goods and services, as well as skilled labour, throughout the region, making it more attractive to investors while accelerating convergence with the EU.

Furthermore, and in response to some existing concerns regarding government performance, efforts to enable region-wide improvements in good governance, rule of law and security has to be enhanced by the RCC and other important players in the area. The most recent Barometer results are illustrative enough as to the importance of this investment: the judiciary is one of the least trusted public institutions; just under half of the region's population feel unsafe; and government performance continues to be perceived poorly across the region. While positive changes across all three areas rest largely on the willingness and capacity of internal actors, the similar history and background of the Western Balkans economies provide ample room for regional action, particularly related to capacity building, peer review, cross-border cooperation, sharing of good practices and increased mutual trust. It is important to note that even in this area the Balkan Barometer has become an integral part of the reference framework (Methodological Framework for the Principles of Public Administration: ENP Countries<sup>1</sup>) assessing the state of a public administration against each principle of public administration.

Finally, the RCC is also an implementing agent for a number of regional interventions, projects that combine principles of regional cooperation with hands-on technical assistance, capacity development and, in select instances, grant assistance. With topics such as regional tourism, Roma integration, youth engagement and labour market governance, these projects will benefit greatly from data made available through Balkan Barometer process for both baseline and impact assessment purposes.

<sup>1</sup> OECD (2018), <http://www.sigmaweb.org/publications/Methodological-Framework-for-the-Principles-of-Public-Administration-ENP-Countries-May-2018.pdf>

# MAIN FINDINGS

**Businesses are satisfied with their business results**, competitiveness of their products and trends in customers' demand in 2018. Majority of business respondents expect to hire new employees and further expand their business operations.

**However, there is less satisfaction with the overall economic situation**, although hard macroeconomic indicators suggest that the South East Europe (SEE) economies reached its 10-year peak. Such contrast between business sentiments and economic indicators is likely caused by insufficient reforms in both business environment and regulatory framework, which are still perceived as unfavourable.

Frequently cited problems, such as the **sustainability of macroeconomic framework, functioning of tax administration, effectiveness of labour market, and consistency and predictability in the rule of law**, are still perceived as the most binding constraints. In addition, businesses generally feel detached from business policy-making processes, suggesting that their governments lack commitment when it comes to listening, understanding and resolving businesses' main concerns.

It should be noted that governments' effort on **digitalisation of public services seemingly shows positive results**, as businesses are increasingly satisfied with that process and find it very useful. Interestingly, businesses also see digitalisation as an efficient way of tackling corruption. However, there is room to additionally mainstream the process of digital transformation, especially on the private sector side - online commerce is relevant to only a small number of companies that source their inputs and sell online, with a small share of revenues generated through this channel.

SEE business leaders are generally **well-aware of the importance of regional cooperation and EU membership**. The survey results confirmed the trend observed in the previous waves of Balkan Barometer whereby business executives are generally more open towards regional and EU cooperation (67% and 64%), compared to the general public (65% and 56%), as they are seeking new market opportunities and demand for their goods and services.

However, **additional efforts are needed to strengthen regional cooperation** and internationalisation of the region's private sectors to reach

higher intra-regional and international investment levels and stimulate more intense trade. SEE businesses are currently not investing much outside their own economies and have little intention to do so. These firms are dominantly focused on domestic markets - only three out of ten businesses are exporters, with exports comprising only 17% of total sales of surveyed companies.

In order to encourage regional cooperation, the first step should include **better dissemination of information on procedures, opportunities, and benefits of regional trade and investment integration**. Currently, SEE businesses are not well informed about CEFTA and consequently, only half of all surveyed managers experienced some benefits from CEFTA. Further promotion and presentation of the CEFTA Statistical Portal would be a good starting point for greater outreach towards business. Cutting intra-regional communication costs would also be a good avenue to make regional cooperation a more viable option as **majority of business respondents considers removal of roaming charges as very beneficial**.

**Stronger partnership between business support organisations and businesses is also one of the preconditions for increased and more effective private investment**. Since there is little sign of a broader financial market development in the region as of yet, the banking sector remains the key, and in most cases only, external financing partner for SEE businesses. However, SEE businesses, especially SMEs, still prefer and dominantly use financing from very limiting internal sources, rather than using bank loans, which are often considered as the last resort when it comes to raising finance.

**In addition, vast majority of businesses are neither cooperating with universities nor with other firms and organisations when it comes to developing new and innovative products, services or processes**. That is one of the reasons for low rate of innovation among SEE companies (30-40% across 3 years). For those that do innovate, the majority of new products or services developed were new only in the company's own offering, but not novel in the market.

**Governments' work on higher regional mobility would positively impact the business environment**, since the availability of adequate workforce is becoming an obvious constraint for SEE businesses. Given strong emigration trends and declining



unemployment rates, such outcome was largely expected. This is a particularly big problem for larger enterprises and foreign companies, as they usually require larger and more diverse pools of workforce in order to function properly. Improved regional labour mobility could provide an avenue for increasing efficiency of the region's labour markets.

**Building a non-discriminatory attitude towards Roma population and other vulnerable groups** is also an important activity. Prejudice towards Roma population in particular is still pervasive, even when Roma persons are well qualified for the job.

It is concerning that **SEE companies are making only gradual steps towards reducing their environmental footprint**, as only a quarter of respondents reported to have invested a considerable effort in this area. Some of the increased awareness could be attributed to a spill-over effect associated with exporters supplying the EU market often requiring sound environmental practices, but for this awareness to reach other parts of the private sector a more decisive action from the governments will be needed.

## REGIONAL OVERVIEW

The year preceding this instalment of Balkan Barometer has brought the SEE region a number of **important political, economic and social developments that shaped this year's public and business sentiments**. While economic growth seems to have continued unabated and one of the longest-standing bilateral disputes was resolved, the region has also witnessed certain negative trends in some of the bilateral relations and increased political and social uncertainties as evidenced also by resurfacing protest movements throughout the region.

The **"Macedonia" naming issue, one of the longest running disputes in the region, was finally resolved after 26 years**, removing a key obstacle for the Republic of North Macedonia Euro-Atlantic integration. The political polarisation in the months following the Prespa agreement has depressed the sentiments in the Republic of North Macedonia as recorded by this year's Balkan Barometer. With the return of relative stability and progress on the Euro-Atlantic integration path, the sentiments are expected to rebound, reinforced also by stronger forecasted growth.

**Regional dynamics grew more complex**, also challenged by existing and/or new bilateral trade disputes, impeding full benefits from the trade preferences under CEFTA Agreement. Despite many efforts invested to remove unnecessary barriers to trade, yet regional trade suffers from the existence of non-tariff barriers or barriers of another type, being tariffs or measures perceived as more restrictive and not proportionate.<sup>2</sup>

**2018 has brought some new developments in the EU accession process**. Albania and the Republic of North Macedonia finished the year hopeful that 2019 will bring the opening of accession talks with the EU, long overdue in case of the Republic of North Macedonia that was granted the candidate status in 2005. Bosnia and Herzegovina submitted the answers to the

follow-up EU Questionnaire, while Montenegro and Serbia continued the negotiation process, with Montenegro opening 32 Chapters during accession talks and closing three, and Serbia opening 16 negotiating Chapters so far and closing two. Kosovo\* has seen least progress in this area since the SAA came into force during 2016, with visa-free access to the Schengen Area still proving elusive, despite meeting the two remaining benchmarks from the Visa Liberalisation Roadmap during 2018.

**Economically, the region has continued on its growth trajectory, with GDP figures, employment and export rates recording growth**. GDP growth in the SEE region in 2018 has strengthened to an estimated 3.7 percent<sup>3</sup>, the region's highest growth since the 2008 global financial crisis. All economies surpassed initial expectations and projections for 2018. Serbia was a regional leader with a growth estimated at 4.4%, followed by Albania and Kosovo\* that also achieved growth higher than 4%. Growth of Bosnia and Herzegovina and Montenegro was around regional average, while the Republic of North Macedonia, after two years of stagnation mostly due to political crisis, achieved progress and grew by a moderate 2.5%. Even though the growth rate of 3.7% may look solid, it is not much different from that of the EU New Member States (NMS), implying that SEE economies need to accelerate growth if they are to converge with the EU average in a reasonable timeframe.

**Growth has been driven by consumption and investments, especially public, with counteracting effects from higher (net) imports**. Growth in Albania and Kosovo\* was comprehensive, and supported by synergetic effect of public investments, consumption and net export. Manufacturing in these economies has picked up, export of services increased - which especially refer to tourism services in Albania, while public infrastructure investments have also underpinned growth. Serbian growth was supported by increased consump-

<sup>2</sup> <https://statistics.cefta.int/goods>

<sup>3</sup> National accounts data obtained from statistical offices of Western Balkans economies

\* 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

tion, both private and public, and government investments, followed by revival and strong growth of construction sector. Growth in Montenegro was heavily supported by investments, both private - in energy and tourism sector, and public, particularly in Bar-Boljare road infrastructure. Similar pattern was followed in Bosnia and Herzegovina, while growth in the Republic of North Macedonia was underpinned by gradually recovered confidence among business sector and investors.

While employment growth was impressive in the past several years, the growth seems to be slowing down. Unemployment in SEE is down to 15.6% in 2018 on average<sup>4</sup>, ranging from 12.1% in Albania to 29% in Kosovo\*. As share of the labour force, employment currently stands at its highest point in recent history. However, employment generation seems to be slowing down, with only 116,000 new jobs added in 2018, compared to 175,000 and 250,000 in the preceding two years. Further gains are needed to converge with the EU, where unemployment rate stood at 6.5% at the end of 2018. It should also be noted that unemployment rates in SEE region are decreasing not only due to job creation, but

also because of low activity rates (52.7% in 2017 compared to 73.3% in the EU) as well as increasing emigration of working age population. Achieving higher rates of activity and decent and productive employment is a key factor for enhancing sustainable economic growth and preventing social exclusion of almost 1.2 million unemployed SEE citizens still unable to find work.

Increased tax revenues, coupled with successful results of fiscal consolidations, have brought increased fiscal space that should be utilised to support sustainable socio-economic growth. SEE economies managed to decrease their fiscal deficits to levels that fulfil Maastricht criteria (average SEE fiscal deficit was 1.5% in 2018, compared to 4.1% in 2014). Increased fiscal revenues came as a result of tax reforms (raising multiple tax rates) and improved economic performance (which fuelled VAT and labour tax revenues). On the expenditure side, public investments in road and energy infrastructures are on the rise. However, beside public investments that are still below required levels, increases in current expenditures - social spending, public sector wages, pensions and subsidies - are also occurring. Al-

though politically popular, with an immediate effect on consumption and GDP growth, these untargeted current expenditures should be better managed, while surplus should be directed towards investments in transport, energy, digital and environmental infrastructure.

Higher export is also required for a more dynamic growth. Exports of the region have grown relatively strongly in the recent period (two-digit on average), with export of services playing an increasingly important role, but the imports have also started picking up. Trade imbalances are mainly financed by steady FDI inflows and stable remittance-inflows coming from the regions' growing diaspora. However, share of exports in GDP is still relatively low, and due to limited domestic market size and purchasing power of population, stronger growth in tradable sectors should be sought primarily in foreign markets. For this to happen, more companies - particularly domestic SMEs - will need to start exporting and integrating in global value chains. Integrative processes in such effort is a *sine qua non*, and the Multi-annual Action Plan for a Regional Economic Area provides a good path for SEE firms to seek regional integration as a stepping stone towards global value chain integration.

activity with businesses is still only gradually recovering, as firms are traditionally cautious and generally not interested, if not necessary, to cooperate with banks, relying on retained profits. Only 27% of surveyed firms applied for bank loan in previous year, while majority of financing was provided from internal sources and family and friends. Building trust and partnership between banks and private, especially SME sector, is also an important factor for encouraging investments and enhancing competitiveness.

SEE economies need to continue implementing the remaining structural reforms, especially in the area of rule of law and good governance, in order to mitigate the internal risks and problems that the economies of SEE face and to provide consistently enabling business environment. Particularly important are the reforms of the judicial systems, for they do not ensure adequate protections and enforcement of property rights. There is much SEE economies should do here to narrow and eventually close the gap with their EU peers.

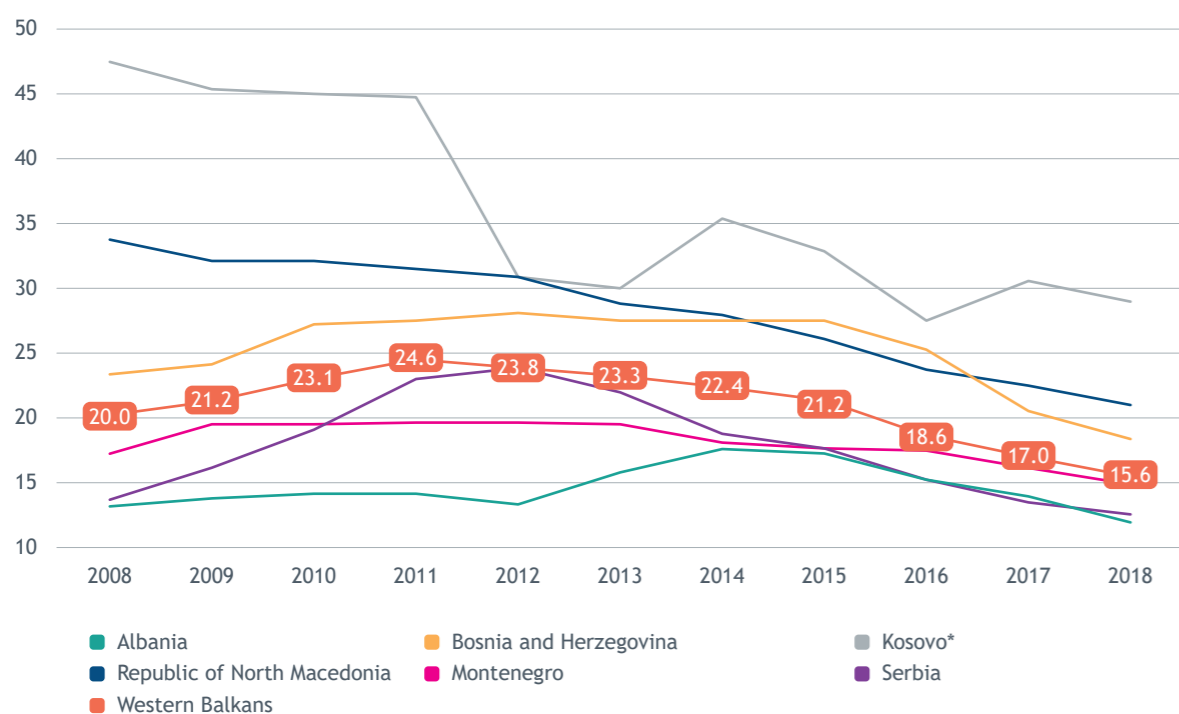
South East Europe should also speed up remaining transformation of its economy and build a friendlier environment for its businesses. Enabling fair competition and creating shared space of knowledge are among key tasks of SEE governments. This implies addressing unresolved cases of state-owned and public enterprises, fighting grey economy - whose revenues still comprise more than 20% of regional GDP, creating equal conditions and chances for domestic entrepreneurs and foreign companies, removing entry barriers, making state aid programmes and public procurements more transparent, and providing better public services. Digitalisation efforts are a step in the right direction - and one of the best, as assessed by companies, governments' activities in previous years.

The region currently faces seemingly positive outlook, as the projections forecast continuation or even slight improvement in growth rates. Nevertheless, all economies share similar external and internal risks. External risks come from potentially anaemic economic performance of the EU - and especially SEE's key partners Germany and Italy, further tightening of the global trade disputes, and serious environmental concerns. Regard-

Monetary trends are stable and supportive of investments, as both inflation and interest rates are low. After some deflationary tendencies from 2014 to 2016, inflation in 2018 remains low, but slightly closer to EU's goal of 2%. Real monetary policy rates remain low, allowing for relatively cheaper financing. Low inflation can probably be owed to such factors as the low inflation in the EU, lower oil prices, and to some extent, suppressed demand resulting from post-crisis subpar economic performance and fiscal consolidation. With consumption picking up again, fuelled by increases in public wages and other social transfers to some extent, inflation might go up in the following period, but the overall risk of higher inflation remains low.

Banking sector is liquid and well-capitalised, seemingly recovering from non-performing loans - but stronger cooperation with business sector remains the challenge. Non-performing loans shrunk to about only 6-7% of gross loans, and around 10% only in Bosnia and Herzegovina and Albania. However, credit

Figure 1: Unemployment rates in the Western Balkans - 2008-2018 (% of labour force, WB weighted average)



<sup>4</sup> Regional weighted average based on available Labour Force Survey data

ing internal risks and challenges the availability of educated and employable workforce stands out, as strong emigrational trends and low intra-regional mobility are still present. Growth in the region also heavily depends on regional political stability, a key determinant behind investors' confidence and private consumption.

# BALKAN BUSINESS SENTIMENT INDEX

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

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

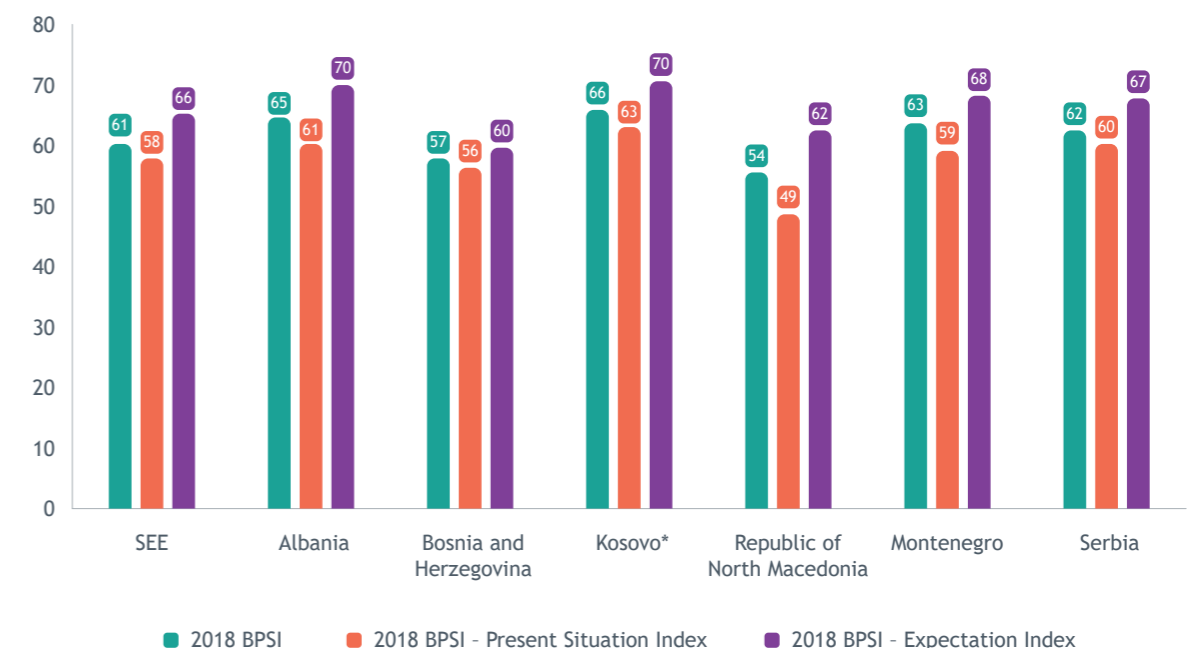
5. How do you expect the general economic situation in your place of living to develop over the next 12 months? Will it mostly deteriorate, remain unchanged or improved?

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

Figure 2: Balkan Business Sentiment Index - BBSI (scores are on a scale of 0 to 100)





the business community as well as their expectations for the future.

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

Companies have a positive opinion on their business situation and future expectations. However, it should be noted that the level of optimism is slightly decreasing, compared to previous years, primarily influenced by weakening opinion on general economic situation. That is not in line with expectations, as macroeconomic results in 2018 were among best in the past ten years. It is possible that companies do not find these results supportive enough or sustainable in the long-term, as some of the most important structural reforms are still awaiting implementation.

**Business sentiment remains overwhelmingly positive, standing at 61 points.** It indicates that there are more companies that describe their business situation and expectations as *positive* than companies that describe those as *negative*. Illustrated through numbers, out of 1,000 companies, there are 220 (22 percentage points) more optimistic ones than negative ones.

Opinions of both the present situation and future expectations are prevalently positive, with

more firms expecting that their business situation is going to improve in future. Difference between future expectations (66) and present situation (58) is approximately the same as it was in previous years (8 index points), in favour of future expectations. This gap suggests that firms, in general, believe that their business situation will be improved in upcoming 12 months, compared to the previous 12 months.

All SEE economies are characterised by positive business sentiment, as their BBSI scores remain well above 50. For the fourth consecutive year Kosovo\* ranks the first regarding the regional business sentiment (66), closely followed by Albania (65). Businesses' perceptions make these economies the frontrunners in both present situation and expectations. Montenegro and Serbia are positioned close to the regional average, scoring 63 and 62 points, respectively. Expectations in both economies are well above their opinion on current situation (68 vs 59, and 67 vs 60, respectively). Bosnia and Herzegovina and the Republic of North Macedonia seem to be the least optimistic ones, with scores of 57 and 54, respectively. The Republic of North Macedonia is the only economy with prevalently negative sentiment on the present situation (49 points) - recording the highest difference between present situation and expectations (49 vs 62).

However, it should be noted that the business sentiment index has slightly decreased for the third year in a row. In 2018 it dropped by 1 index point, compared with 2017 and 2016. Slightly negative tendency is driven more by the declining expectations - particularly in Montenegro, the Republic of North Macedonia and Kosovo\*, as contentment with the present situation remains stable.

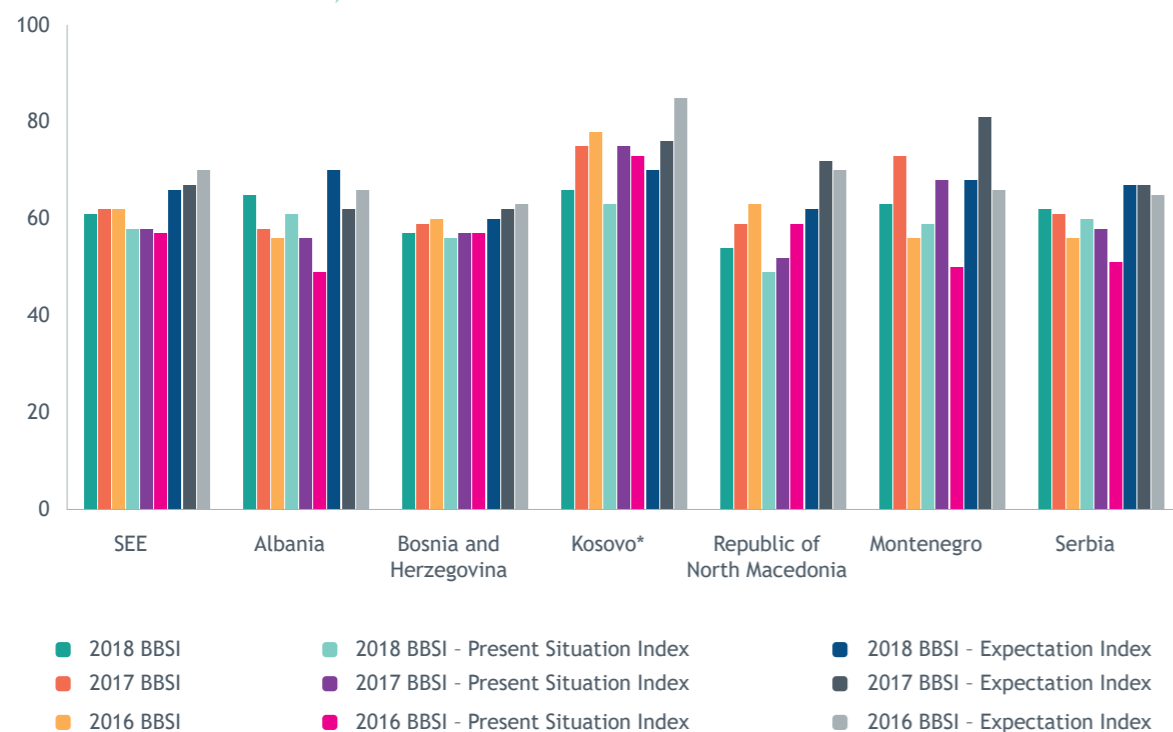
Serbia and Albania are the only economies recording constant improvements in business sentiment over the three-year period, while the rest of SEE sentiments seem to be declining. Albania recorded region-highest improvement of 7 index points (58 to 65), driven by its businesses' satisfaction with both present situation and future prospects. Serbia achieved a modest-yet stable-1-point improvement driven solely by present situation satisfaction. Although Kosovo\* is still a regional leader in terms of business sentiment, it has experienced a substantial drop of 9 index points. Montenegrin businesses' opinion is still positive, although its score dropped by a regional-highest 11 points. The Republic of North Macedonia and Bosnia and Herzegovina are characterised by steady decline in their businesses' optimism. Business sentiment of both economies dropped, by 2 and 5 index points, respectively.

Incomplete structural reforms may be the cause of dissonance between trends in business sentiment and macroeconomic trends. Despite the region experiencing the wave of the highest economic growth rates since the 2008 financial crisis and the efforts of SEE governments to foster business-friendly environment, it seems that these processes are still perceived as lacking stability and credibility, i.e. the hard-to-earn trust. It is probable that the economies are still hindered by lacklustre judicial systems that often make property rights enforcement expensive and unpredictable. Also, space for corruption is still perceived as very high in the region. Public administration and procedures that are repeatedly found disproportionate, along with the often-cited taxation, could be one of the reasons why businesses sometimes decide to delay their investments.

The business sector remains traditionally more optimistic than the general public. The gap between the BBSI and Balkan Public Sentiment Index (BPSI) continues to be wide - 17 points in favour of businesses in 2018. While businesses are prevalently satisfied with the present situation (58), general public exerts considerable dissatisfaction (38). On the other side, general public is somewhat more

positively minded towards the future (53), which is nevertheless below the business opinion level.

Figure 3: Balkan Business Sentiment Index - comparison 2016/2017/2018 (scores are on a scale of 0 to 100)





# PERCEPTIONS OF THE BUSINESS ENVIRONMENT AND ECONOMIC TRENDS

Business executives are satisfied with their business results and expect to hire new employees, although they perceive present general economic situation as unfavourable. However, majority of business executives consider their economies as a decent place to invest and believe that the economic situation will improve and further support their expansion efforts. It is a welcoming sign that businesses' last year plans on employment have proven to be largely consistent with actual reported outcomes in this year. If this trend continues, it could contribute to further reduction of unemployment rates, which are still alarmingly high in some economies.

Kosovo\* and Albania are homes for businesses that are most satisfied with their business results and most open to new employment - as part of convergence towards lower unemployment levels.

It should be noted that Serbian businesses are also exhibiting a steadily positive trend. On the other hand, Bosnia and Herzegovina and the Republic of North Macedonia were the most pessimistic about their business results and further prospects - with only 5% and 7% of businesses, respectively, considering those economies as a great place to invest.

SEE business leaders are in general well aware of the importance of regional cooperation and EU membership. It is expected that business executives are more open towards regional and EU cooperation (67% and 64%), compared to general public (65% and 56%), as they are seeking new market opportunities and demand for their products. Expected pattern can be spotted, as the economies with smaller domestic markets, especially Kosovo\* and Montenegro, tend to favour cooperation more.

Dominant perception of SEE business executives is that general economic situation has remained unchanged. Almost half of the surveyed executives (45%) consider that the situation has remained the same. In addition, out of the other half of respondents, there are more who consider that the economic situation has deteriorated (30%) than those who find that it has improved (23%). Therefore, continual and significant yearly advances in opinion on general economic situation, noticeable in the previous periods, do not exist this year. It is somewhere in line with business sentiment results and stagnation in overall level of optimism, probably caused by lack of deep and effective structural reforms - in spite of relatively satisfying macroeconomic indicators.

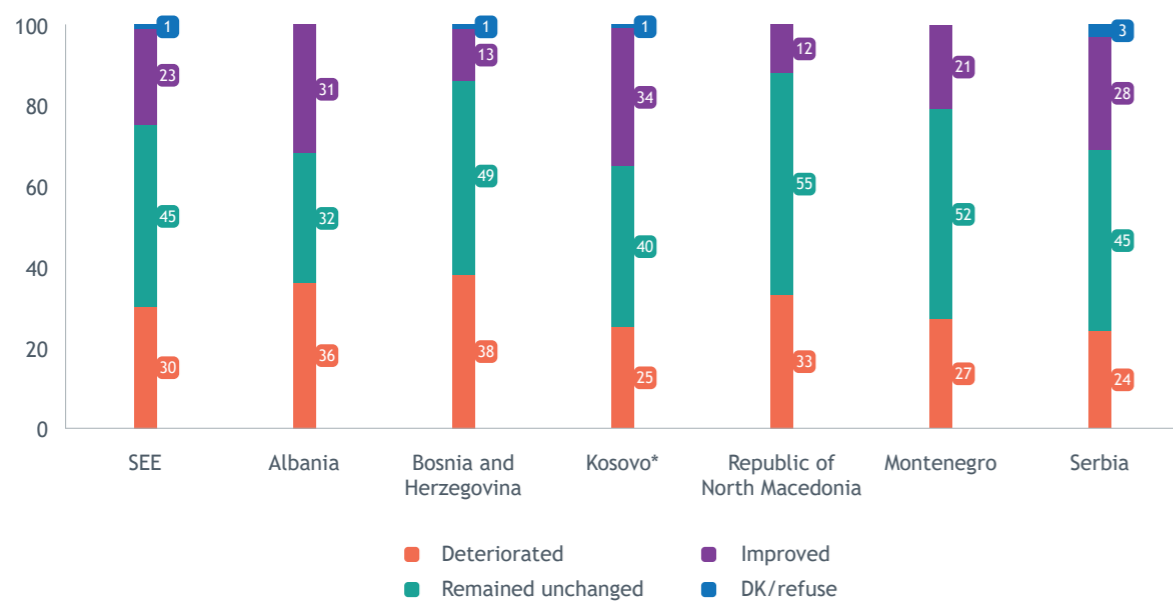
Kosovo\* and Serbia seem to be the most satisfied in the region. These two economies are the only ones with the proportion of executives satisfied with economic situation higher than those that are not satisfied (34 vs 25, and 28 vs 24, respectively). Albania also has a high share of satisfied executives - but exhibits a peculiar pattern, since there are more unsatisfied ones (32 vs 36). Montenegro's distribution seems to be in line with the regional averages. The economy of Bosnia and Herzegovina exhibits the highest share of dissatisfied business leaders who outnumber those with a positive perception by three-to-one (13 vs 38). Similar situation, albeit with higher proportion of

those reporting unchanged situation, has also occurred in the Republic of North Macedonia.

Even though significant changes cannot be observed in SEE as a whole, they do exist in individual economies. Most significant shift in the perception of general economic situation has been negative and it has taken place in Kosovo\*. Kosovo\* has dropped from 45-to-9 ratio of satisfied to unsatisfied to 34-to-25, with remaining considering that situation has not changed. In Montenegro, although the share of those feeling positive has shrunk significantly (from 41% to 21%), it seems that majority of them now see the situation as largely unchanged. Serbia is the only economy with unequivocally positive change. It has seen the share of business executives reporting improvement raise from 19% in 2017 to 28% in 2018, finally outnumbering those feeling disappointed. It is interesting that business leaders in the Republic of North Macedonia were among the most optimistic in 2017, with 44% of them predicting improvement, while the improvement is actually reported by only 12% of them in 2018 - with a third of business executives feeling dissatisfied.

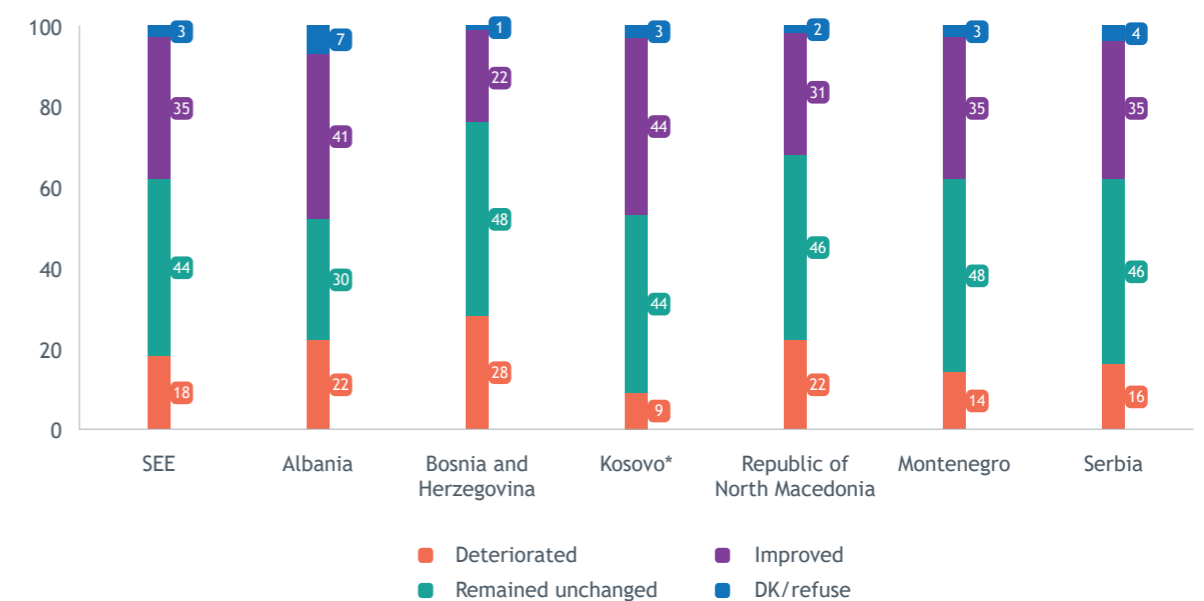
Expectations for the future among business community stay prevalingly positive. Similar to the last year, more than a third of business leaders expect improved situation, while 18% expect economic downturn in the future. It is also in line

Figure 4: How has the general economic situation in your economy changed over the past 12 months? Has it deteriorated, remained unchanged or improved?<sup>5</sup>  
(All respondents - N=1271, share of total)



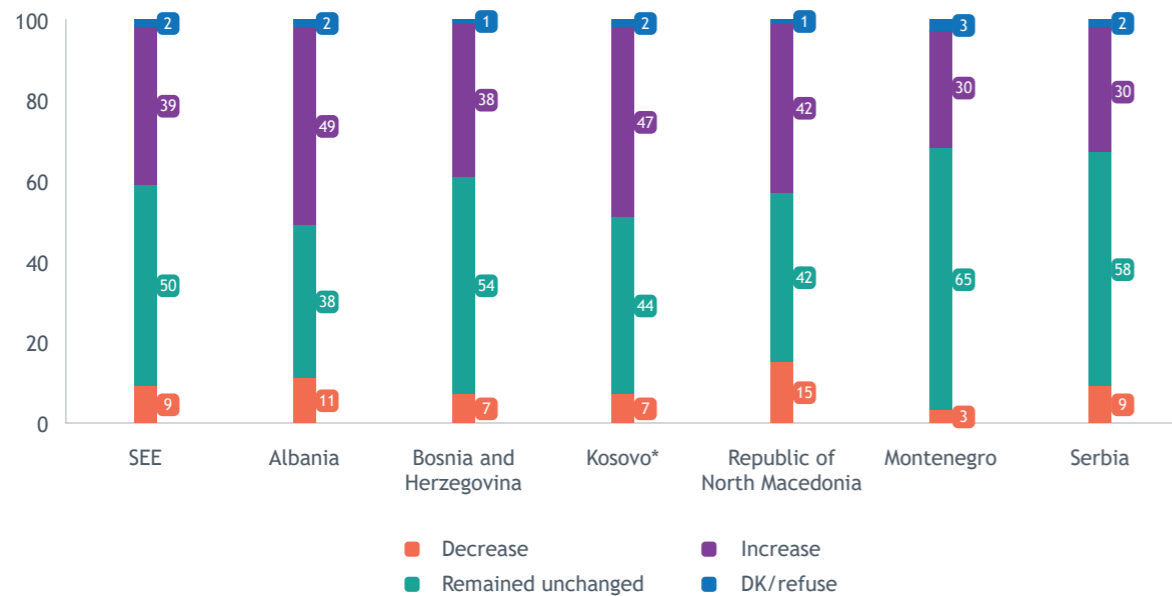
<sup>5</sup> The figures might not add to 100% due to rounding.

Figure 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 improve?<sup>6</sup>  
(All respondents - N=1271, share of total)



<sup>6</sup> The figures might not add to 100% due to rounding.

Figure 6: How do you expect the number of people employed in your company to change over the next 12 months?<sup>7</sup>  
(All respondents - N=1271, share of total)



with business sentiment results, where expectations are more optimistic than current level of satisfaction.

Companies from Kosovo\* and Albania seem to be the most optimistic about the future, with more than 40% expecting positive development in the next 12 months. Moreover, in Kosovo\*, only 9% of the business leaders expect the situation to deteriorate. Bosnia and Herzegovina remains the only economy where pessimistic expectations outweigh positive, with the gap being widened in 2018. In Montenegro the number of executives with a positive outlook almost halved compared to last year - from 59% to 35%, but it is noteworthy that the decrease has not been turned into negative expectations, but rather to stable, unchanged. It seems that business leaders from the Republic of North Macedonia have also lost much of their optimism from 2017 as well, while Serbia remained at regional average.

Employment in the region has a positive outlook - almost 40% percent of managers and executives expect to employ workers in the coming year, while only 9% plan to let go a number of employees. The positive trend of increasing workforce projections over the years continued, starting from only 26% in 2014. However, unemployment in the region, according to official statistics, remains relatively high, as no economy in the

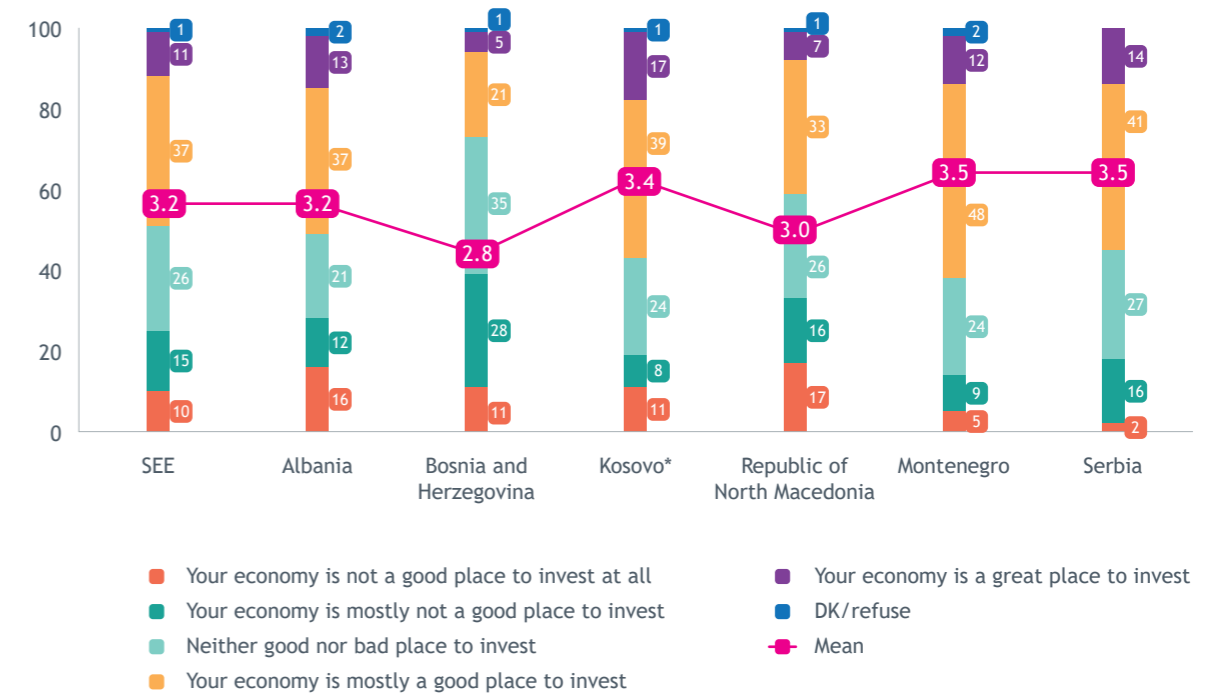
region is expected to hit a single-digit unemployment rate yet.

Businesses in Albania and Kosovo\* reportedly feel the most understaffed, with almost half businesses expecting to hire new employees, which does not come as a surprise, given their positive expectations for the future. It may come peculiar that more than 40% of businesses in the Republic of North Macedonia expects to hire within the next 12 months (in 2017 only 27% had such expectations), having in mind deterioration of expectations. Often pessimistic Bosnia and Herzegovina does not stand out this time - it hangs at about the average for the region - with a positive employment outlook (event though more than half of businesses expect deterioration of general economic situation). Montenegro and Serbia are the economies with lowest share of companies feeling understaffed (regional-lowest 30% expect new hiring). Nevertheless, they are neither expecting major lay-offs.

Expectations are somewhere in line with expected convergence trend in unemployment rates. Kosovo\* and the Republic of North Macedonia are economies with the highest unemployment rates, while Serbia and Montenegro are economies with the lowest share of unemployed among labour force. Therefore, Serbia and Montenegro are

<sup>7</sup> The figures might not add to 100% due to rounding.

Figure 7: Do you believe that your economy is a good place to invest?<sup>8</sup>  
(All respondents - N=1271, share of total)



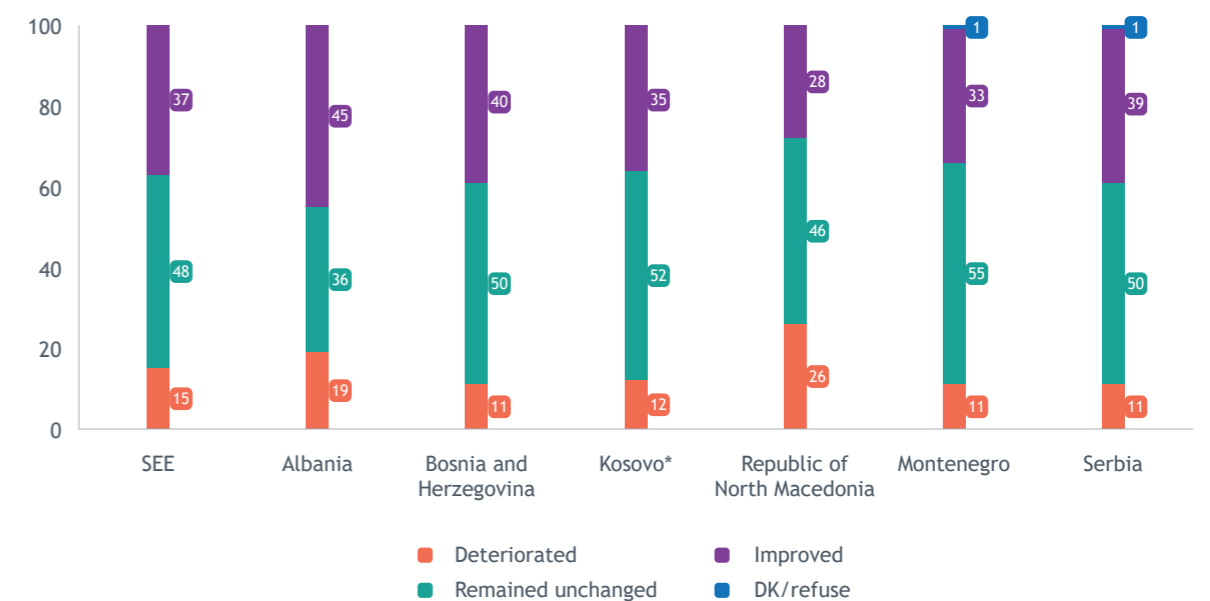
a bit closer to full employment scenario, compared to the Republic of North Macedonia and Kosovo\*, where there is larger room for employment.

It should be noted that companies operating in ICT and social and professional services sectors

are more open to new hiring, as well as medium and large, and foreign-owned companies.

Close to half of region's managers believe that their economies are a good place to invest, while the other half is almost equally split between those

Figure 8: How has your business situation developed over the past 12 months? Has it deteriorated, remained unchanged or improved?<sup>9</sup>  
(All respondents - N=1271, share of total)



<sup>8</sup> The figures might not add to 100% due to rounding.

<sup>9</sup> The figures might not add to 100% due to rounding.

who are indifferent and those who are pessimistic (score 3.2). It is interesting that the situation has not changed dramatically since 2014, as no obvious trend can be spotted.

Montenegrin business leaders are the most confident in their economy (score 3.5), with 60% of them with a positive opinion, with Serbia coming the close second (score 3.5). Even though the score has declined the most in the Republic of North Macedonia, Bosnia and Herzegovina is still the biggest pessimist of the region, with only a quarter executives and managers believing that their economy is a good place to invest (score 2.8).

Compared to last year, situation changed for the better only in Serbia, as 55% recognise it as a good place to invest, compared to 43% the year before, probably reflecting on more stable macroeconomic environment and somewhat better investment climate. Biggest turn to pessimism compared to last year can be spotted in the Republic of North Macedonia, as the score dropped from 3.4 to 3.0. Having in mind that the interviews with the business executives took place in December 2018, that is probably a testament to uncertainties (political and therefore macroeconomic) strongly affecting investments in short-term.

While overall opinion does not differ in terms of economic activity, size of company or status of ex-

port, it is important to note that it differs when it comes to ownership. As much as 32% of already established foreign companies consider that SEE economies are not such a good place to invest, contrary to 33% of those that consider SEE as a favourable investment location. Such dichotomy among opinion of foreign companies should be brought to policymakers' awareness in order to carefully analyse reasons behind such relatively negative attitude.

Almost half of surveyed executives of the region reported unchanged situation with their businesses, while 37% reported improvement. This outcome is similar to last year's, if only a bit worse. It should be mentioned that the pattern is also similar to business sentiment one - business executives are more satisfied with their own results than the general economic results. It could be said that they even consider that their businesses have been successfully developing in spite of relatively unfavourable general economic situation.

Though often sceptical about the general economy, Bosnian business leaders have evaluated performance of their businesses above regional average. Moreover, along with Serbia and Albania, they seem to be the most satisfied overall. On the other hand, situation in the Republic of North Macedonia's businesses is more on par with their overall opinion on their domestic economy.

Figure 9: How important is the quality of regional cooperation in SEE to your business? Please use the scale from 1 to 4, where 1 means - not important at all (All respondents - N=1271, share of total)

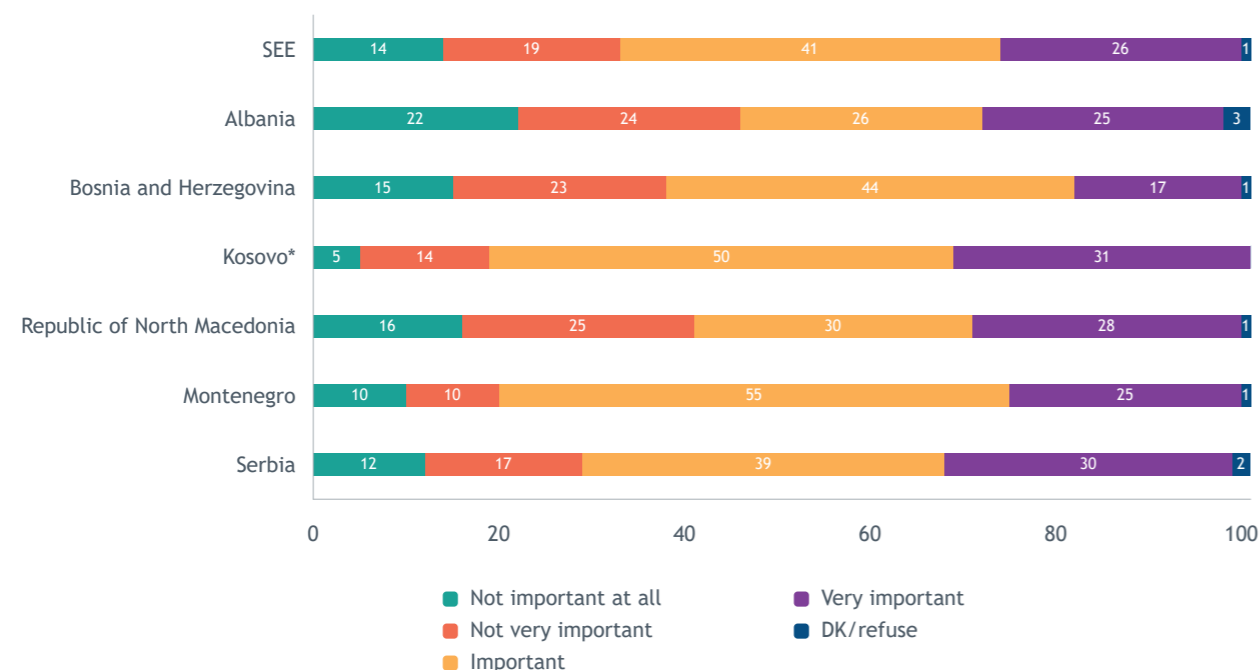
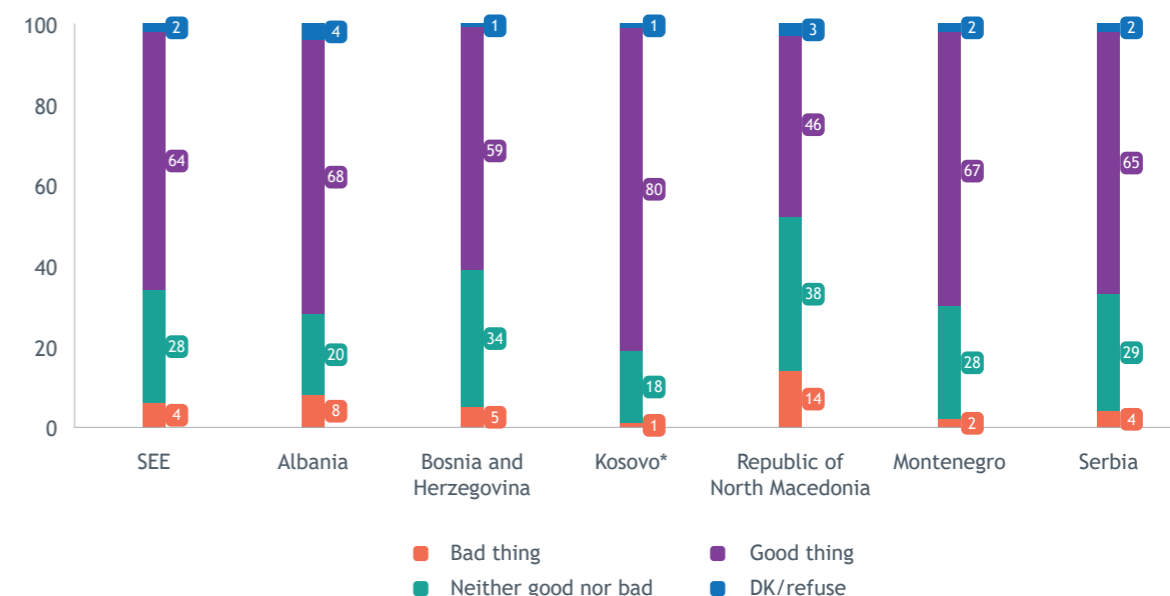


Figure 10: Do you think that your economy's EU membership would be a good thing, a bad thing, or neither good nor bad for your company?<sup>10</sup> (All respondents - N=1271, share of total)



Most obvious year-on-year changes are negative, occurring in Montenegro and Kosovo\*. In 2017, compared to the rest of the region, they were more satisfied with their businesses' performance by a margin of 20 points compared to rest of the region. Nevertheless, the trend did not go to negative direction, as the shift was made towards unchanged business situation. However, in the Republic of North Macedonia, negative situation has been reported by 10 points more businesses compared to 2017, making it the only economy markedly below the regional average - more than a quarter reported deterioration.

Quality of regional cooperation is important for SEE businesses, as stated by two thirds of regional business executives. High level of awareness on importance of quality of regional cooperation for businesses is somewhat expected, as total trade in goods among SEE economies, through Central European Free Trade Agreement (CEFTA), stands above 4.5 billion EUR, comprising more than 15% of total SEE economies export of goods.

Importance of regional cooperation is directly correlated to importance of CEFTA's market for economy's export. Same as last year, Kosovo\* remains atop, with more than 80% of executives in favour of regional cooperation, while Montenegro comes the close second (80%). It is not surprising that these two economies are the most affiliated

to regional cooperation, as export to CEFTA market contributes with almost 40% to Montenegro's total export and with 50% to Kosovo's. Serbia comes third, with almost 70% of executives considering regional cooperation as important, as share of CEFTA market in Serbia's export is more than 15%. As contribution of CEFTA market to export of Albania, Bosnia and Herzegovina, and the Republic of North Macedonia is less than 15%, businesses from these economies were more conservative towards regional cooperation importance.

As expected, regional cooperation is more important for exporters, with 75% of them recognising benefits of CEFTA agreement and regional trade. It is interesting that opinion of foreign firms is dichotomous - with half of firms recognising importance of regional market, and the other half that is indifferent. Such contrary views are probably connected to strategic orientation of foreign companies - some of them, such as food and drinks industry, are oriented towards satisfying demand of regional market, while others, such as automotive or machine industry, are oriented exclusively towards the EU market.

There is consensus among business executives that EU membership is generally a good thing for their economies. Almost two thirds of the region's companies find EU membership to be a good thing, while only 6% feel negative about it. Moreover,

<sup>10</sup> The figures might not add to 100% due to rounding.



compared to the last survey instalment, the number of EU supporters continues to grow strongly (from 54% in 2017 to 64% in 2018).

Same as with regional cooperation, Kosovo\* is reportedly the most pro-European oriented economy, with as much as 80% of businesses finding EU accession to be a good thing. Except for the least supportive Republic of North Macedonia (only 46%), and to some extent Bosnia and Herzegovina (59%), remaining SEE companies have a similar positive attitude towards EU membership. However, it should be mentioned that the Republic of North Macedonia's businesses' opinion on EU membership is probably under the influence of recent political changes - as last year's level of support was much higher, and that could be a short-term response to an internal shock.

Importance of EU membership is widely recognised, regardless of economic activity, company size, or ownership status. The only exception could be found in the agricultural sector - where almost 20% of firms consider EU membership being a bad thing for their economy. Possible reason for such an opinion lies in the companies' perception that they will not be able to meet rigorous food safety standards, and to compete with the EU companies. This assumption especially refers to micro and small companies.

Although EU accession is regarded favourable by business community, general public is not far behind either. Moreover, positive attitude towards EU has significantly grown for them as well, finally surpassing the 50% mark. In 2018, 56% of SEE citizens considered EU membership as a good thing (49% in 2017), while the share of those who oppose it has continued to shrink (from 15% in 2017 to 12% in 2018). Most significant discrepancy between business and general public sentiment towards EU is seemingly present in Serbia, with the share of EU-favourable businesses being twice as big as the likewise minded share of general public.

## BUSINESS TRENDS IN SEE

It seems that 2018 has been a good business year for SEE companies, with even better expectations for 2019. Business success is reflected in positive trends in demand for their products, as 87% of businesses have seen the demand either increase or remain fairly stable. Moreover, half of them expect even further improvement over the course of the year ahead.

Driven by increasing demand and positive expectations, a third of SEE companies decided to employ additional workforce, while reporting a decrease has been only sporadic. Also, expanding their capacities was necessary to accommodate new workers and answer to greater demand is reflected in higher share of their investments going to property, plant and equipment.

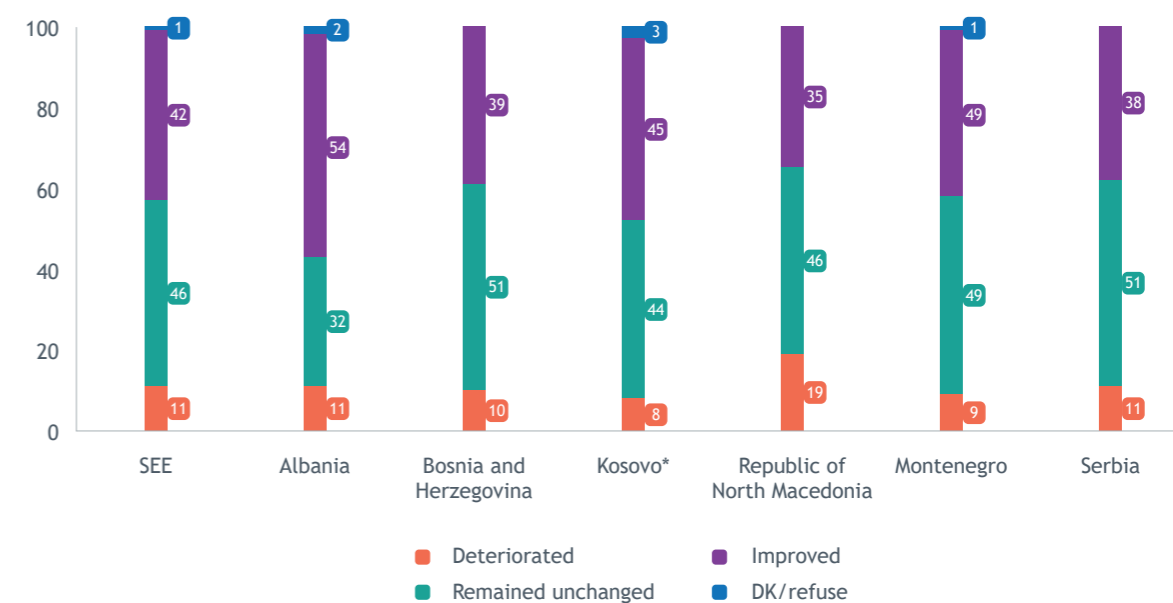
Over half of SEE companies reported increases in their costs. This is possibly a result of increasing labour costs, rather than energy prices, which remained relatively stable. Nevertheless, it seems that the shift in input and output prices was not strong, as consumer price inflation in SEE stood at modest 1.6% in 2018.

Even though businesses from all SEE economies have the reason to be satisfied with their business years, businesses from Albania are yet again ranked first in the region. Companies from the Republic of North Macedonia, although somewhat less satisfied with their business results, do not deviate much from their SEE peers.

Demand for SEE businesses' products has either grown or remained relatively constant. Together, these two categories account for 88% of the businesses' responses and are split almost evenly - while only 11% stated that demand has declined.

Prevailing positive trend is present in all SEE economies. That is particularly true for businesses from Albania and Kosovo\*, where 54% and 45% of companies, respectively, report increased demand for their products. At the other end of the spectrum are Bosnia and Herzegovina and the least satisfied Republic of North Macedonia. Almost 20% of the Republic of North Macedonia businesses report deterioration in demand, while only 35% report improvement. Montenegro and Serbia stay in line with the regional average.

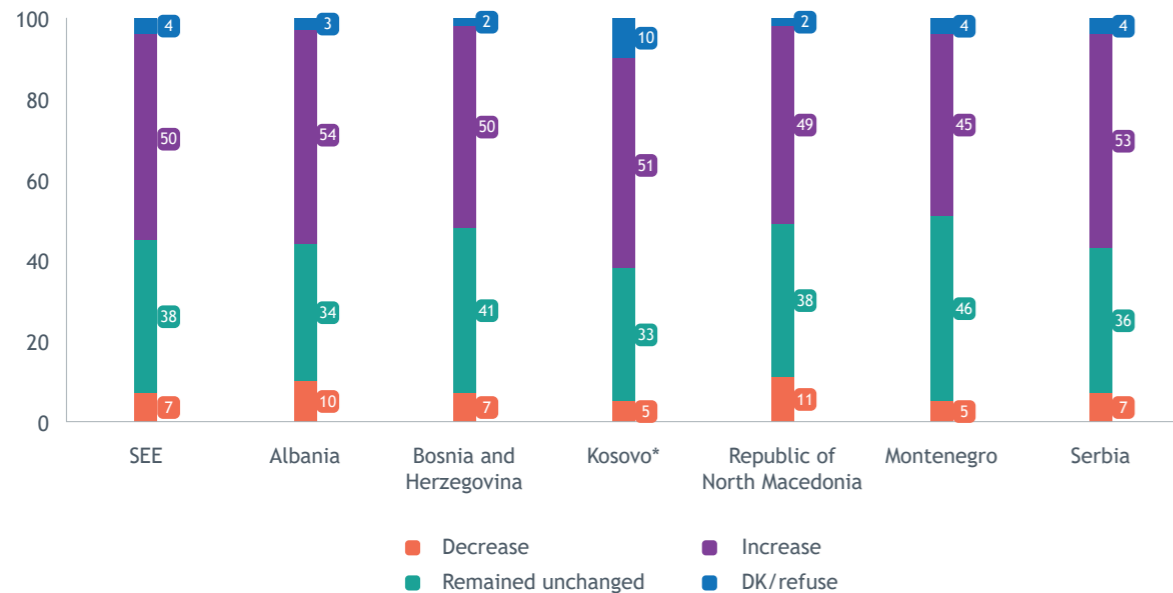
Figure 11: How has the demand for your company's products/services changed over the past 12 months? Has it deteriorated, remained unchanged or improved?<sup>11</sup> (All respondents - N=1271, share of total)



<sup>11</sup> The figures might not add to 100% due to rounding.



Figure 12: 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?<sup>12</sup>  
(All respondents - N=1271, share of total)

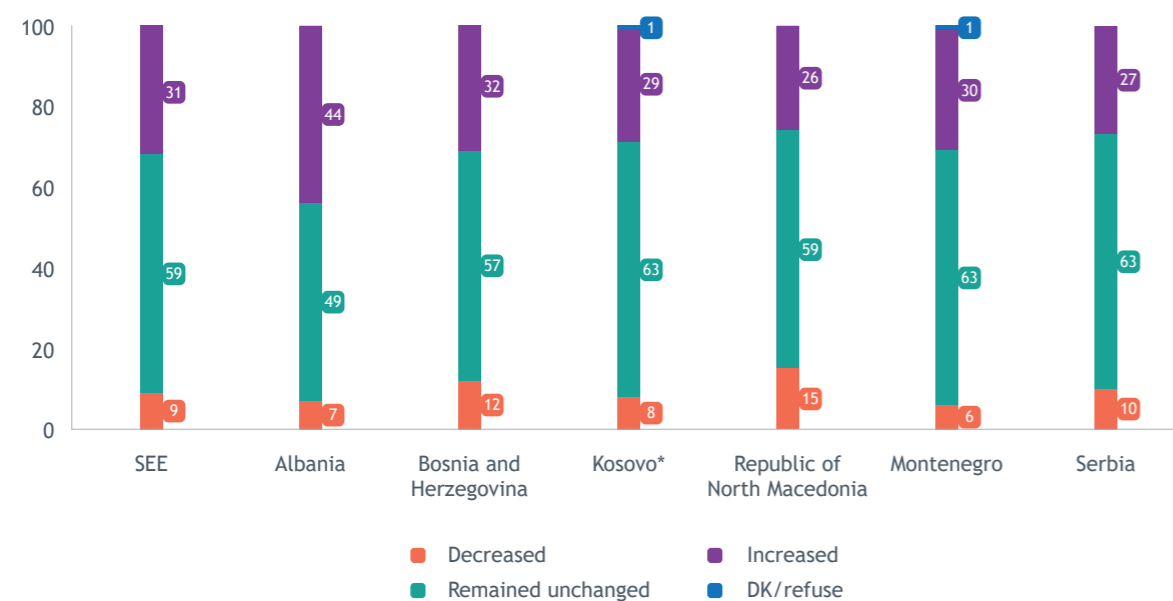


Medium-sized companies, as well as exporters, were the most satisfied groups of companies when it comes to demand for their products. On the other hand, small, particularly micro companies, and agribusiness firms were relatively less satisfied with consumers' interest in their products. These results indicate that companies with capacities and abilities to operate beyond domestic market have more opportunities to place their

products, while companies that are exclusively focused on national market depend on its relatively small size and its relatively anaemic purchasing power.

Riding on a good wave of last year's performance, half of business representatives expect demand for their products to increase even further. Overall, no SEE economy stands markedly

Figure 13: How has your company's total employment changed over the past 12 months?<sup>13</sup>  
(All respondents - N=1271, share of total)



<sup>12</sup> The figures might not add to 100% due to rounding.

<sup>13</sup> The figures might not add to 100% due to rounding.

out, as they are all aligned close to regional average. Yet again, the biggest dissonance between sentiment about its respective economy and its businesses can be spotted in Bosnia and Herzegovina. By far the most pessimistic about their economy, with 28% of businesses forecasting deterioration of general economic situation, Bosnian business leaders have expectations about demand for their product on par with their SEE peers. It could be that their positive expectations are turned towards foreign markets, which, however, is not in line with the official statistics on export growth trends.

Foreign-owned companies, being exporters as well, stand out much above SEE average, with 70% of their executives expecting increasing demand for their products, probably indicating better integration in global value chains.

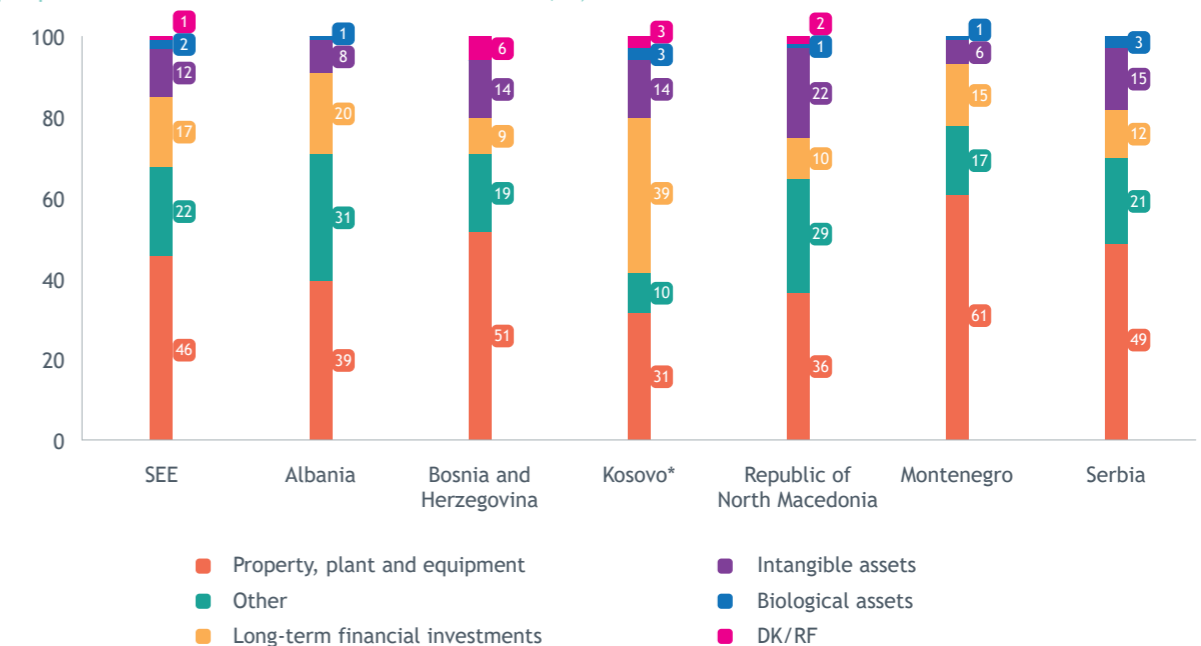
Almost identical to 2017, nearly 60% of the surveyed enterprises reported no change in the number of employees over the last year, while slightly less than a third reported an increase. Interesting enough, for the first time since the Balkan Barometer was established, the number of enterprises reporting a decline hit the single-digit - 9%. Not surprisingly, changes in employment, although a bit less volatile, follow the same pattern as changes in demand. Also, on average, reported changes in employment correspond to employment expectations from 2017.

Economy-wise, Albania is significantly ahead of the pack, with 44% of enterprises increasing the number of employees. The Republic of North Macedonia lies at the other end of the spectrum with only a quarter of executives reporting increases in employment, while also the regional highest 15% reported a decrease. Moreover, the cases of Albania and the Republic of North Macedonia are in line with reported changes in demand for their products. Remaining economies of the region are close to average, while only Serbia slightly lags behind. In Albania, much higher share of businesses reported new employment in 2018 compared to 2017 (44% compared to 20%). The most significant negative change took place in Kosovo\*, as the share reporting increased number of employees dropped to 29% from 41% in 2017.

As expected, exporters pull the SEE score upwards, as 36% of them report increase in employment (while only 25% of non-exporters do so). Also, over half of medium and large SEE companies reported increased employment.

Reported changes in employment from the survey are consistent with the decline in statistical unemployment rates. Together with positive expectations about the demand for the next period, those changes could signal prosperity and even better outlook for the next year.

Figure 14: Could you please tell me what percentage of your company's total investment in 2018 went to each of the following?<sup>14</sup>  
(Respondents who did not mark DK/refuse - N=1253, %)



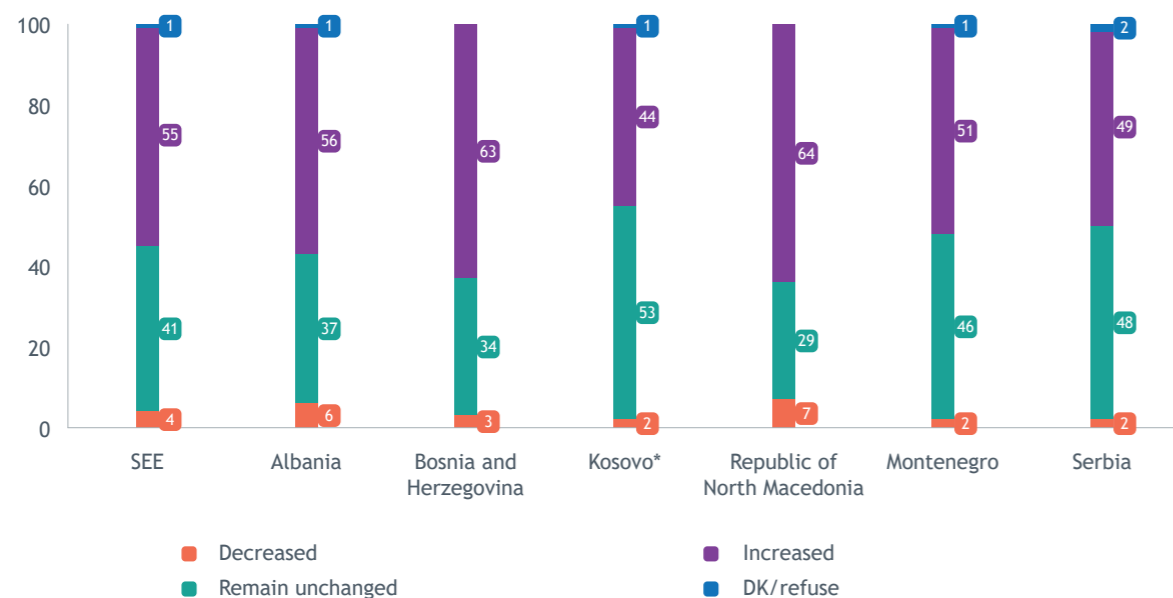
<sup>14</sup> The figures might not add to 100% due to rounding.

Companies from the region continue to invest dominantly in fixed assets - property, plant and equipment. Moreover, there is an upward trend - from 42% in 2017 to 46% in 2018. Long-term financial assets and intangible assets have both seen only a slight improvement, and likewise the last year, they come second and third, with 22% and 17% respectively. Investments in biological assets have continued their steady decline from 2016 and have reached negligible 2%.

Montenegro is a leader in investments going to fixed assets (61%). A bit surprisingly is that Montenegro does not stand out from the average, neither in terms of reported nor expected demand for their products, and overall performance of their economy likewise. However, the result is in line with Montenegrin executives' belief that their economy is a favourable place to invest (60% believe so). Last year's leader Albania has reduced the share of investments in fixed assets by 24 points (from 63% in 2017 to 39% in 2018), which is particularly difficult to explain, since category of investments that has grown instead is labelled as "other".

Kosovo\*, more than any other economy, relies on investing in financial assets (39% of the investments) and still has the lowest share invested in fixed assets (31%). The Republic of North Macedonia business leaders invested 22% in intangible assets, the highest proportion regionally.

Figure 15: How have your labour and other costs (e.g. energy, etc.) changed over the past 12 months?<sup>15</sup> (All respondents - N=1271, share of total)



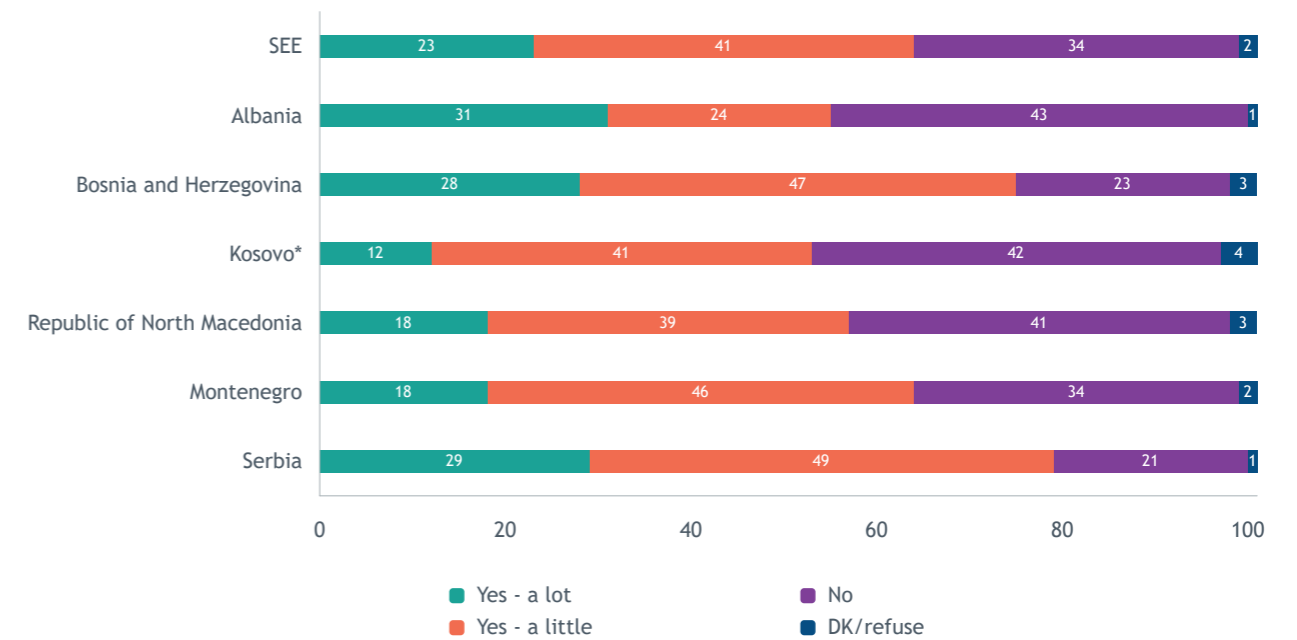
15 The figures might not add to 100% due to rounding.

Majority of businesses reported a continuous increase in their costs. There is even a notable 5 points increase of businesses that report increase in costs compared to previous year. As number of those who reported the decrease in costs remained the same (4%), the number of companies reporting decrease shrunk by aforementioned 5 points.

It seems that increase in costs has the widest influence in the Republic of North Macedonia and Bosnia and Herzegovina, as almost two thirds of their business leaders reported increase. On the other hand, increase of business-related costs had the narrowest impact in Kosovo\*, where the regional lowest 44% of corporate executives reported an increase. Serbia, Montenegro and Albania remain close to the regional average. No economy exhibited a really significant number of businesses reporting a decrease but, a bit contradictory, the Republic of North Macedonia with 7%, while the others do not deviate much from the average.

Compared to last year, the Republic of North Macedonia has been the economy fuelling the overall costs increase reported in SEE, as the number of businesses reporting increase doubled. In Bosnia and Herzegovina the share of business representatives that have reported increase in costs also increased moderately (by 10points).

Figure 16: Has your business taken any steps to reduce the environmental impact it makes, such as reducing energy consumption, waste reduction or switching to recycled/sustainable materials etc.?<sup>16</sup> (All respondents - N=1271, share of total)



Increases in wages led to the increase in business costs for the most part, but, it has not reflected on consumer prices yet. Seemingly the reported increases in business costs in the Republic of North Macedonia and Bosnia and Herzegovina have not translated to higher consumer price inflation. Moreover, inflation in these two economies has been among the lowest in the region - 1.6% and 1.1% respectively. In Montenegro, even though inflation was highest in the region (3.1% compared to SEE's 1.6%), the share of businesses reporting increase in costs remains somewhat below the regional average. In line with results of the survey is Kosovo\* with inflation of just 0.7% and well below average number of companies reporting cost hikes.

Companies in the SEE are making only gradual improvement towards reducing environmental footprint, as 75% of firms have taken either little steps or nothing at all. While the share of those who reported to have done a little contracted by 9 points in 2018, the share of those reporting to have done a lot increased, through only for a bit, to 23% compared to 21% in 2017. These results are also in line with very unfavourable levels of energy efficiency, which indicates that regional GDP could be produced with almost two times less energy spent.

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

It seems that the companies from Serbia and Bosnia and Herzegovina have made the most effort to reduce environmental impact, as the great majority of them reported to have made some steps. At the other end of the spectrum, business representatives from Albania, Kosovo\* and the Republic of North Macedonia reported to have made lesser effort, relative to the regional average. According to the survey, Montenegrin businesses have made fewer steps to reduce environmental footprint in 2018 compared to 2017, as the share of those reporting some effort decreased from 85% to 64%. On the other hand, businesses from Serbia, and especially Albania, have made some progress.

Expectedly, the amount of effort increases proportionately to the company size, as almost half of medium and large companies' executives reported to have made considerable effort, as part of corporate social and environmental responsibility. Also, foreign-owned companies, probably accustomed to stricter rules, tend to do more to reduce their ecological footprints. Interestingly, core business activity does not seem to play an important role in this.

Contrary to global trends of reducing ecological footprint, it seems that SEE businesses are not eager to join in yet. One of the reasons could lie

in very low prices of energy, compared to the rest of the EU. On average, prices in the region are 2 to 3 times lower than in Denmark, Germany, Spain and Belgium. Moreover, solution can be sought in introducing economic incentive of some form. For example, EU relies on state aid and stricter regulation to tackle this problem, while the USA take somewhat different approach with cap-and-trade mechanisms that limit pollution emissions. Abiding by the global trends, SEE governments do recognise the importance of ecological concerns, yet the implementation may be lagging a bit.

## BUSINESS ENVIRONMENT IN SEE

**Contrary to considerable improvement in almost all macroeconomic indicators in 2018, business environment in SEE has not seen much of an improvement.** Positive changes are few and sporadic, and usually refer to digitalisation and innovation efforts, while negative changes are inherited and much easier to notice.

force pools can be resolved, but nonetheless it can be indirectly tackled through tax reforms and reversing adverse emigration trends.

**Frequently cited problems, such as functioning of tax administration, labour market, macroeconomic framework and rule of law, are still perceived as the most binding constraints.** On top of that, business leaders do not perceive governments doing much to tackle corruption or make progress in transparency and predictability of conduct compared to previous years. Still, it is noteworthy that some improvements have been made in business licencing and registration, where businesses are especially satisfied with digitalisation processes. Further downscaling of bureaucracy procedures and removal of mobile phone roaming charges would be beneficial for majority of SEE businesses.

**A bit surprisingly, despite higher investments in infrastructure, overall satisfaction in both transportation and energy infrastructure suffered a substantial decrease.** It is possible that the awaited positive effect would appear with a lag.

**Montenegro and Kosovo\* exhibited highest increases in scores across the board, notably improving their position.** Serbia stands good relative to the region, but it has not seen much of improvement in 2018. Perceptions in Albania usually stand somewhere in the middle, falling behind considerably only in infrastructure. At the other end, the Republic of North Macedonia suffered a decrease in score for almost every factor, usually taking the last spot or sharing it with the often pessimistic Bosnia and Herzegovina. This might be considered as a temporary deviation linked with the timing of the interviews (December 2018).

**It is obvious that only consistent and transparent governance over a longer period of time can bring the needed trust.** More decisive structural reforms and strong corruption reduction is the path that governments of the region should take. It is yet unclear how the problem of depleting work-

Figure 17: Can you tell me how problematic are these different factors for the operation and growth of your business? Can you please rate each?  
 (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=1271



Table 1: Can you tell me how problematic are these different factors for the operation and growth of your business? Can you please rate each?  
 (All respondents - N=1271, 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)

	SEE	Albania	Bosnia and Herzegovina	Kosovo*	Republic of North Macedonia	Montenegro	Serbia
Macroeconomic instability	2.5	2.1	2.7	2.5	2.4	3.1	2.3
Anti-competitive practices of other competitors	2.6	2.5	2.8	2.8	1.9	2.8	2.8
Tax administration and tax rates	2.6	2.4	2.5	2.9	2.2	3.0	2.6
Corruption	2.7	2.6	2.5	2.4	2.4	3.2	2.9
Availability of labour	2.7	2.8	2.5	3.0	2.2	3.1	2.5
Risk of social instability, disturbance to law and order and uncertainty about regulatory policies	2.8	3.1	2.6	2.7	2.4	3.1	3.3
Telecommunications, transportation and electricity	2.8	2.6	2.9	2.8	2.9	3.1	2.8
Contract violations by customers and suppliers	2.9	2.9	2.8	3.2	2.3	3.0	3.0
Access to financing and cost of financing	2.9	2.9	2.9	2.9	2.7	3.2	3.0
Skills and education of available workers	2.9	2.9	2.5	3.2	2.7	3.1	3.2
Customs and trade regulations	3.0	2.8	3.0	2.9	3.1	3.1	2.9
Organised crime/mafia	3.0	3.1	3.1	2.7	2.7	3.6	2.7
Business licensing and permits	3.0	3.2	2.8	3.2	2.8	3.2	2.9
Labour regulations	3.1	3.5	2.8	3.5	2.7	3.2	2.8
Street crime, theft and violent crime	3.1	3.0	3.3	2.8	2.8	3.4	3.1
Access to land and title or leasing of land	3.2	3.2	3.3	3.1	3.2	3.2	3.2
Migration crisis	3.2	2.6	3.5	2.6	3.5	3.8	3.5
Social infrastructure which should enable women to accept and develop leading business positions	3.3	3.4	3.1	3.3	3.1	3.5	3.2
Risk of terrorism and violent conflicts	3.4	3.5	3.4	3.4	3.2	3.7	3.0
Average	2.9	2.9	2.9	2.9	2.7	3.2	2.9

Legend: white-coloured cells are close to SEE average (for every factor separately) while green cells indicate values above average and orange indicate values below. Intensity of the colour depends on the intensity of deviation from the average.



Stability and predictability of macroeconomic framework, rule of law and labour market are the key broad areas to be addressed in order to create better business environment. The single most problematic factor for SEE businesses in 2018 has been the *macroeconomic instability* (2.5), last year's runner-up. Last year's most problematic factor, *anti-competitive practices of other competitors, now stands second* (2.6), with a slight improvement. *Tax administration and tax rates* keep the third spot. Newly added question, *availability of labour*, represents significant problem for businesses' growth, as it stands fifth overall (2.7) after corruption, which is ranked fourth. *Migration crisis, gender equality infrastructure* and *risk of terrorism and violent conflicts* remain the least limiting factors for business growth.

Compared to last year, there is a barely noticeable uptake in obstacles for business growth mostly

coming from high *corruption* perception and *migration crisis*, but also from perceived *macroeconomic instability* and *tax administration*. Highest reported improvements have been made in *contract violations by customers and suppliers* (fourth most problematic factor in 2017, improved by four spots in 2018) and *labour regulations* (also improved by four spots).

Although the overall picture of the region has not changed much, there is an obvious change in the outcome for some economies. Montenegro that was reportedly overwhelmed by problems (average score 2.8 in 2017) now stands the best with overall score of 3.2. On the other hand, last year's best standing Republic of North Macedonia (average score 3.1) is now the worst standing with a score of 2.7. Those are the economies that have recorded the widest discrepancies from 2017 to 2018, with the changes pretty much offsetting

each other in the overall score. Other SEE economies have not seen much of a change between the two surveys and are positioned close to the regional average.

It seems that businesses from Albania and Serbia are most concerned about *macroeconomic instability* with 2.1 and 2.3 respectively. On the other hand, with a score of 3.1 Montenegro is way above average. Anti-competitive practices of other competitors seem to bother businesses from the Republic of North Macedonia the most (1.9), while other SEE economies are close around 2.8, with considerable improvement over 2017 (especially Serbia with +0.5). *Tax administration and tax rates* represent a big obstacle for most dissatisfied in the Republic of North Macedonia (2.2), and also for Albania and Bosnia and Herzegovina (2.4 and 2.5 respectively). The availability of labour, a new question added in this iteration of the survey, presents another sizeable obstacle for most SEE economies, especially the Republic of North Macedonia (2.2), Bosnia and Herzegovina (2.5) and Serbia (2.5). Additionally, Bosnian executives complain about skills and education of available workers (2.5) more than SEE on average (2.9) and much more than executives in Serbia and Kosovo\* (3.2). Migration crisis is not cited as a problematic factor in business environment, except in Albania and Kosovo\* (score 2.6).

lic services seemingly shows some positive results, as it is the best rated factor (3.6) in this group.

However, SEE economies have not been homogeneous in their answers, with two extremes standing out. On the one hand, Montenegrin business leaders seem to be the most satisfied with their government, with an average rate of 3.4 across all categories. In all categories but *digitalisation of public services* Montenegro holds the highest score. On the other hand, region's leading critic and pessimist, Bosnia and Herzegovina (2.6 average), along with the Republic of North Macedonia (2.7 average), reflect a completely opposite situation. Bosnia and Herzegovina is ranked worst across almost all categories, while the Republic of North Macedonia suffered strong and almost uniform decrease of 0.5 points across all categories for 2018. The score of last year's best ranked Serbia (3.2 average) did not change much, but it lost its first place due to the uptake in confidence in government in Montenegro.

It is interesting that scores of individual factors in an economy do not deviate much from economy's average. This can be demonstrated by relatively low coefficient of variation - which is around 5% for all economies (with score of *digitalisation of public services* excluded as an obvious positive outlier). Therefore, all the lowest scores for factors are largely coming from Bosnia and Herzegovina and are equal to 2.6, except *governance, public integrity, and corruption* with a score of 2.3. On the same note, best scores, coming from Montenegro, are grouped around 3.4.

Foreign companies were particularly unsatisfied with predictability and stability of policies and rules, while they were well satisfied with digitalisation reform occurring in SEE economies.

Exporters still perceive customs and trade regulations as a serious obstacle. Average score given by exporters is only 2.6, with 43% of exporters considering customs administration and trade procedures as moderate or major barrier. Medium and large companies are especially worried when it comes to availability and skill level of labour, while IT companies (63% of them) are not satisfied with tax administration and tax rates.

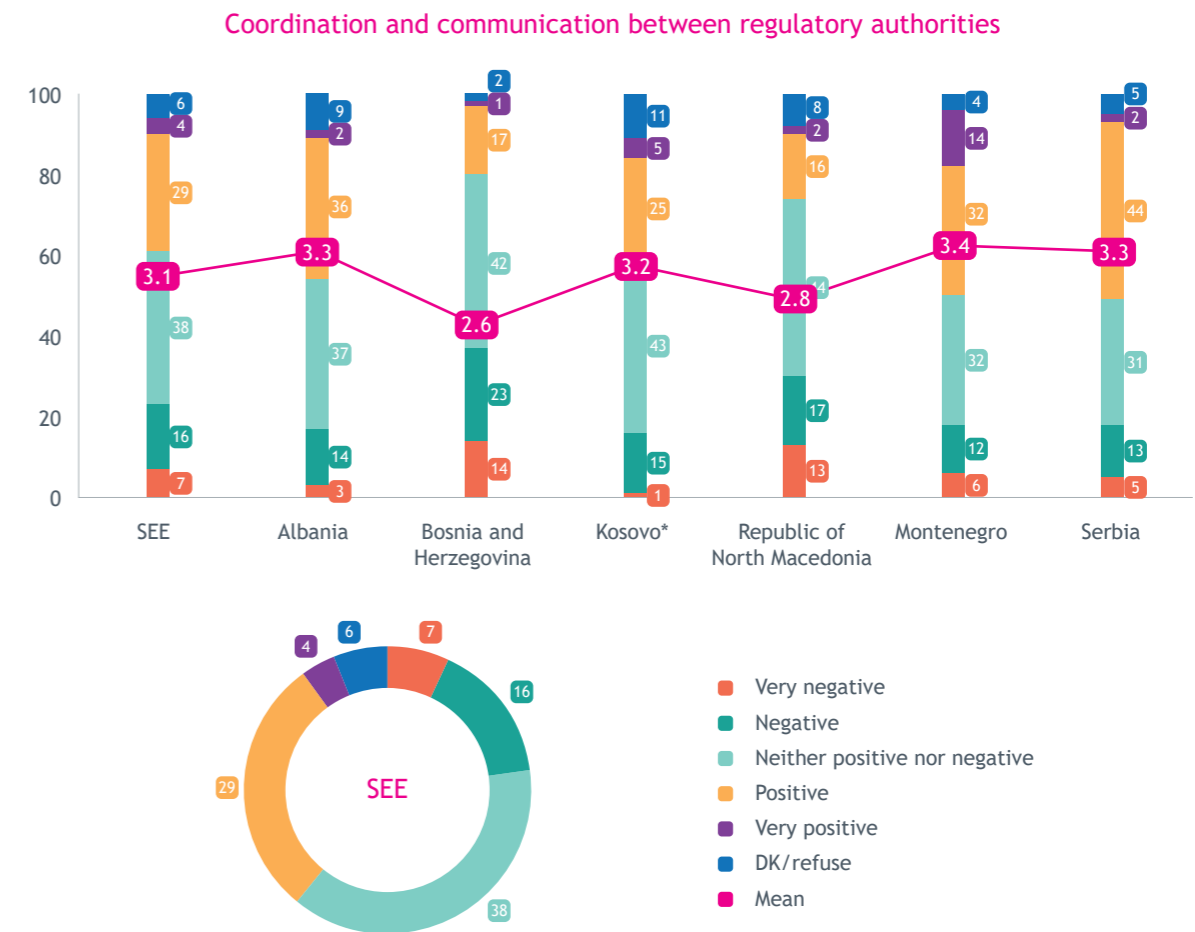
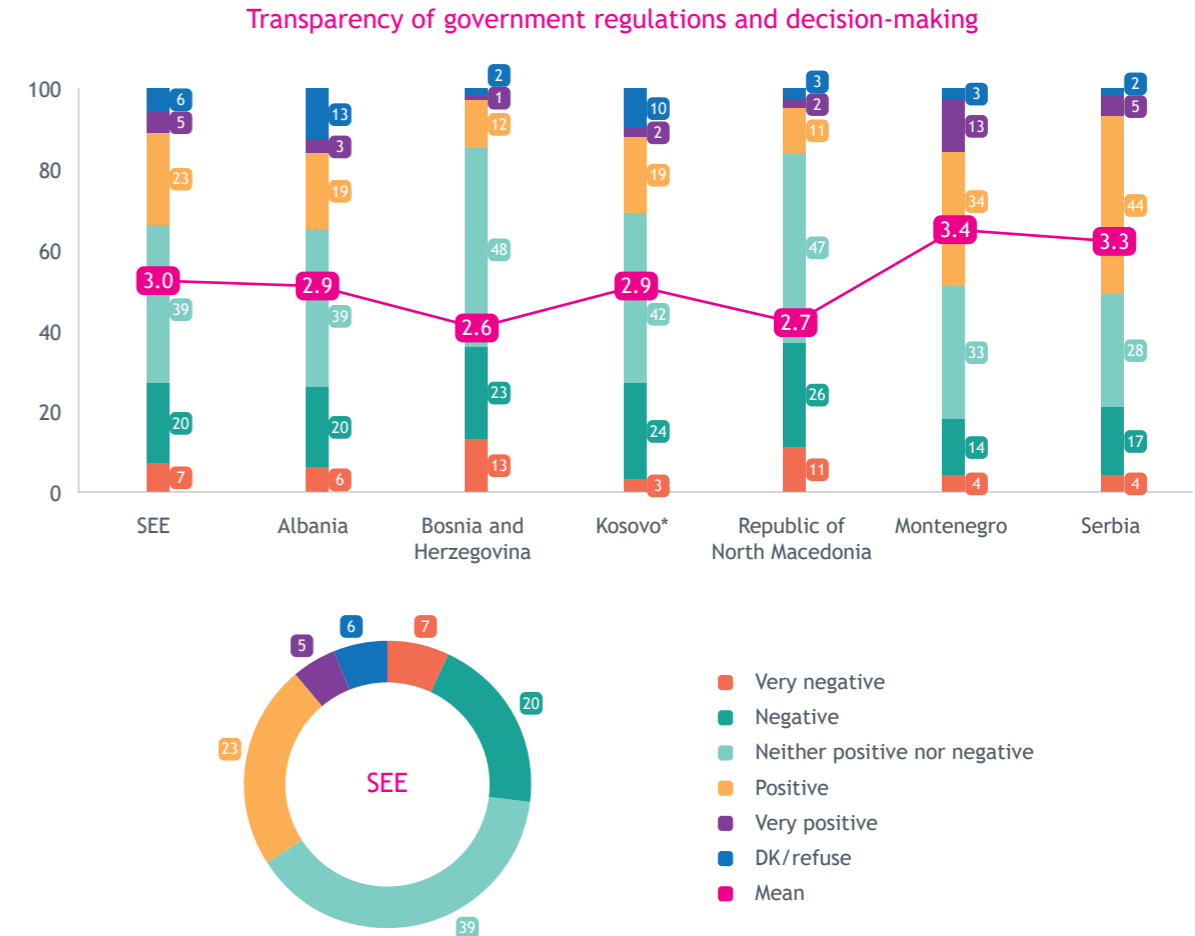
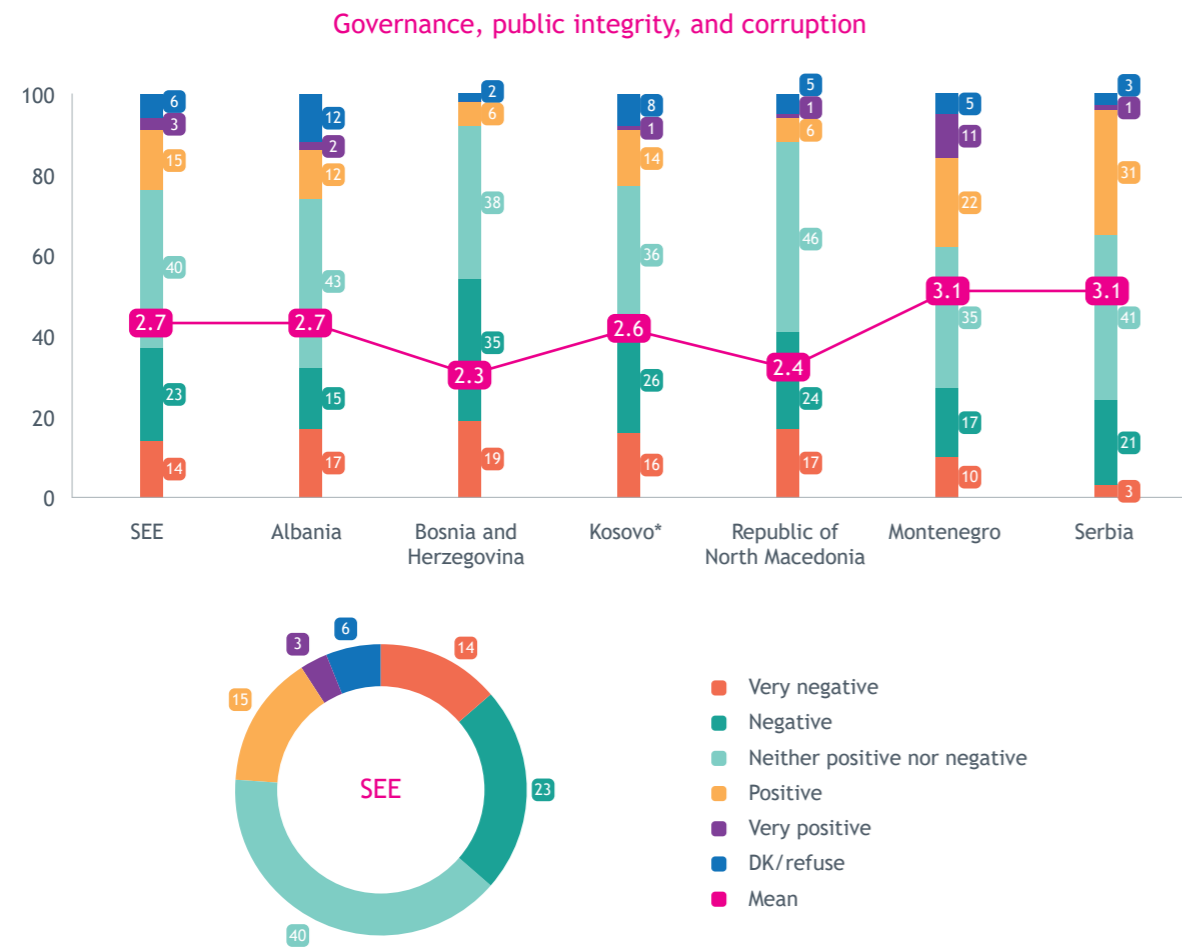
According to survey results, it seems that the governments have a long way to go in contributing to stable business-enabling environment. *Governance, public integrity, and corruption* (2.7) remain the most negatively perceived factor. It has even suffered a slight decline compared to 2017 (2.8), mostly due to less confidence in the Republic of North Macedonia. Policymakers are neither perceived as transparent (3.0) nor coordinated enough (3.1), which, consequentially, leads to low stability and predictability of laws. Moreover, *predictability in the conduct of public agencies*, also led by weakened situation in the Republic of North Macedonia, suffered a minor decline (from 3.1 to 3.0) as well. Governments' effort on digitalisation of pub-

Figure 18: 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?<sup>17</sup> (All respondents - N=1271, scores are on a scale of 1 to 5 where 1 means very negative and 5 very positive, share of total, %)



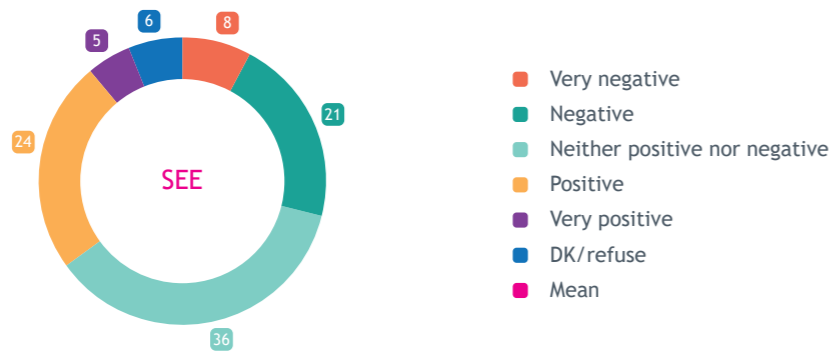
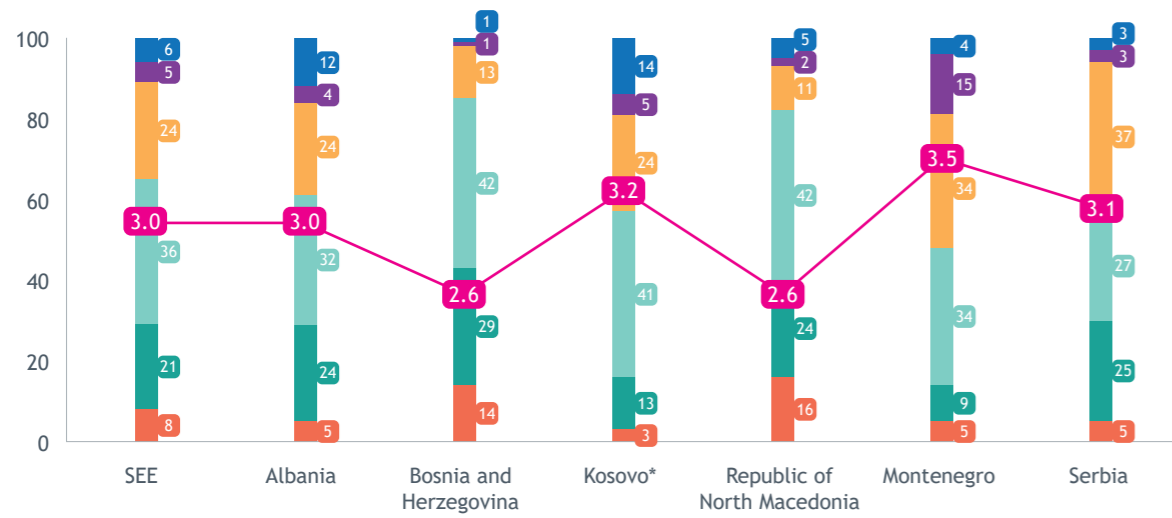
<sup>17</sup> The figures might not add to 100% due to rounding.

Figure 19: 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?<sup>18</sup>  
 (All respondents - N=1271, scores are on a scale of 1 to 5 where 1 means very negative and 5 very positive, share of total, %, mean)

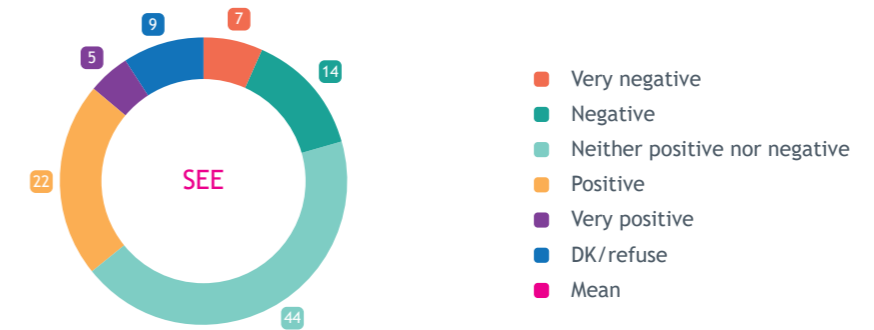
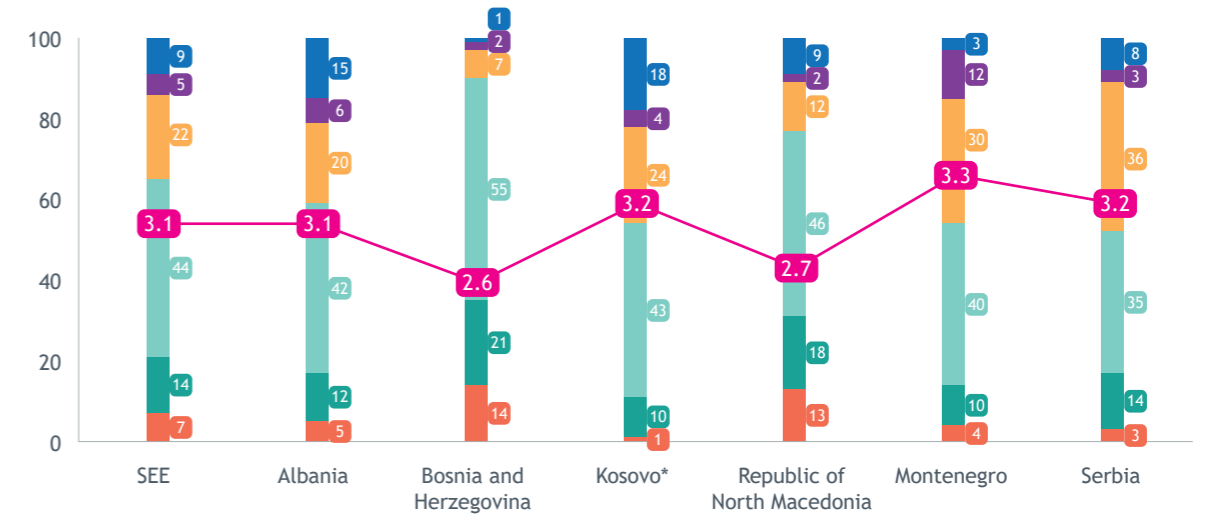


18 The figures might not add to 100% due to rounding.

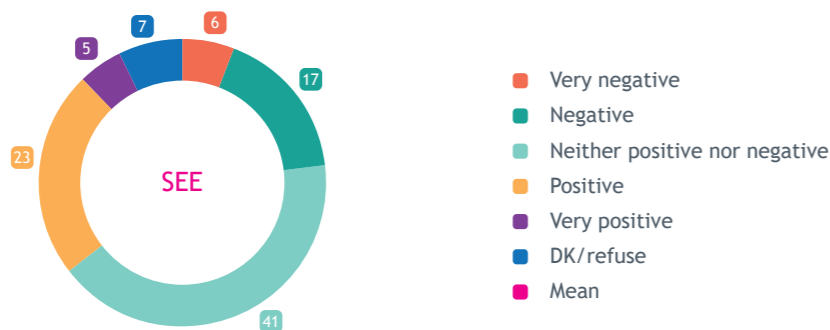
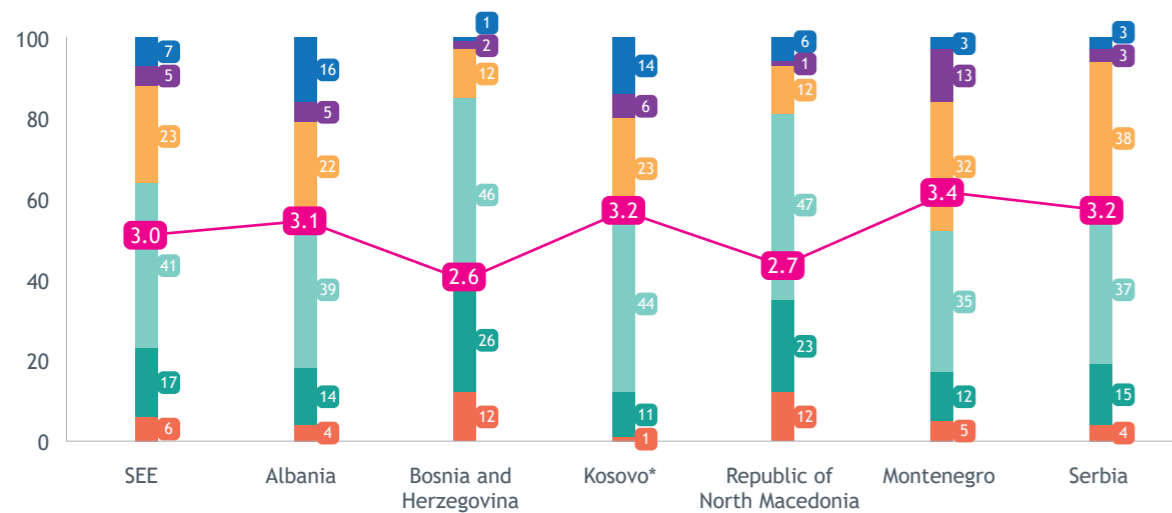
Predictability and stability of policies and rules



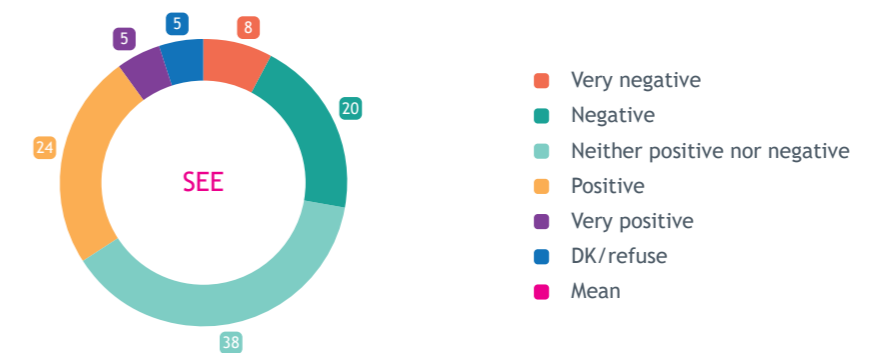
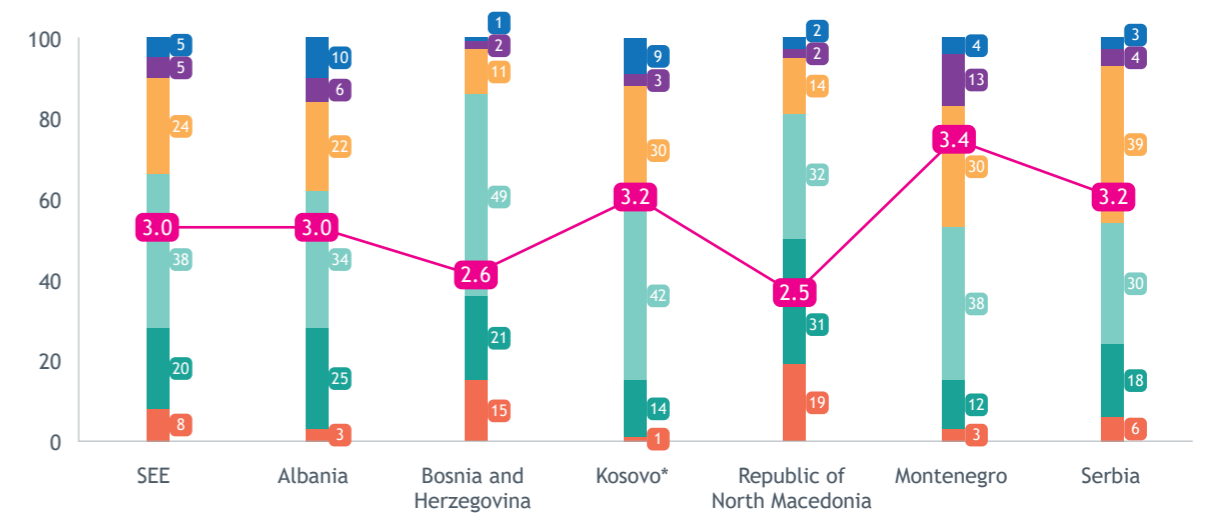
Existence of effective processes for consultation on proposed laws and regulations.



Predictability in the conduct of public agencies (such as regulatory authorities)

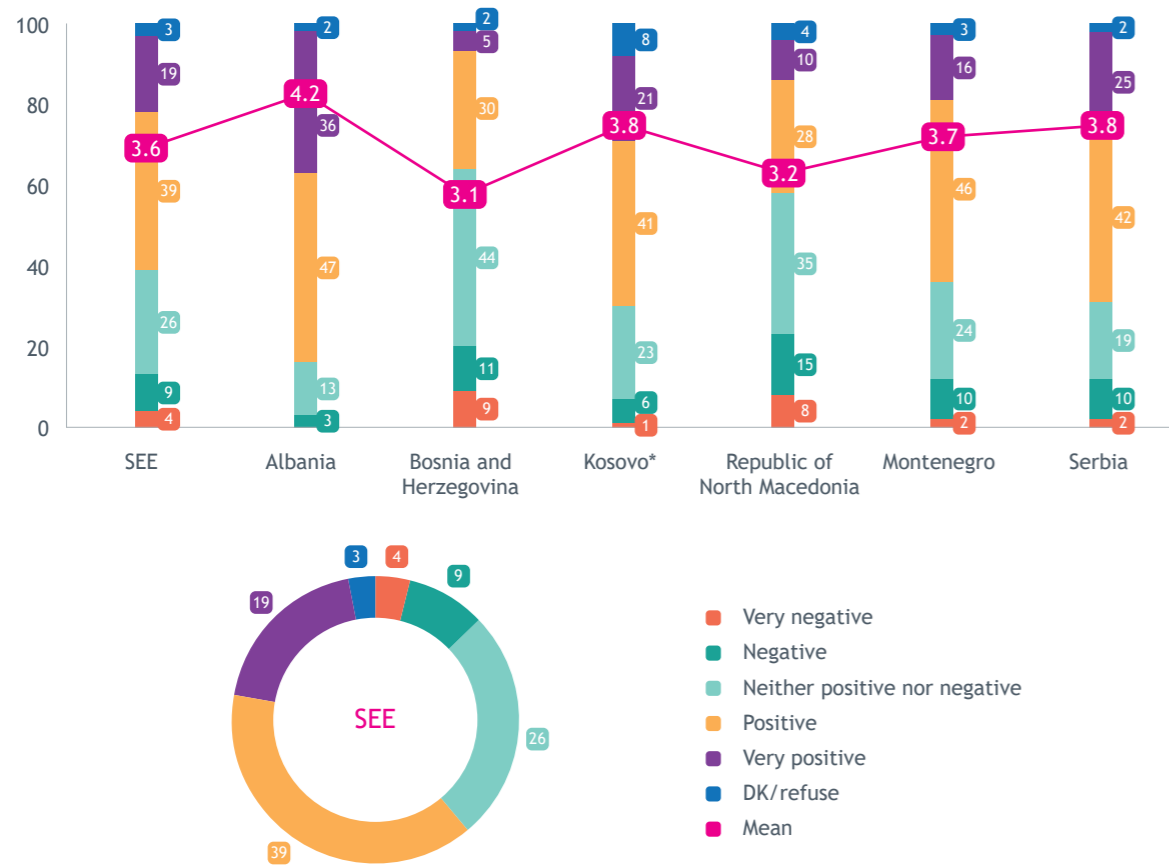


Stability and predictability of laws (changes are not frequent)





Digitalization of public services



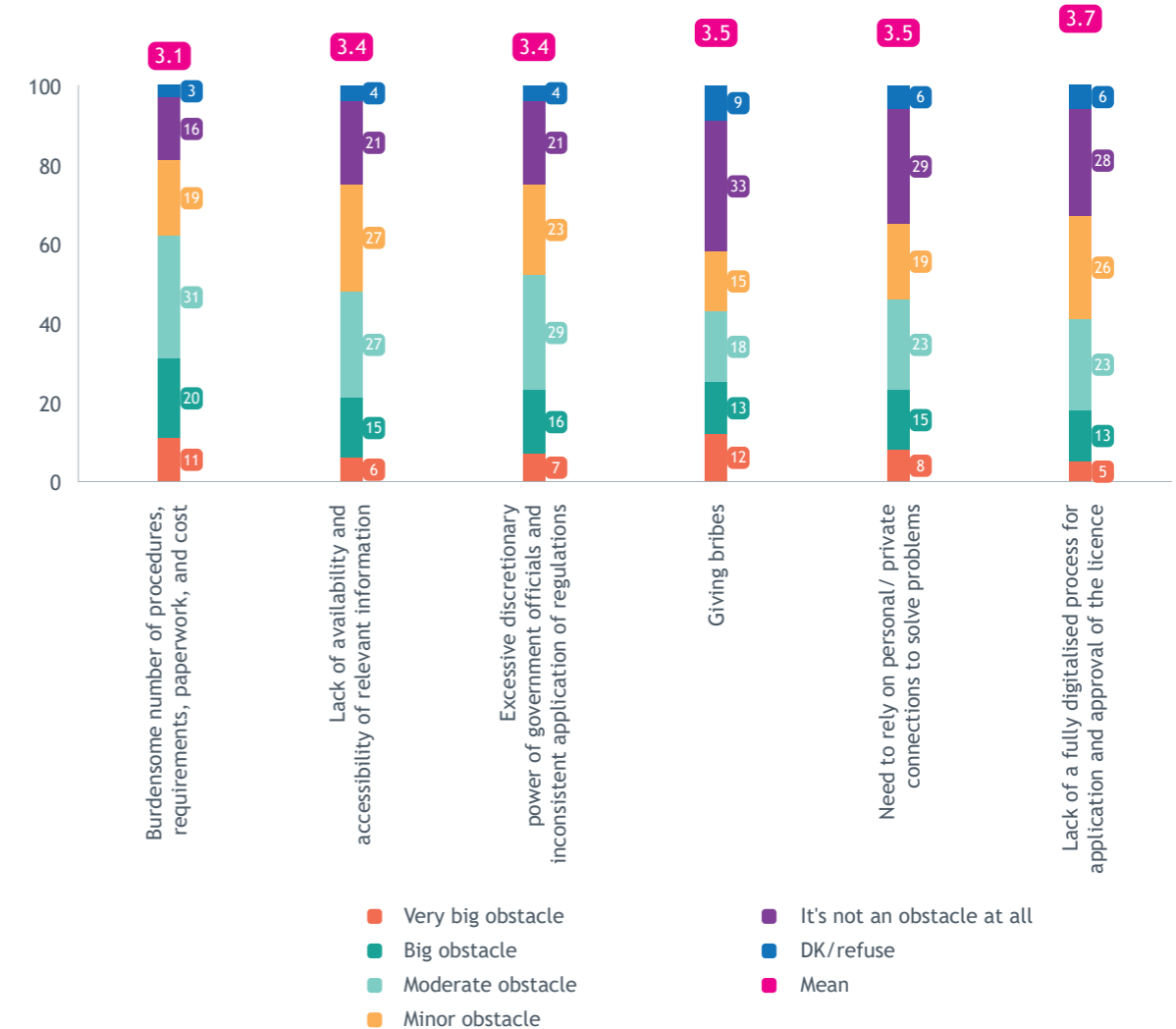
SEE businesses are not faced with too excessive obstacles in the process of business licencing, except for unwarranted bureaucracy. *Burdensome number of procedures, requirements, paperwork, and cost* (score 3.1) are the biggest obstacles, as defined by 62% of the SEE corporate leaders (31% consider it big or very big). Except for the *lack of a fully digitalised process for application and approval of the licence* which represents the least disruptive obstacle (3.7), other factors are grouped in range from 3.4 to 3.5.

Positive trend can be identified across all factors but *giving bribes*, about which the SEE corporate leaders were the most reluctant to talk about (9% did not know the answer or refused). Lack of availability and accessibility of relevant information (3.4) and excessive discretionary power of government officials (3.4) still represent noteworthy obstacles, but compared to 2017, their score improved by 0.1 and 0.2 respectively. Score of relying on personal connections improved the most, from 3.2 in 2017 to 3.5 in 2018. Giving bribes remained at 3.5, and newly added factor, lack of a fully digitalised process for application and approval of the licence does not seem to be a problem, with a score of 3.7.

Intra-regional results follow the pattern consistent with previous answers - Montenegro leads the way with the average score of 3.8, with Albania and Kosovo\* somewhat behind (3.6). Serbia stands at the regional average (3.4), while Bosnia and Herzegovina and the Republic of North Macedonia are notably more displeased, with scores of 3.0. Montenegro had the largest progress compared to 2017, improving the score by sizable 0.7 on average. On the other hand, it was the Republic of North Macedonia that had its score aggravate, by 0.2 on average.

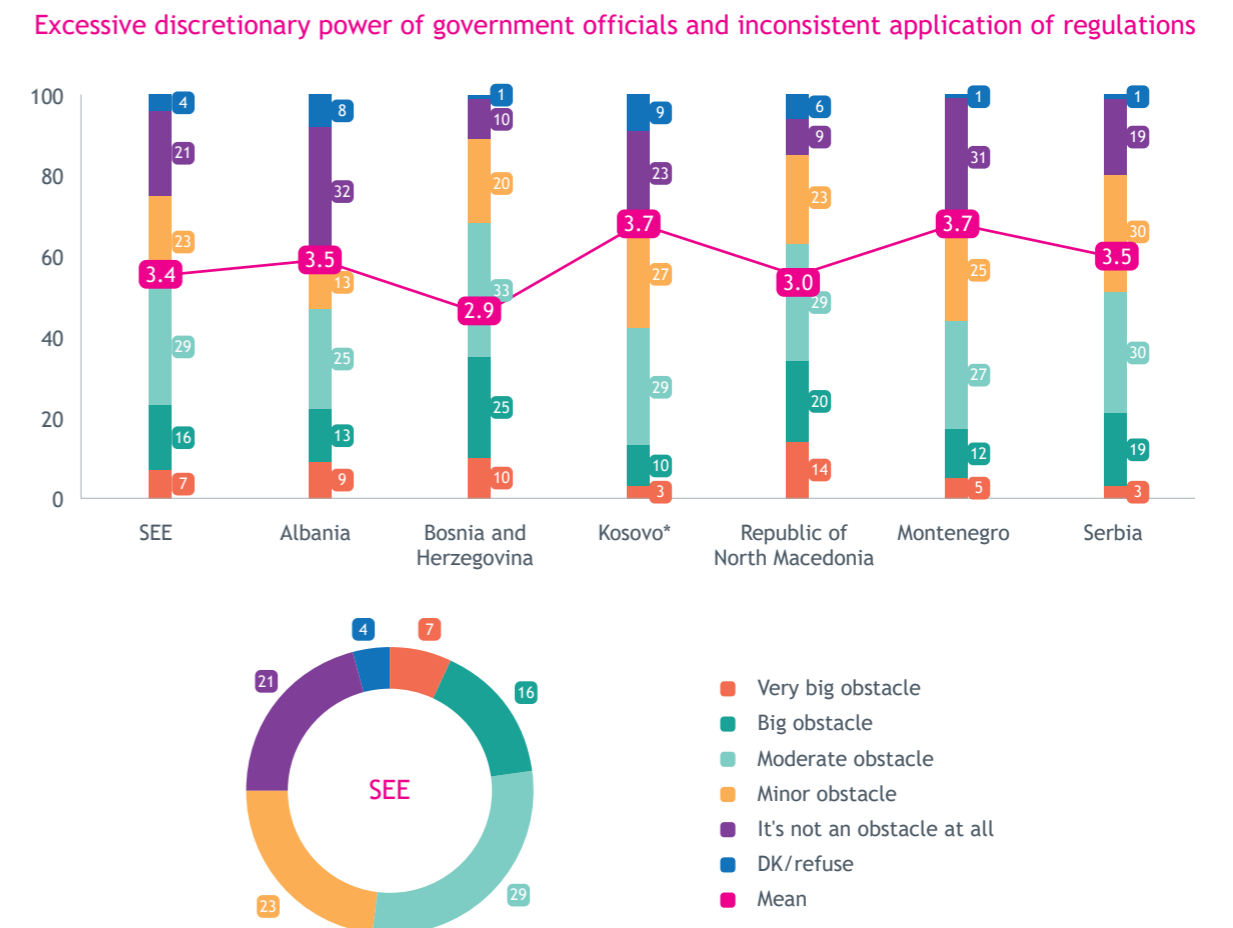
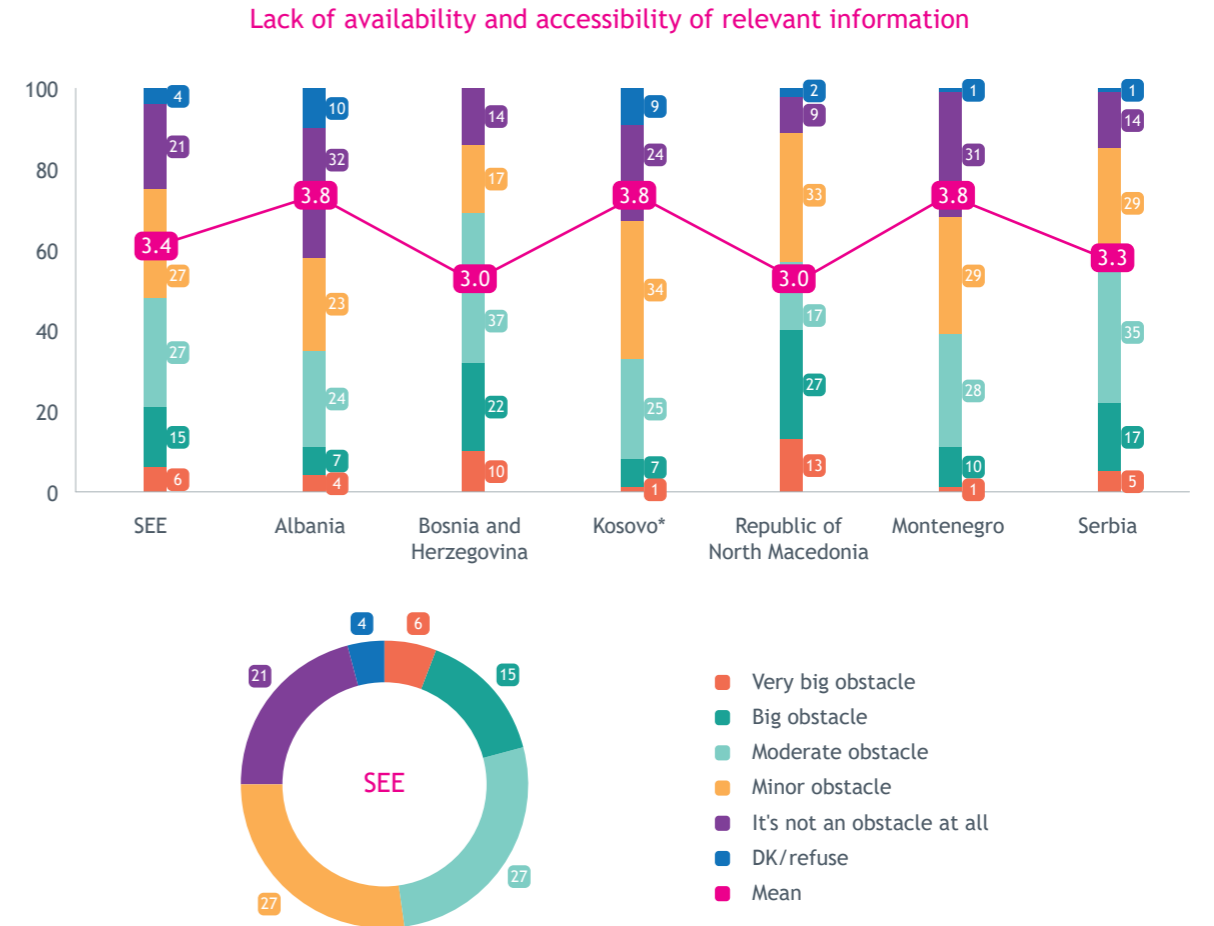
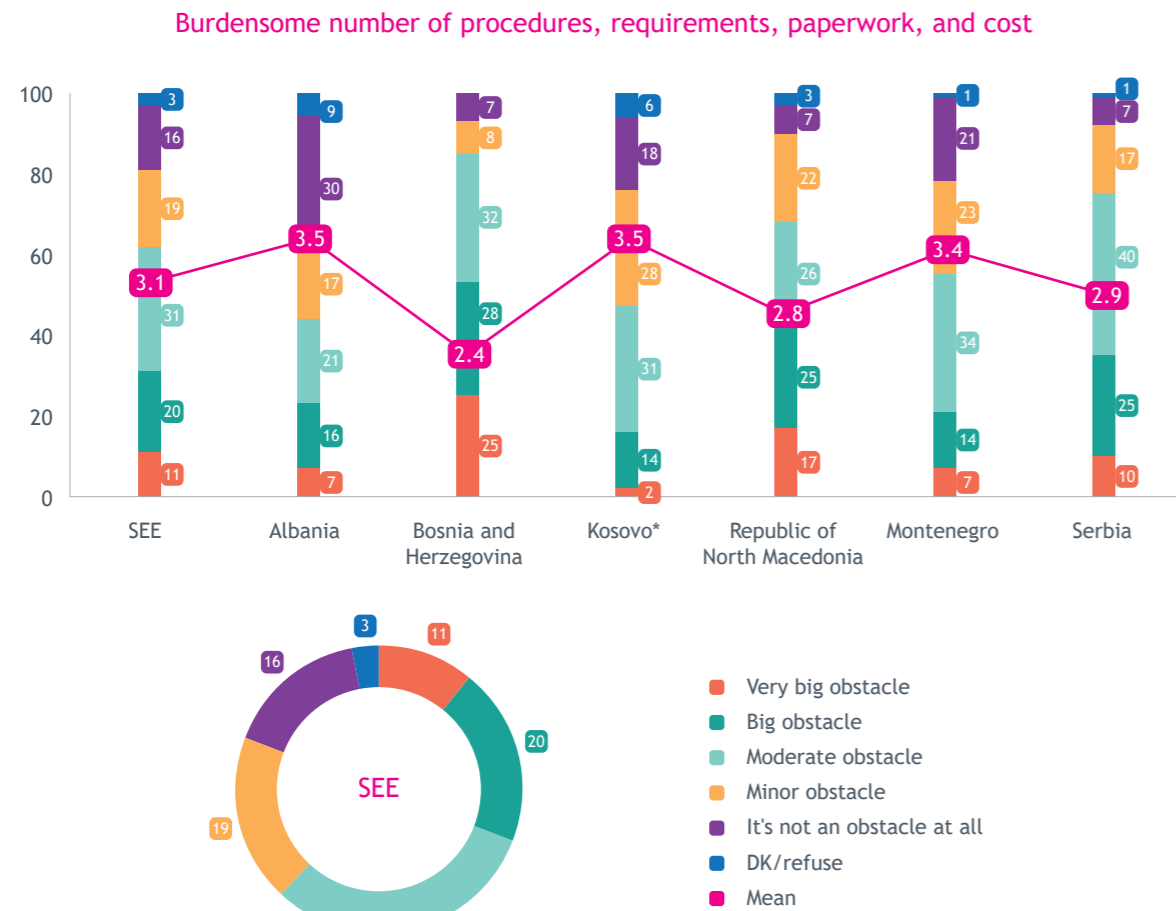
Lowest score on *burdensome procedures* (2.4) is measured in Bosnia and Herzegovina, while the best is Albania (3.5). *Lack of a fully digitalised process for application and approval of the licence*, perceived as the slightest obstacle (3.7), holds the highest score in Albania and Montenegro. It is also interesting that *giving bribes* in Montenegro has the highest value measured yet - 4.2, meaning that almost four fifths of businesses perceive it as minor or no obstacle at all.

Figure 20: In the process of obtaining licences for your business, how much of an obstacle were the following factors?<sup>19</sup>  
 (All respondents - N=1271, 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, %)



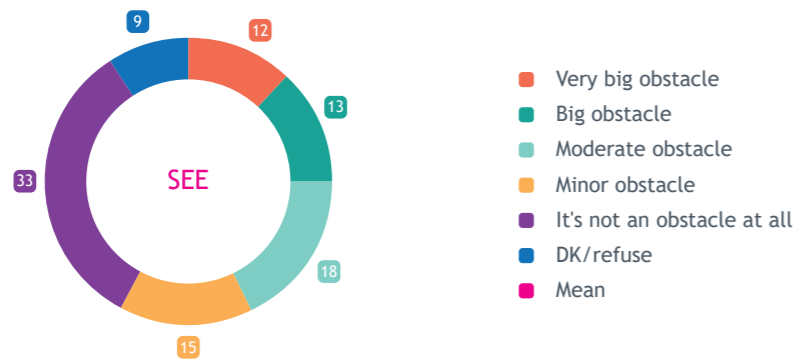
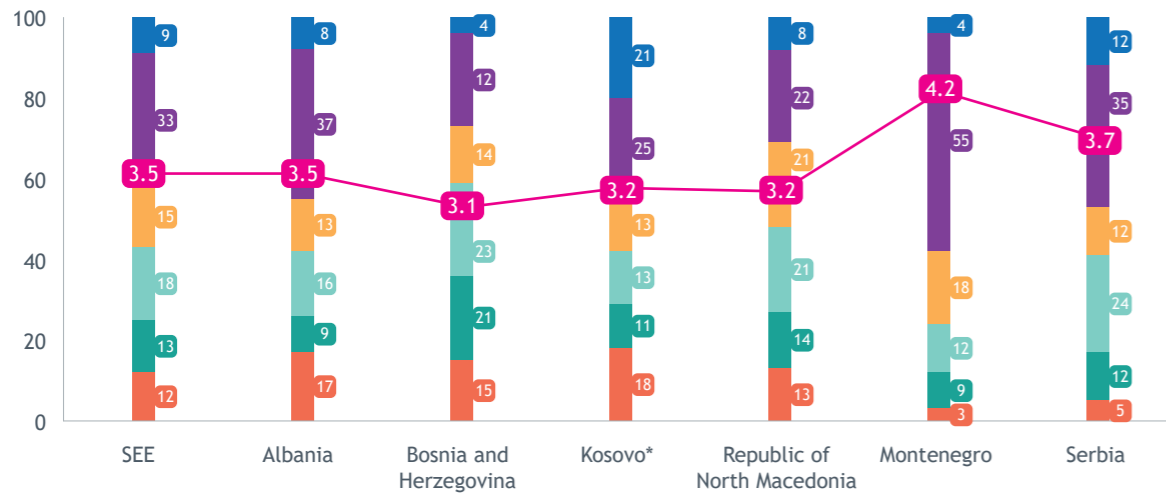
<sup>19</sup> The figures might not add to 100% due to rounding.

Figure 21: In the process of obtaining licences for your business, how much of an obstacle were the following factors?<sup>20</sup>  
 (All respondents - N=1271, scores are on a scale of 1 to 5 where 1 means very big obstacle and 5 it's not an obstacle at all, share of total, %, mean)

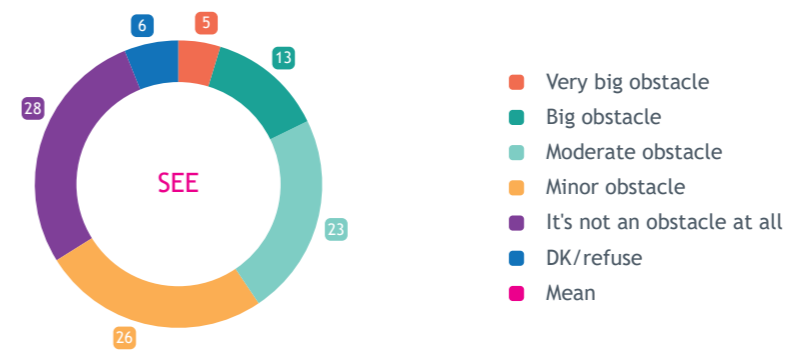
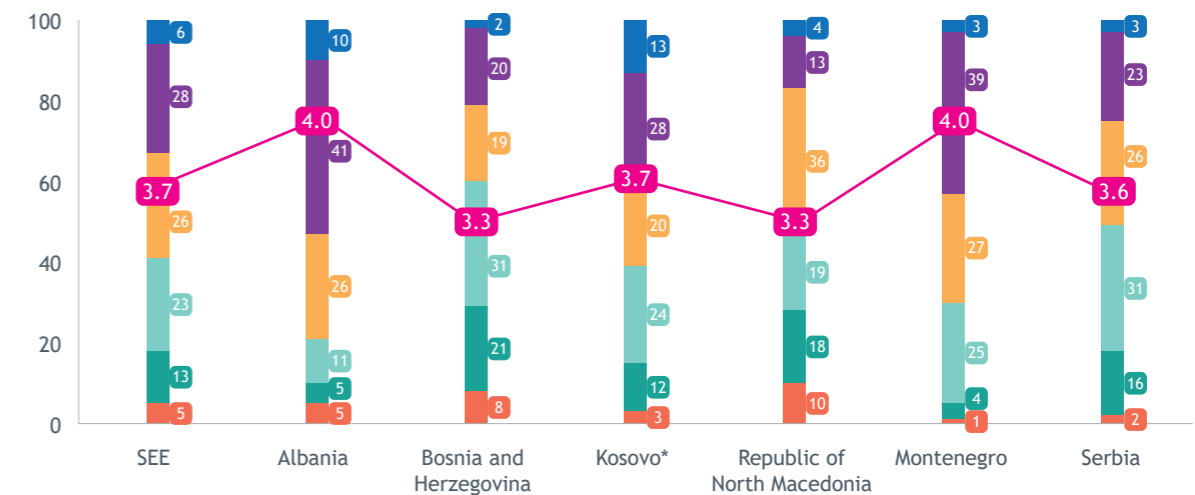


<sup>20</sup> The figures might not add to 100% due to rounding.

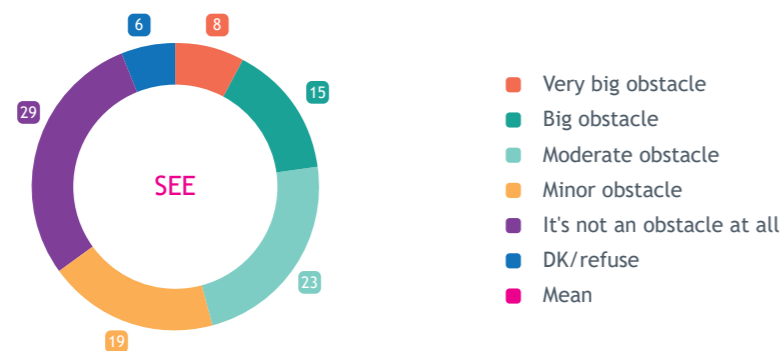
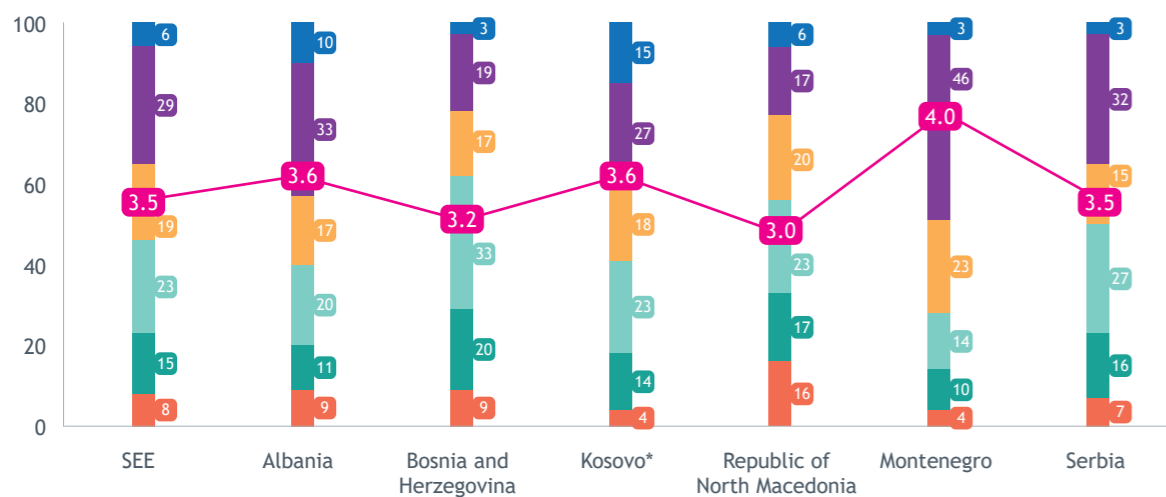
Giving bribes



Lack of a fully digitalised process for application and approval of the licence



Need to rely on personal/private connections to solve problems



Approximately half of SEE business executives have not seen any major change in their business environment over the last 12 months. Slightly lower SEE average score in 2018 (3.0 compared to 3.1 in 2017) came as a result of weakened situation in the Republic of North Macedonia (decrease of 0.5 on average). Looking at concrete business environment factors, it can be concluded that labour market conditions and taxation policies are the main worry for businesses, while they are relatively satisfied with digitisation and innovation efforts in the business environment.

Tax rates continue to be a leading concern for businesses in the region, and the perception has even worsened - from 2.9 in 2017 to 2.6 in 2018. The next two are both connected to the workforce - availability and cost, both scored at 2.8. Political stability and security (2.9) did not seem to change much in the overall picture, as again some improvements in the region are counterweighted by a decrease in the Republic of North Macedonia.

Availability of government digital service to complete administrative procedures, question

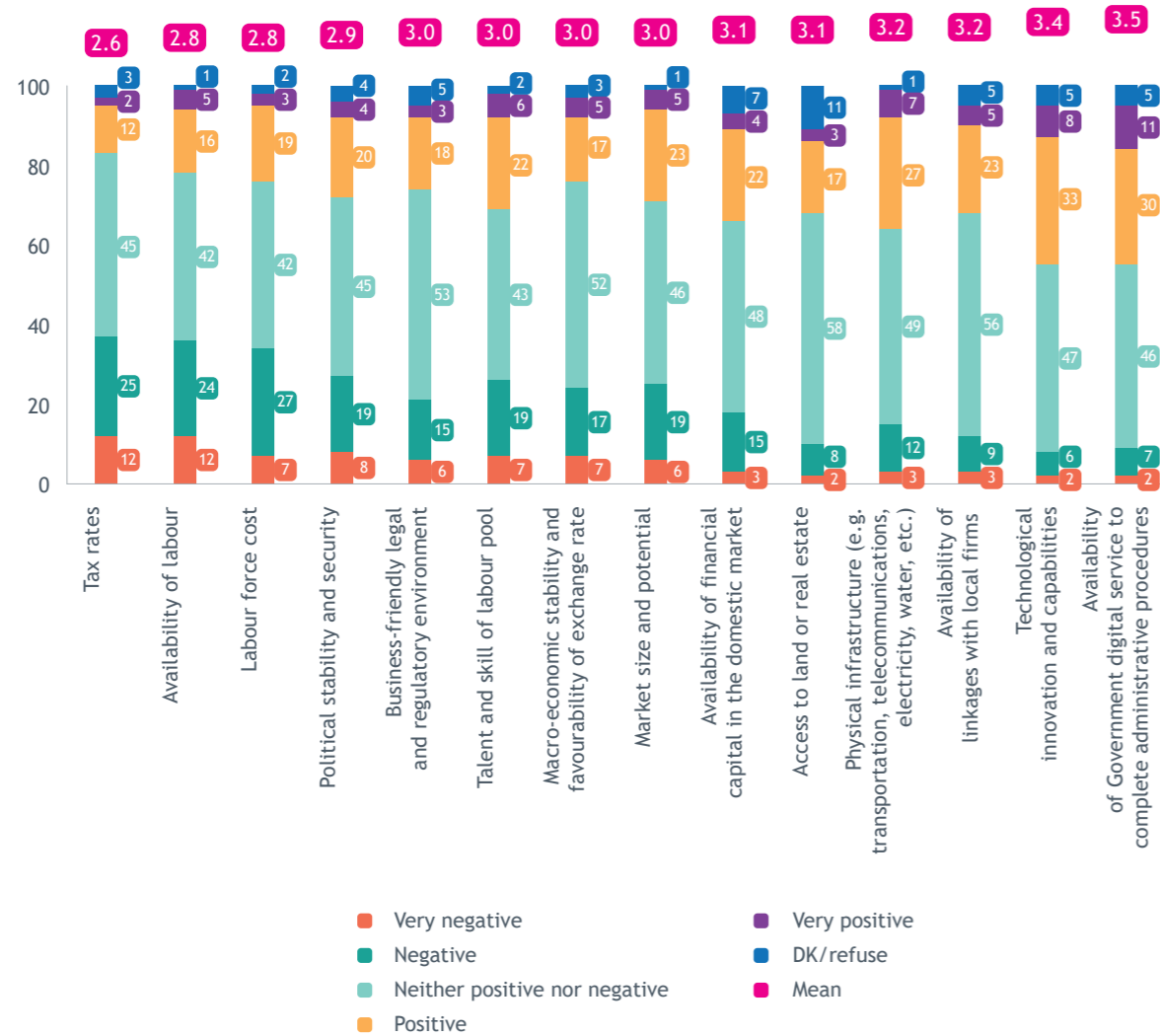
introduced this year, has the best score (3.5), which shows that digital services are eventually becoming useful and available to the businesses. Businesses are also relatively satisfied with the state of play in the area of technological innovation and capabilities.

Again, the Republic of North Macedonia (average 2.7) and Bosnia and Herzegovina (average 2.8) represent the economies with reportedly most problematic business environment. The Republic of North Macedonia is especially burdened with availability of labour (2.1), tax rates (2.2), labour force cost (2.4) and political stability (2.5) - with all scores being the region-lowest.

Kosovo\* (3.3 average) is at the other end of the spectrum, with only tax rates (3.0) being below solid score of 3.2. Serbia's average score (3.2) is mostly hindered by deteriorating situation in labour market - availability of labour (2.8), labour force cost (2.8) and talent and skill of labour pool (2.9). Albanian businesses find tax rates (2.3) and macroeconomic stability and favourability of exchange rate (2.5) as biggest concerns.

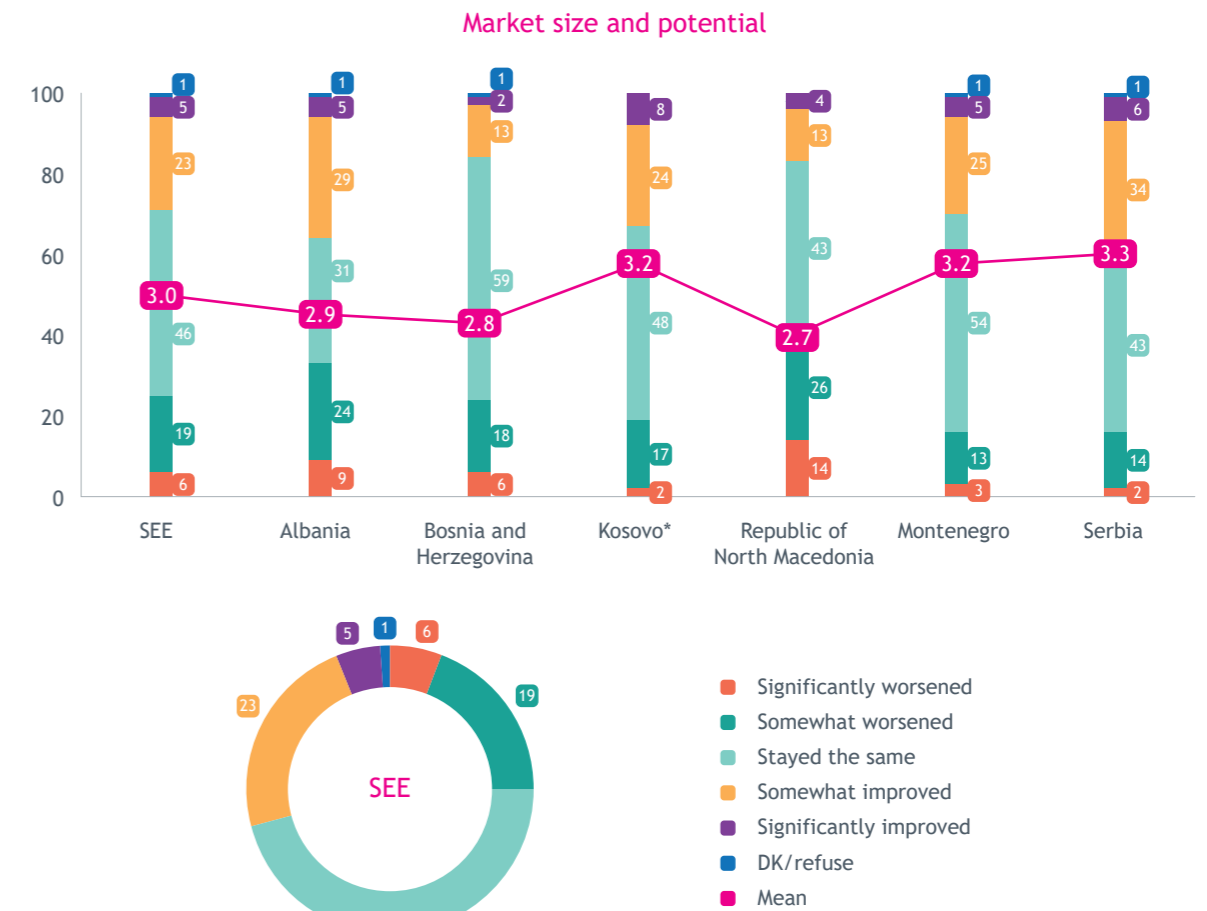


Figure 22: How have the following characteristics of business environment in your economy changed over the last 12 months?<sup>21</sup>  
 (All respondents - N=1271, scores are on a scale of 1 to 5 where 1 means significantly worsened and 5 significantly improved, share of total, %)



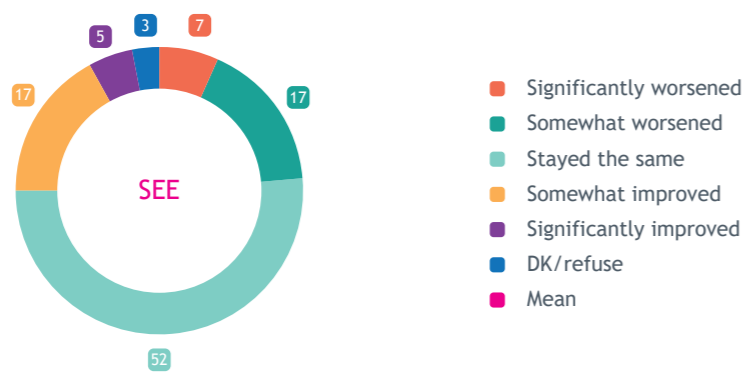
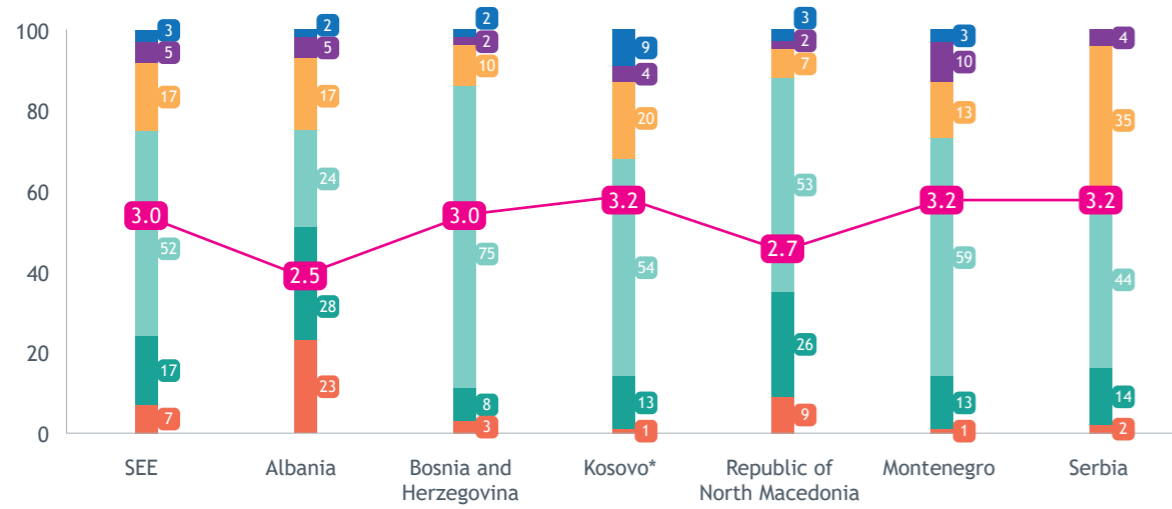
21 The figures might not add to 100% due to rounding.

Figure 23: How have the following characteristics of business environment in your economy changed over the last 12 months?<sup>22</sup>  
 (All respondents - N=1271, scores are on a scale of 1 to 5 where 1 means significantly worsened and 5 significantly improved, share of total, %, mean)

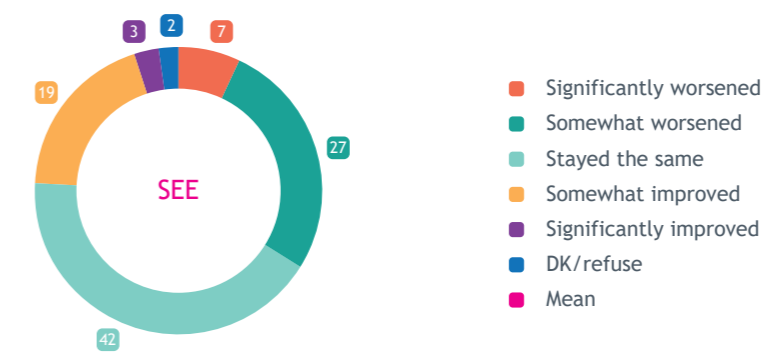
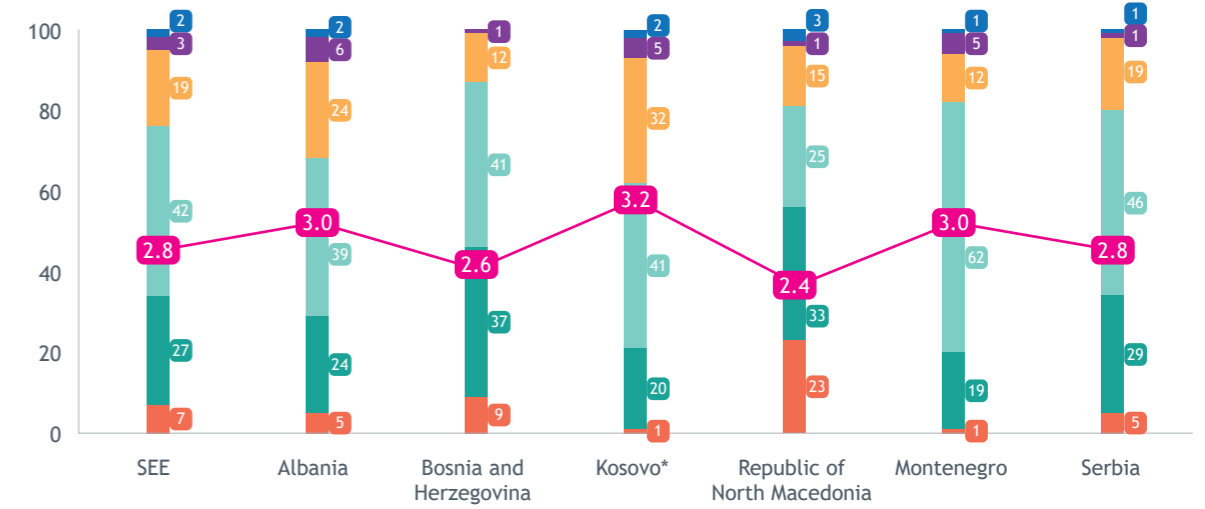


22 The figures might not add to 100% due to rounding.

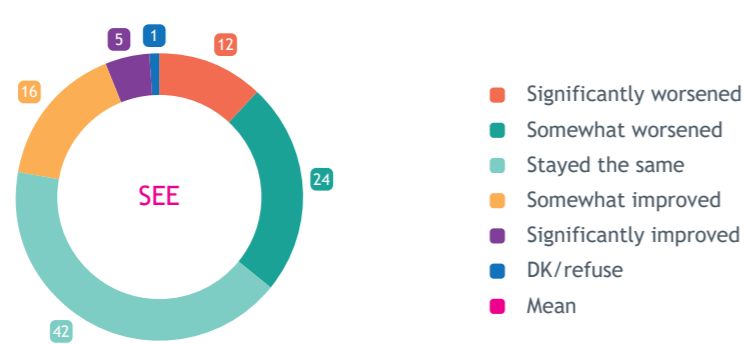
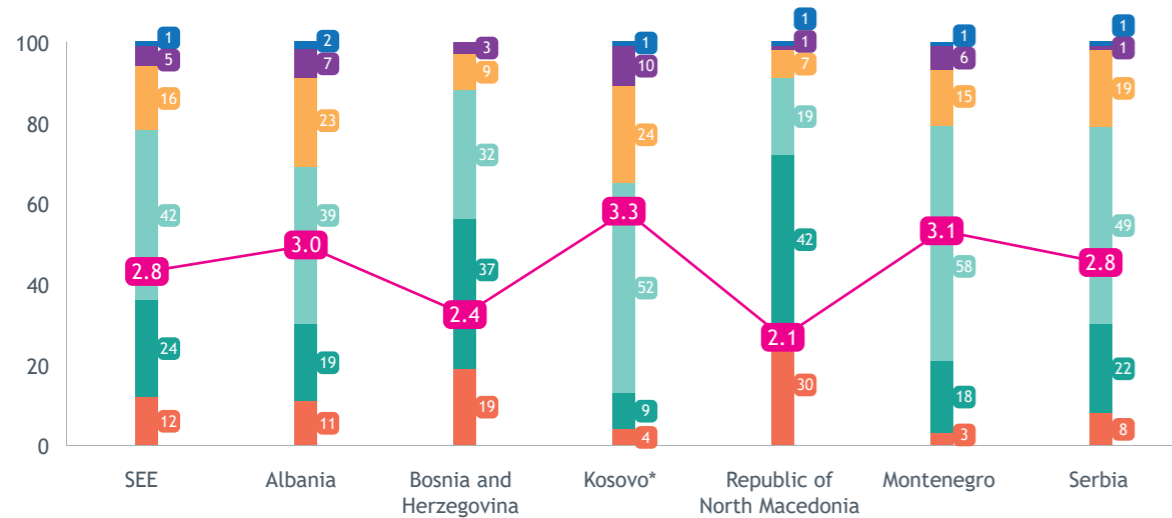
Macro-economic stability and favourability of exchange rate



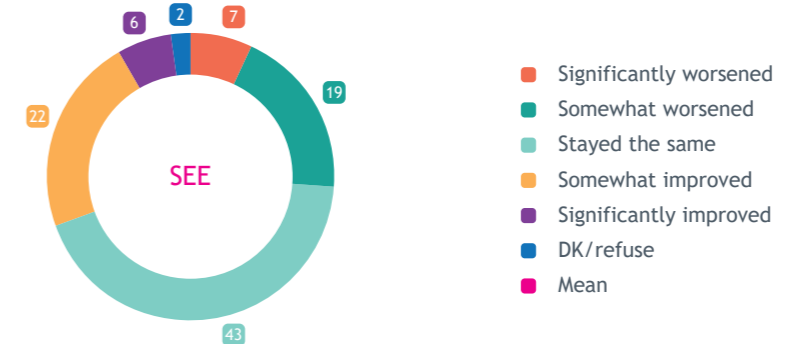
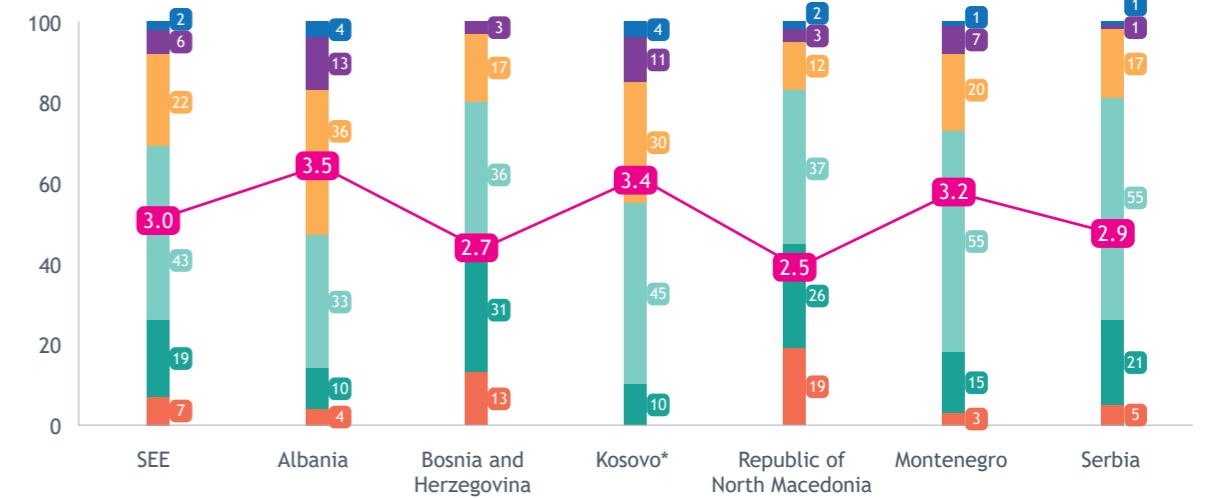
Labour force cost



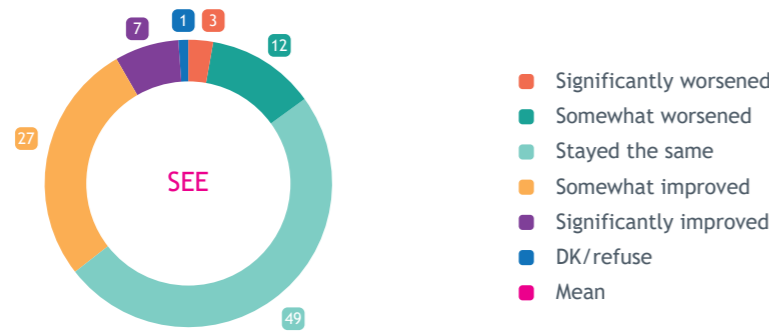
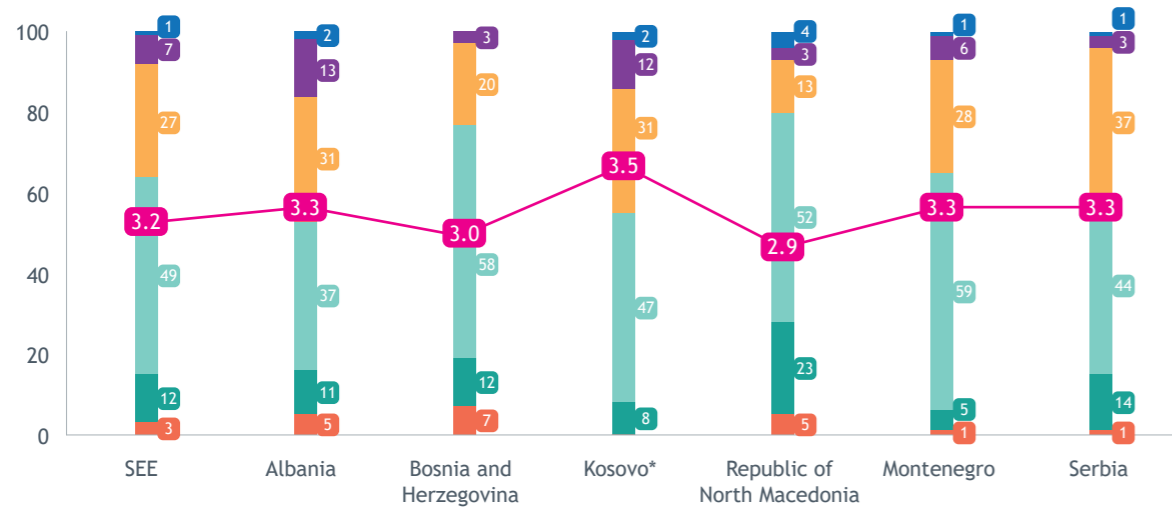
Availability of labour



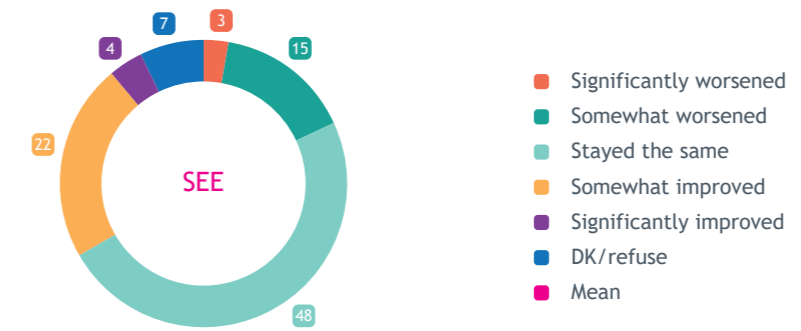
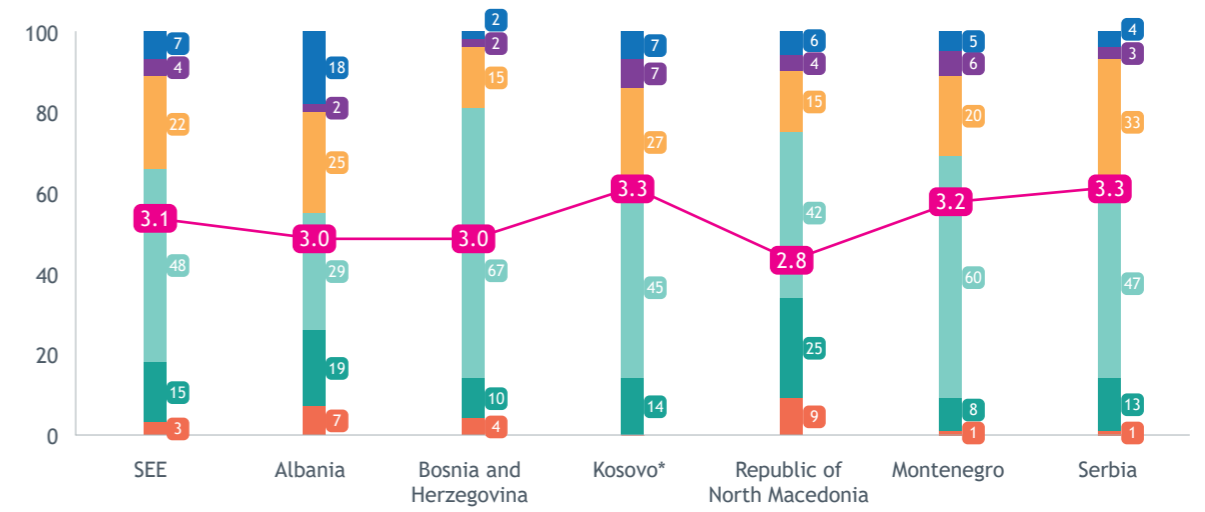
Talent and skill of labour pool



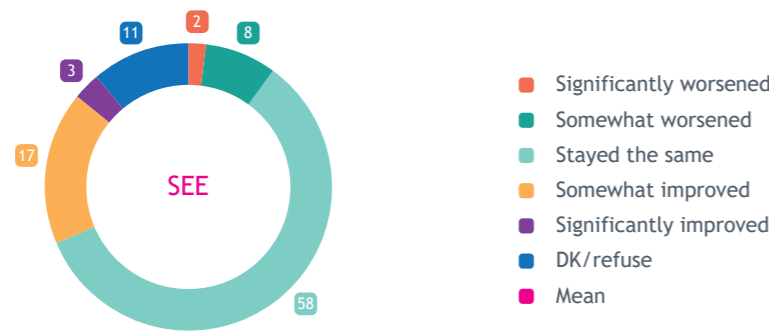
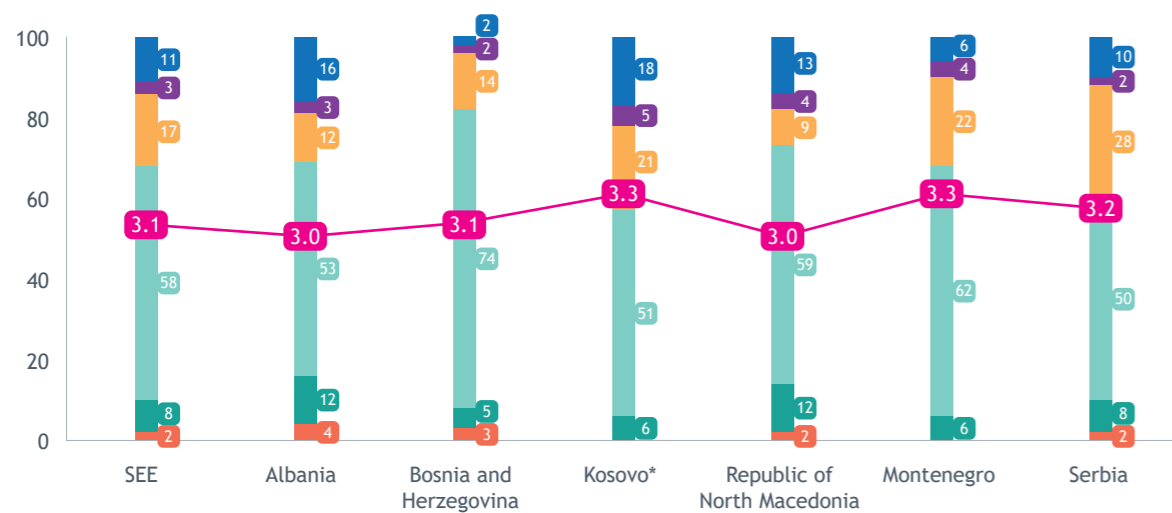
Physical infrastructure (e.g. transportation, telecommunications, electricity, water, etc.)



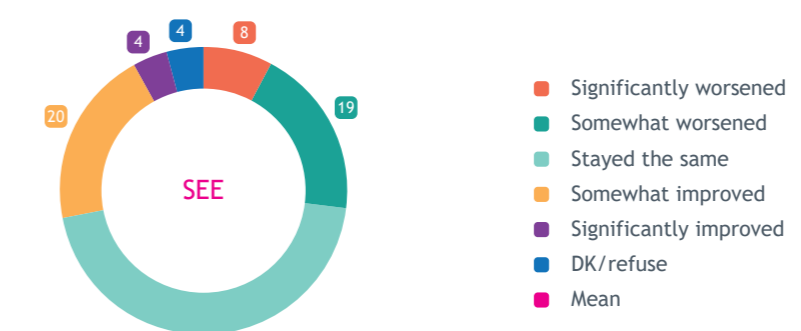
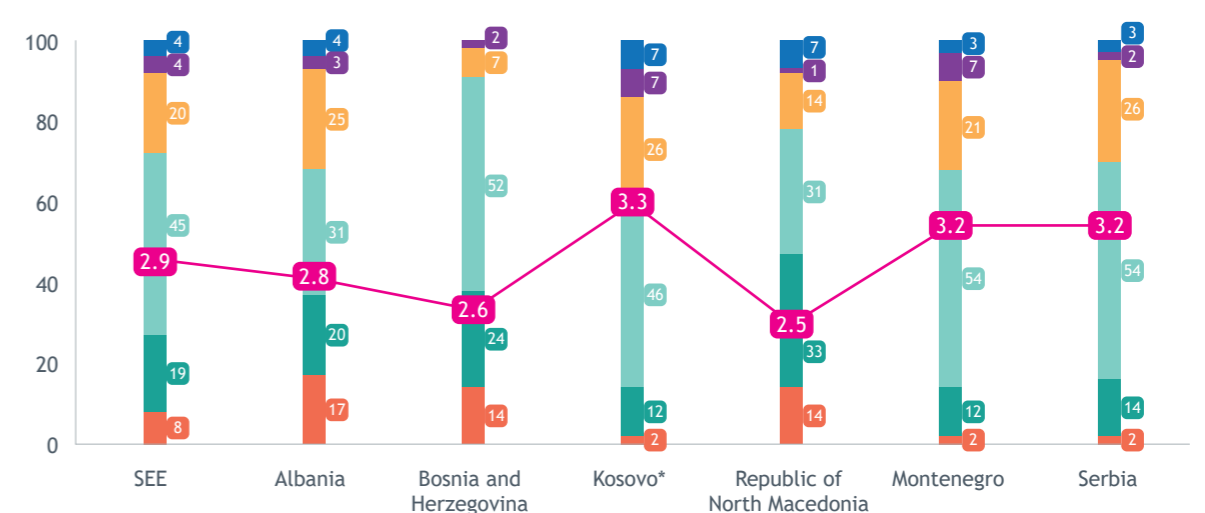
Availability of financial capital in the domestic market



Access to land or real estate

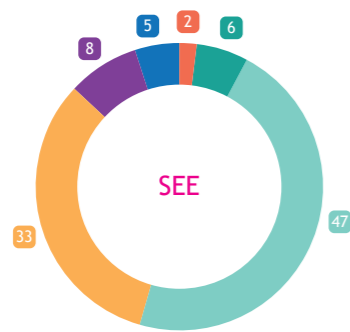
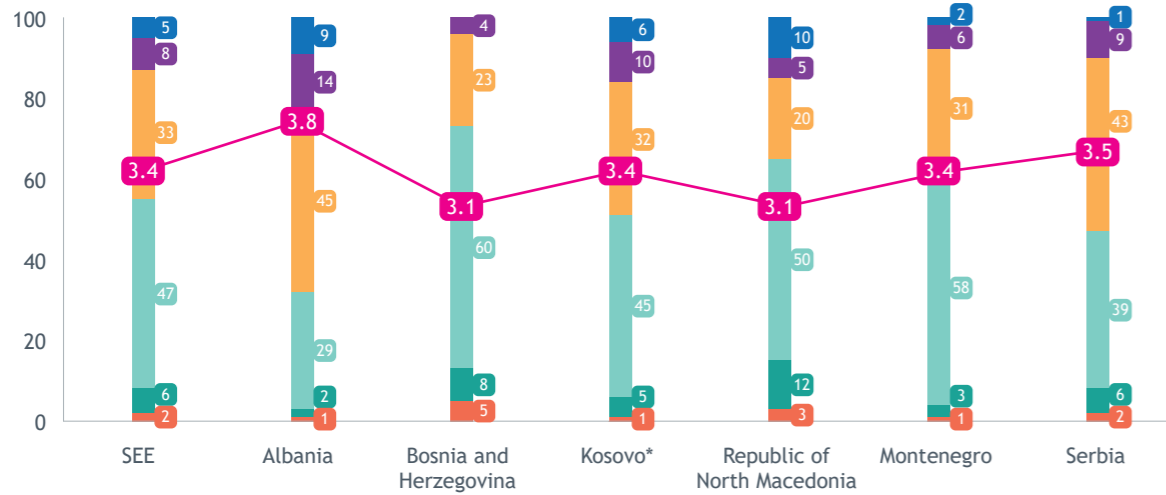


Political stability and security



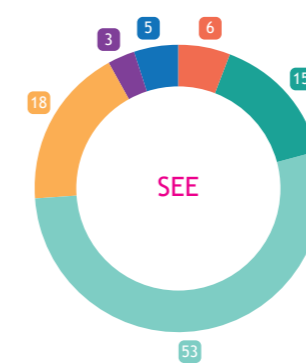
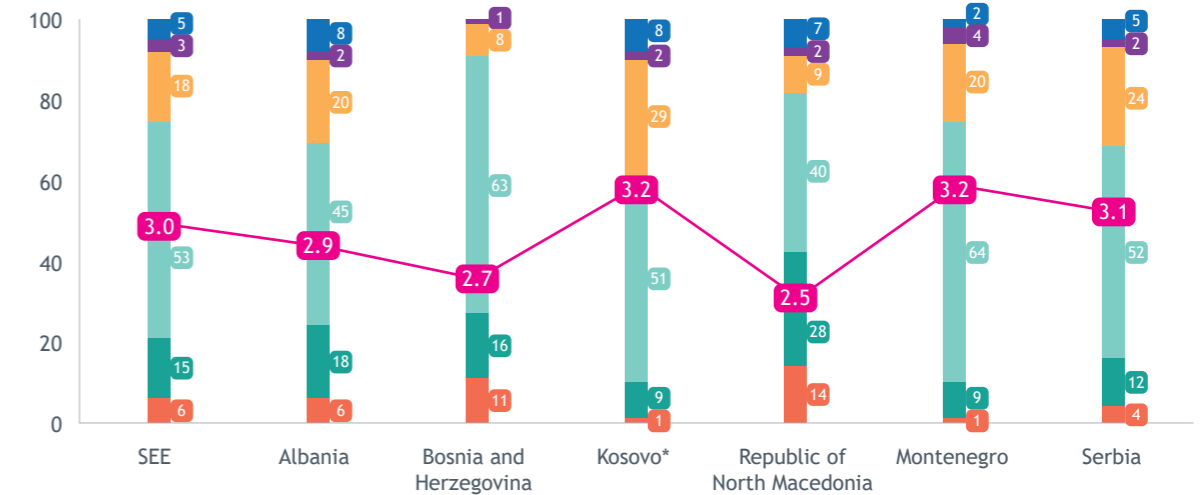


Technological innovation and capabilities



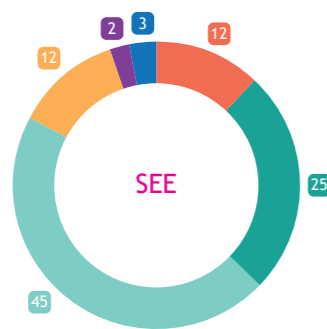
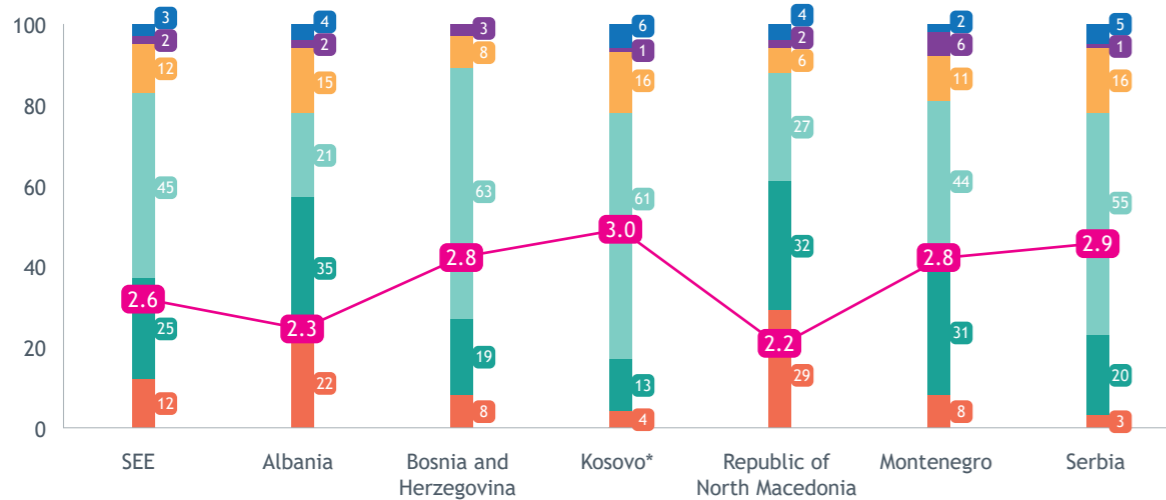
- Significantly worsened
- Somewhat worsened
- Stayed the same
- Somewhat improved
- Significantly improved
- DK/refuse
- Mean

Business-friendly legal and regulatory environment



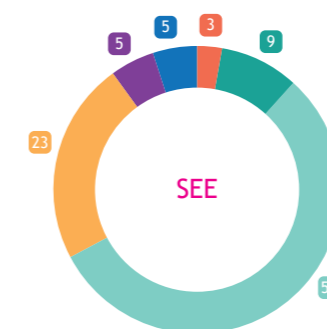
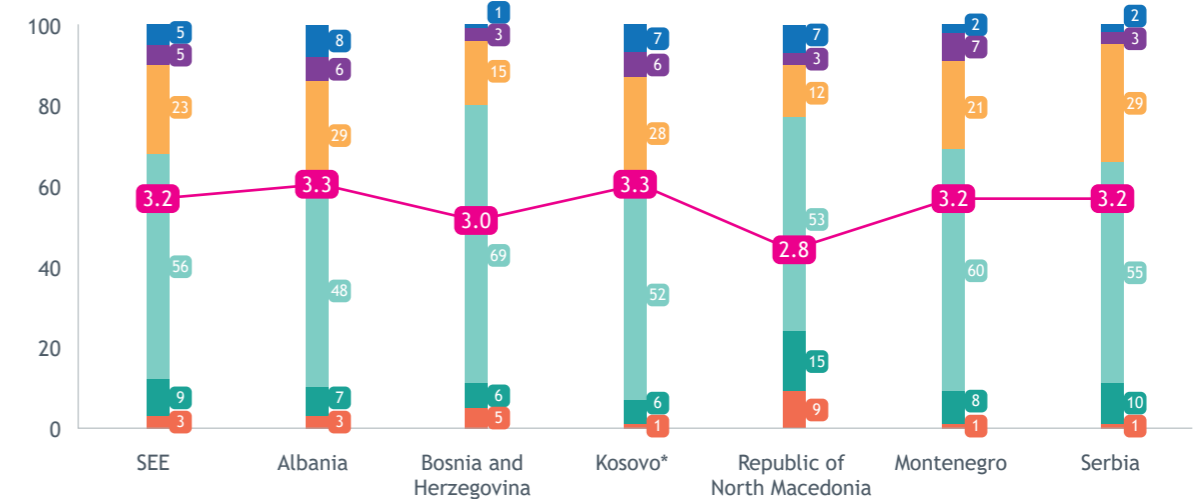
- Significantly worsened
- Somewhat worsened
- Stayed the same
- Somewhat improved
- Significantly improved
- DK/refuse
- Mean

Tax rates



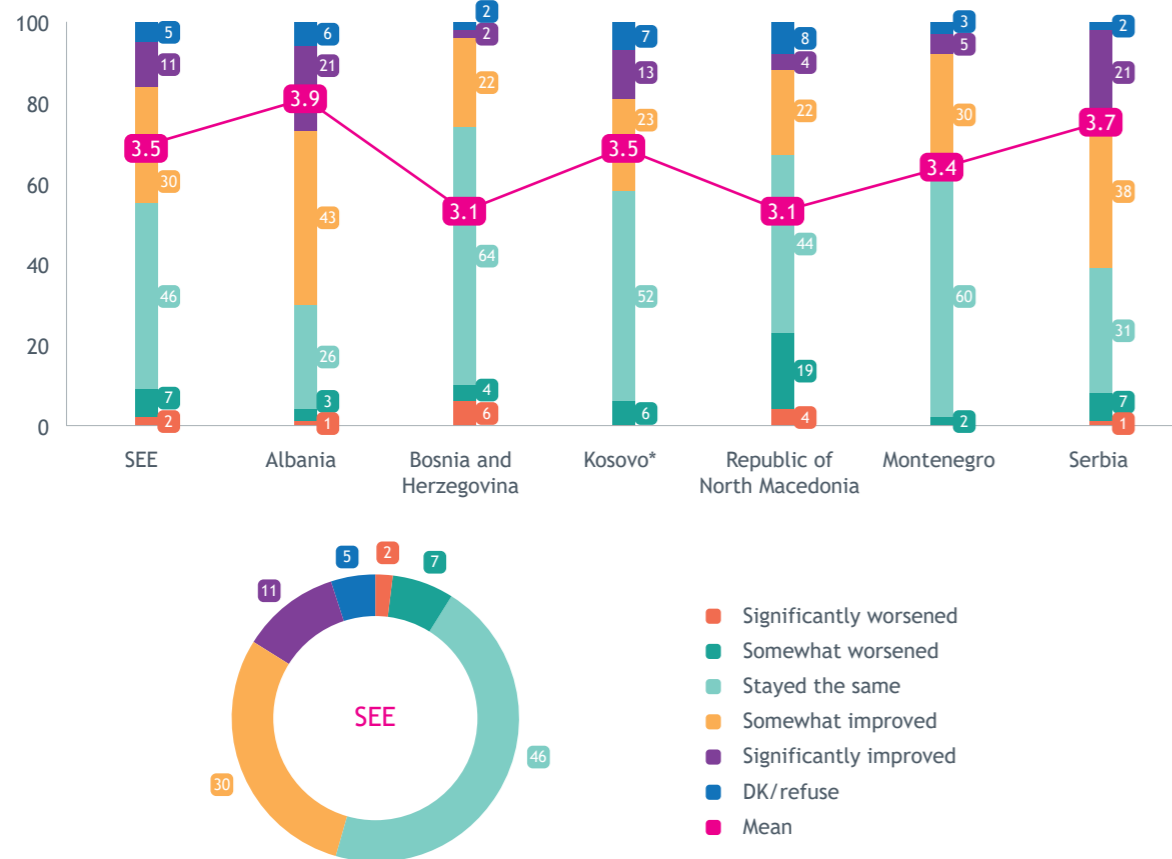
- Significantly worsened
- Somewhat worsened
- Stayed the same
- Somewhat improved
- Significantly improved
- DK/refuse
- Mean

Availability of linkages with local firms (e.g. obtaining intermediate inputs from domestic suppliers, selling output to local firms, etc.)



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

Availability of Government digital service to complete administrative procedures



Slow but steady increase in satisfaction with transport infrastructure dating from 2015 has been interrupted in 2018 with significant drop in all economies but Bosnia and Herzegovina and Kosovo\*. Namely, average SEE score deteriorated from 3.2 in 2017 to 3.0 in 2018.

No economy stands at the regional average, as Serbia, Kosovo\* and Montenegro lead the way with 3.3, while Bosnia and Herzegovina (2.9), Albania and the Republic of North Macedonia (both 2.8) lie at the other end of the spectrum. Except for Bosnia and Herzegovina and Kosovo\*, whose score improved by 0.2 and 0.1 respectively, the score drop in other economies was almost uniformly 0.2 points. It is interesting to note that results are in line with the World Bank's Logistics Performance Index, where Serbia and Montenegro are ranked the best, while Bosnia and Herzegovina and Albania are ranked the worst. The only exception is found in the Republic of North Macedonia, where businesses' satisfaction lies well below their Logistics Performance Index.

It may come up as a surprise that the decrease in level of satisfaction is happening when SEE

economies invest in infrastructure the most, but that might just be part of the answer. Announcements of large infrastructure projects are probably raising expectations, but it is well known that infrastructural projects take time to complete - and missing deadlines in not so unusual. Meanwhile, dissatisfaction - triggered by the gap between reality, usually amplified by traffic jams during road closures, and expectations - could grow in short-term.

SEE businesses are prevalently pleased with energy infrastructure. Serbian corporate leaders are reportedly still the most satisfied in the region (3.7), while Albanian exert least satisfaction (3.0). Out of the remaining economies, Montenegro and Bosnia and Herzegovina (3.4) are slightly more satisfied than Kosovo\* and the Republic of North Macedonia (3.2).

However, likewise with road infrastructure, the overall satisfaction with energy infrastructure has also taken a hit. It has decreased from 3.6 in 2017 to 3.3 in 2018. Overall decrease is not only skewed by substantial decrease of 0.5 in the Republic of North Macedonia but also by a drop

Figure 24: 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=1271, scores are on a scale of 1 to 5 where 1 means very poor and 5 excellent, mean)



in Albania (0.2) and Serbia (0.1). Bosnia and Herzegovina, Kosovo\* and Montenegro have not experienced noticeable change in their scores.

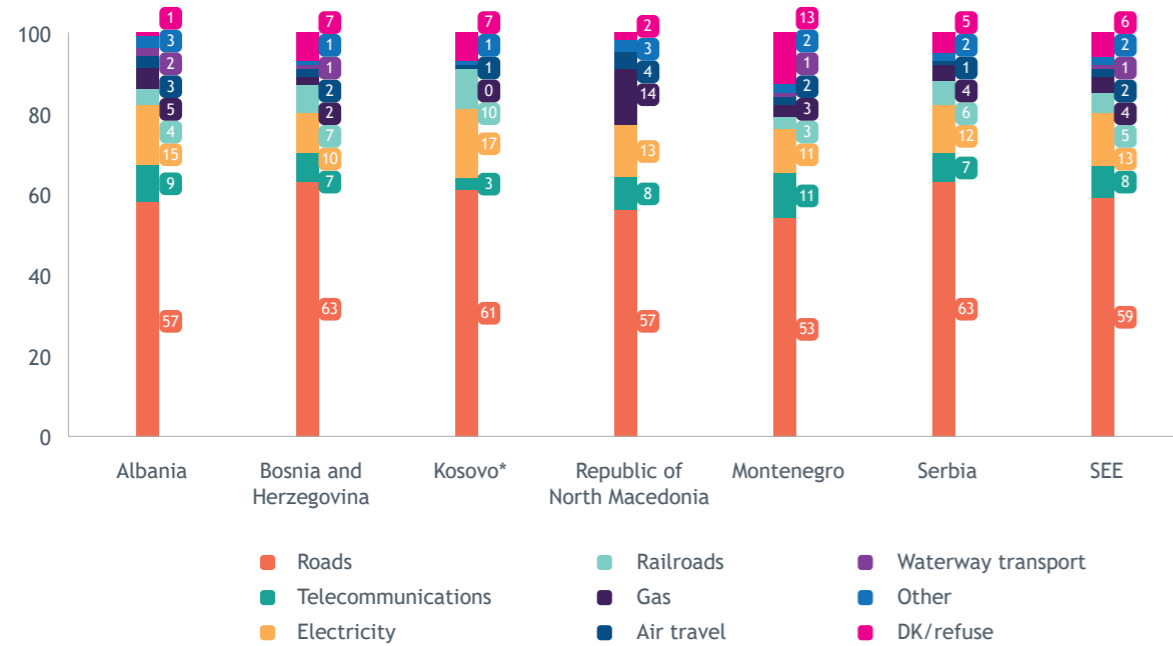
Road infrastructure remains the most desirable upgrade in SEE, as recognised by almost 60% of business representatives. Situation does not differ significantly between the economies, as deviations for SEE average are not statistically significant. Electricity supply also stands out with 13% assessing it as a factor with the most positive potential impact. Telecommunications are the third most

desirable improvement, as recognised by 8% of SEE business leaders. Economy-wise, businesses in the Republic of North Macedonia would welcome upgrades in gas supply, while those from Kosovo\* would welcome better railroads.

Figure 25: 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=1271, scores are on a scale of 1 to 5 where 1 means very poor and 5 excellent, mean)



Figure 26: In your opinion, which infrastructure upgrades would have the highest positive impact on your business?  
(All respondents - N=1271, share of total)

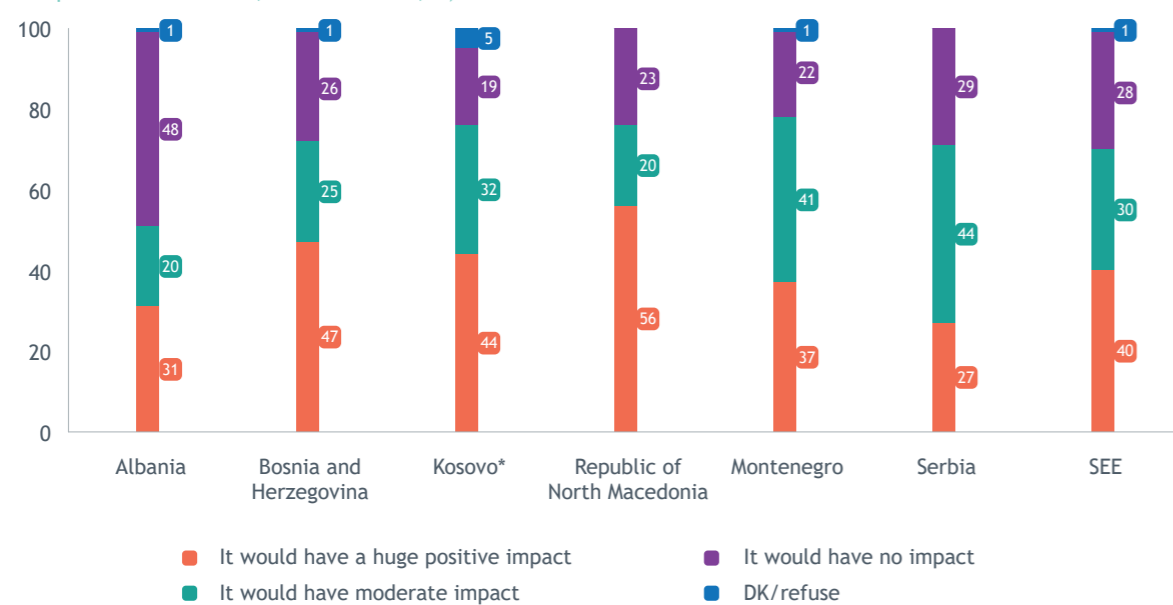


Removal of mobile phone roaming charges would be beneficial for majority of SEE businesses. Moreover, the share of businesses that find this removal useful has seen a huge uptake in 2018 compared to 2017, from 56% to 70%.

Mobile roaming charges removal seems to be the most important for the Republic of North Macedonia business leaders, with over half of them finding it hugely beneficial. The remaining SEE economies, except for Albania, also recognise the clear benefits of such an initiative. Share of Albanian businesses favourable of roaming removal, not much different from a year ago, stands at regional lowest 51%.

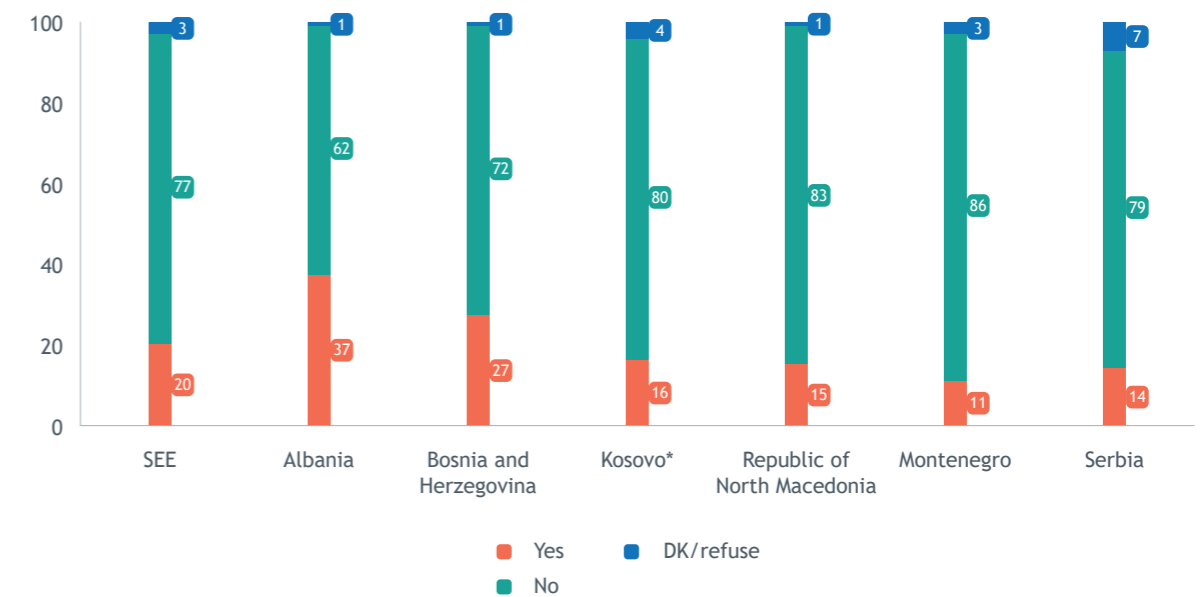
Removal of mobile phone roaming charges would be beneficial for majority of SEE businesses. Moreover, the share of businesses that find this removal useful has seen a huge uptake in 2018 compared to 2017, from 56% to 70%.

Figure 27: Would the removal of mobile phone roaming charges when travelling to SEE have a positive impact on your business?<sup>23</sup>  
(All respondents - N=1271, share of total, %)



<sup>23</sup> The figures might not add to 100% due to rounding.

Figure 28: Have any of your company's owners or senior managers spent time living and working abroad as members of the diaspora?<sup>24</sup>  
(All respondents - N=1271, share of total, %)



The largest portion of the overall change comes from Serbia, Kosovo\* and the Republic of North Macedonia. They have seen the number of those who recognise positive impact rise by more than 20 points.

On average one in five SEE business owners or senior managers spent time living and working abroad as members of the diaspora. Most of them are in Albania and Bosnia and Herzegovina (one in three and one in four respectively), while others are below regional average (Montenegro considerably so). It is not surprising that the share of business executives that have spent time living and working abroad is higher among larger firms, exporters, and foreign companies.

<sup>24</sup> The figures might not add to 100% due to rounding.



# LEGAL AND REGULATORY FRAMEWORK

Businesses from SEE express only moderate satisfaction with legal and regulatory framework, generally feeling detached from business policy-making processes. Moreover, considering the aggregate findings in this section, it does not seem that the governments of SEE managed to provide more business-friendly regulatory framework over the past year. As either slight deterioration or no improvement at all has been recognised across the board, the governments will have to try to deliver more tangible results to be recognised as widely cooperative and supporting.

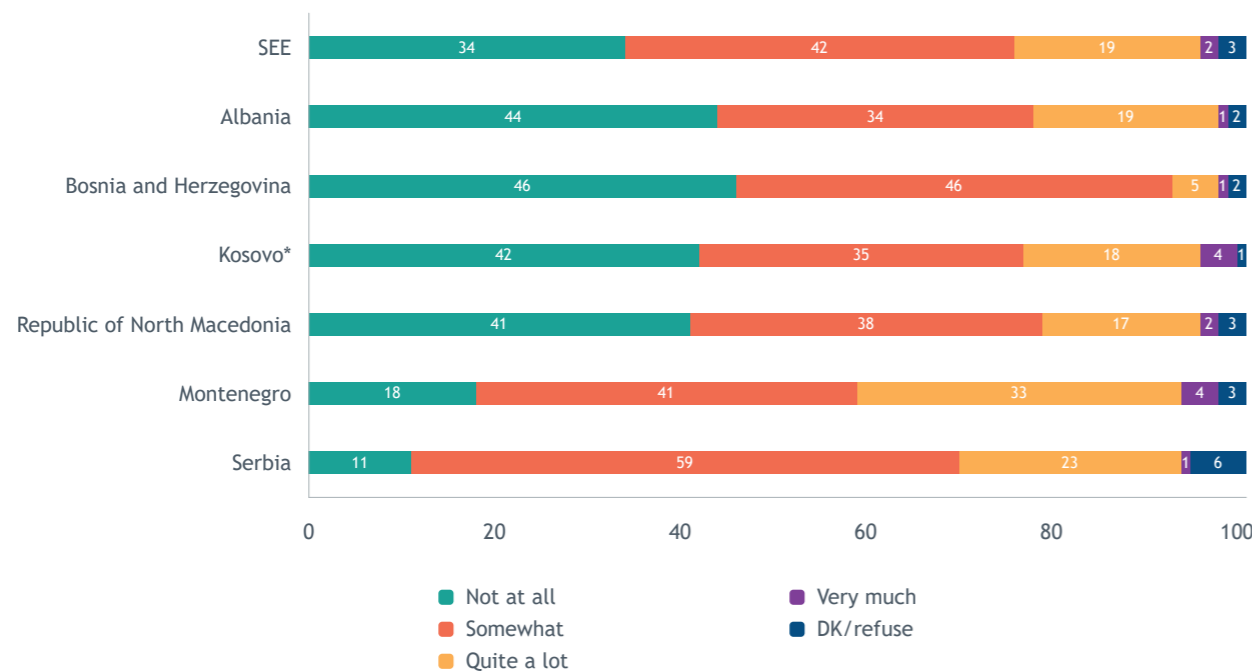
Significant portion of businesses is still reluctant to take part in public procurements, mostly questioning their legitimacy. However, those who decide to participate and use instruments like standardised forms and training are reportedly at least moderately satisfied.

In terms of regulation, old problems like tax, minimum wage and employment regulation continue to be a significant obstacle to doing business. Tax regulation especially is becoming more disruptive, as this survey suggests.

Still, some obvious differences between the economies exist. Montenegro and the Republic of North Macedonia tend to skew the score, although standing at opposite ends. Montenegro has reportedly taken a big step forward in creating consistent regulatory framework, making relevant information available on time and at a reasonable cost. On the other hand, there was a decline in the Republic of North Macedonia in a form of weakened relationship with businesses.

Nevertheless, the decline was not deep enough to put the Republic of North Macedonia below Bosnia and Herzegovina. Average scores of Bosnia

Figure 29: How much do you feel the Government of your economy takes into account the concerns of businesses?<sup>25</sup>  
(All respondents - N=1271, share of total, %)



<sup>25</sup> The figures might not add to 100% due to rounding.

and Herzegovina leave a lot to be desired, which should certainly give a sign to its government to push harder on deeper structural reforms. While results of Albania and Kosovo\* were kind of a mixed bag, Serbia suffered small declines across the board.

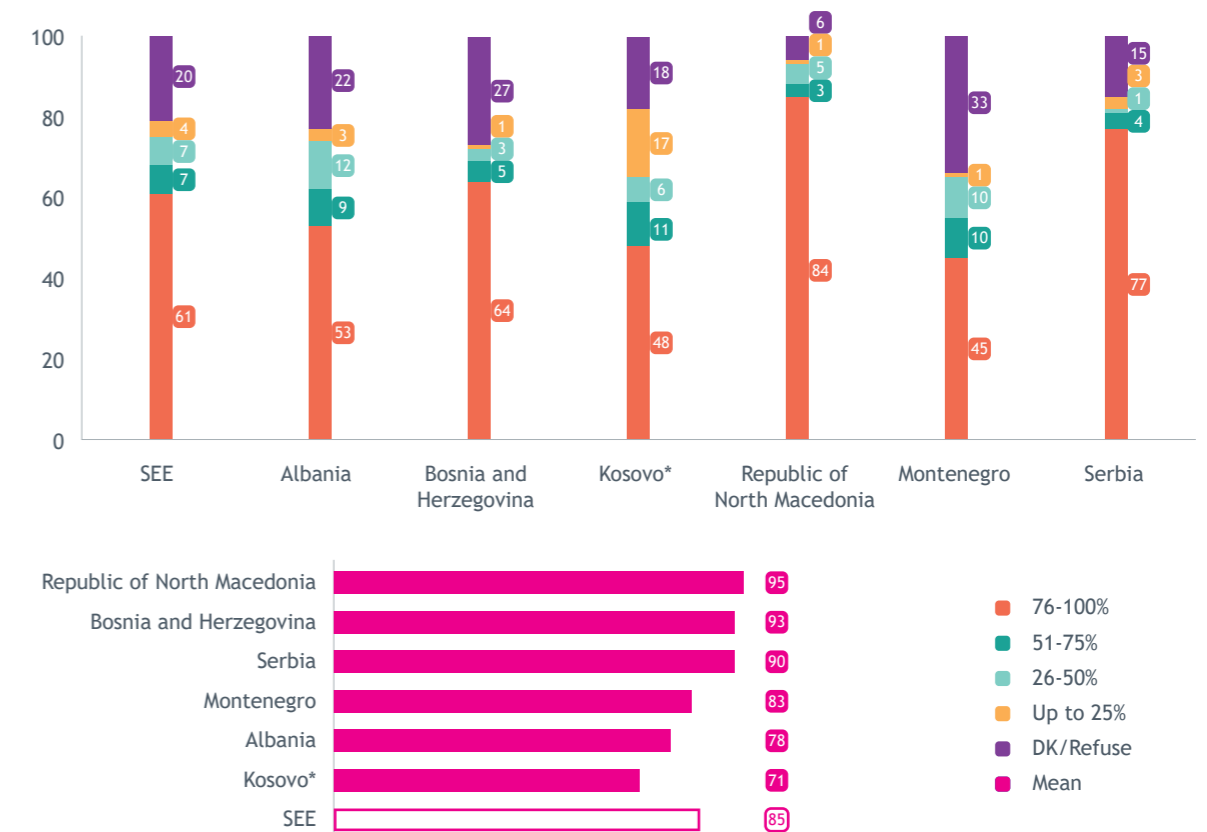
Majority of SEE businesses believe that their governments are not dedicated enough to understanding and resolving businesses' main concerns. As much as 76% of SEE businesses consider that governments pay little to no attention to their concerns. With only a fifth of businesses satisfied with the level of commitment the governments put into resolving their concerns, considerable progress will have to be made in the area of public-private dialogue and building trust.

It seems that businesses reportedly feel more neglected in 2018 that they did in 2017, as the share of those who perceive that government does not take their problems into account at all increased from 24% to 34%.

Montenegrin businesses are the most satisfied with their government dedication, as almost 40% of them believe that it considers their concerns, while only less than 20% feel totally neglected. Serbian business leaders are also somewhat more satisfied with their government's adherence than the rest of the region, as the lowest share of businesses that feel totally neglected comes from Serbia (11%). Bosnia and Herzegovina will have to do a lot more to earn businesses' trust, as 46% of them feel totally overlooked, while only 6% exhibit some satisfaction. Distribution of answers in the Republic of North Macedonia, Kosovo\* and Albania is pretty much alike the regional average.

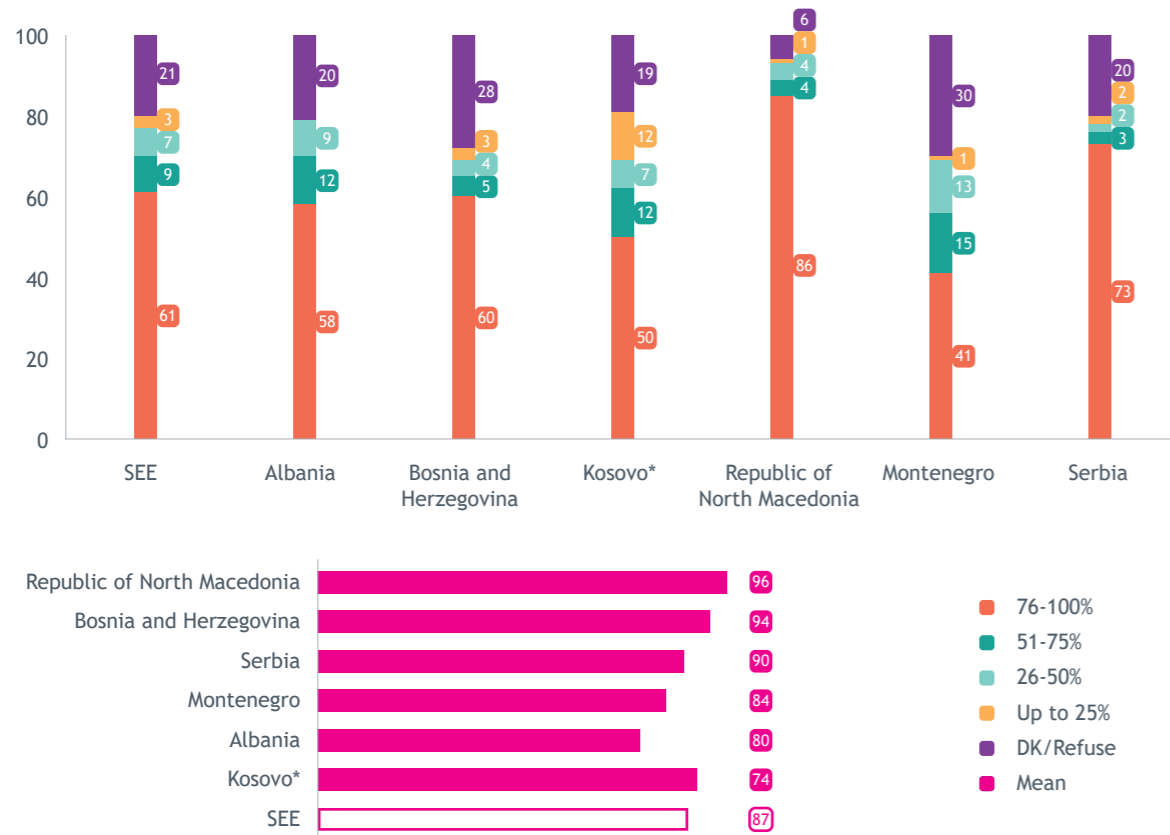
Businesses from the Republic of North Macedonia and Albania exhibited the highest drop in satisfaction in 2018, compared to 2017. The Republic of North Macedonia saw an increase in those who feel totally neglected (from 23% in 2017 to 41% in 2018), prevailing on the account of those who felt that government paid attention to their needs quite a lot. Following a similar pattern, Albania saw an in-

Figure 30: What percentage of total annual sales would you estimate a typical company in your area of business reports for tax purposes?<sup>26</sup>  
(All respondents - N=1271, share of total, %)



<sup>26</sup> The figures might not add to 100% due to rounding.

Figure 31: What percentage of the actual wage bill would you estimate a typical company in your area of business reports for tax purposes?<sup>27</sup>  
(All respondents - N=1271, share of total, %)



crease from 24% in 2017 to 44% in 2018 of those who feel neglected, although somewhat less on the account of those who felt that government adheres to their needs quite a lot. On a more positive note, Serbia has seen an increase of those satisfied, from just 12% in 2017 to an above average 23%.

It is notable that satisfaction with governments' adherence grows with the increase in company size. Thus 80% of leaders of small businesses feel neglected, while that share in the case of large companies is significantly lower - 64%. Larger companies obviously have more opportunities and channels to raise awareness on issues concerning them, compared to micro and small firms. As small companies are the cornerstone of SEE economies, comprising the largest share of revenues and employment, establishing space for sustainable dialogue and understanding is an important task for policymakers in the region.

Average SEE business typically reports 85% of its annual sales for tax purposes, as estimated by surveyed SEE business representatives. In other words, interpretation could be that shadow econo-

my in registered business sector of economy is estimated to be around 15% of revenues. Compared to previous years, this estimation is in line with the observed trend - with only exception being 2017, in which an alarming drop in estimations occurred. It should be noted that this percentage cannot be used as an approximation for entire shadow economy, as it does not include other economy subjects - such as non-registered entities operating in economy, agricultural holdings, or general government bodies.

According to SEE business representatives, percentage of actual wage bill declared to tax administration is similar to the level of declared sales and stands at 87%. Undeclared wage bill consists of both underestimated level of wages of registered workers and wages earned by unregistered workers.

Grey economy, portrayed through two-digit percentage of undeclared revenues and wage bill, heavily hinders sustainable and competitive development of SEE businesses. There are three key channels through which grey economy negatively impacts the overall economic situation:

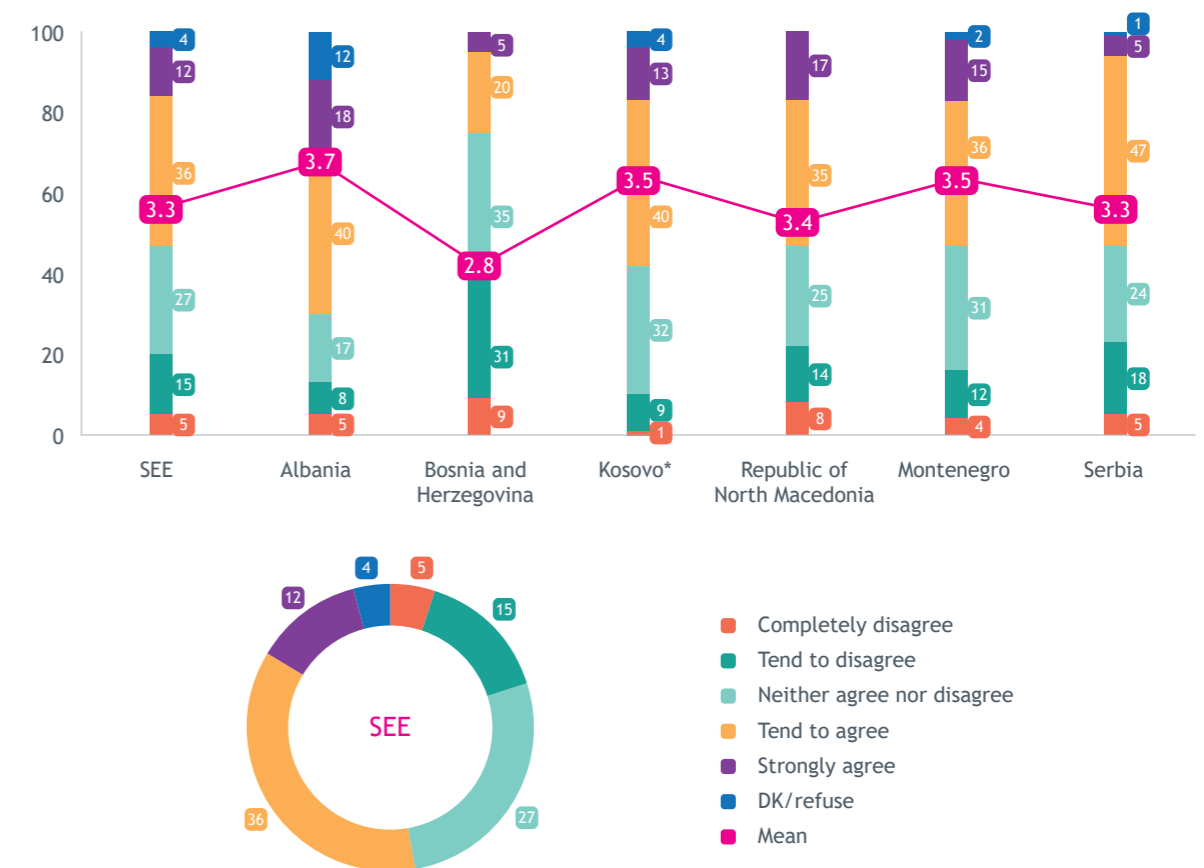
(1) unfair competition - legitimate businesses are faced with a heavy burden of taxation and social insurance payments, while their unfair competitors avoid these costs and constraints; (2) decent employment - employees are either not covered with a full social security compensations or are not even registered through valid contracts, and thus not having basic labour rights; (3) public revenues - government is not collecting all revenues it should, and therefore, the amount available for providing services and building infrastructure is reduced.

In terms of SEE economies, estimation indicates that Serbian, Bosnian, and Republic of North Macedonia businesses are the most responsible and transparent ones when it comes to reporting their revenues and wage bills. On the other hand, estimation for Albania and Kosovo\* are well below regional average. It is expected that larger companies, as well as foreign ones, as subjects of external audits, are more accountable and transparent.

In general, SEE businesses find the regulatory framework business-friendly. Almost half of them consider that laws and regulations are stable, predictable and clear, while only a fifth has expressed negative attitude. This is in line with usual assessment that rules of play in SEE economies are well established, and that the problem is rather in their implementation than in their content.

According to the survey, Albania is the economy with the most preferable regulation (3.7), with almost 60% satisfied businesses. Montenegro, Kosovo\* and the Republic of North Macedonia stand above regional average, with similar distributions of answers. Serbia stands right on the regional average, while business representatives from Bosnia and Herzegovina take the last spot (2.8). However, score dip in Serbia (from 3.6 in 2017 to 3.3 in 2018) has been the regional highest, while a massive improvement has been made in Montenegro (from 3.0 in 2017 to 3.5 in 2018). Noticeable improvement

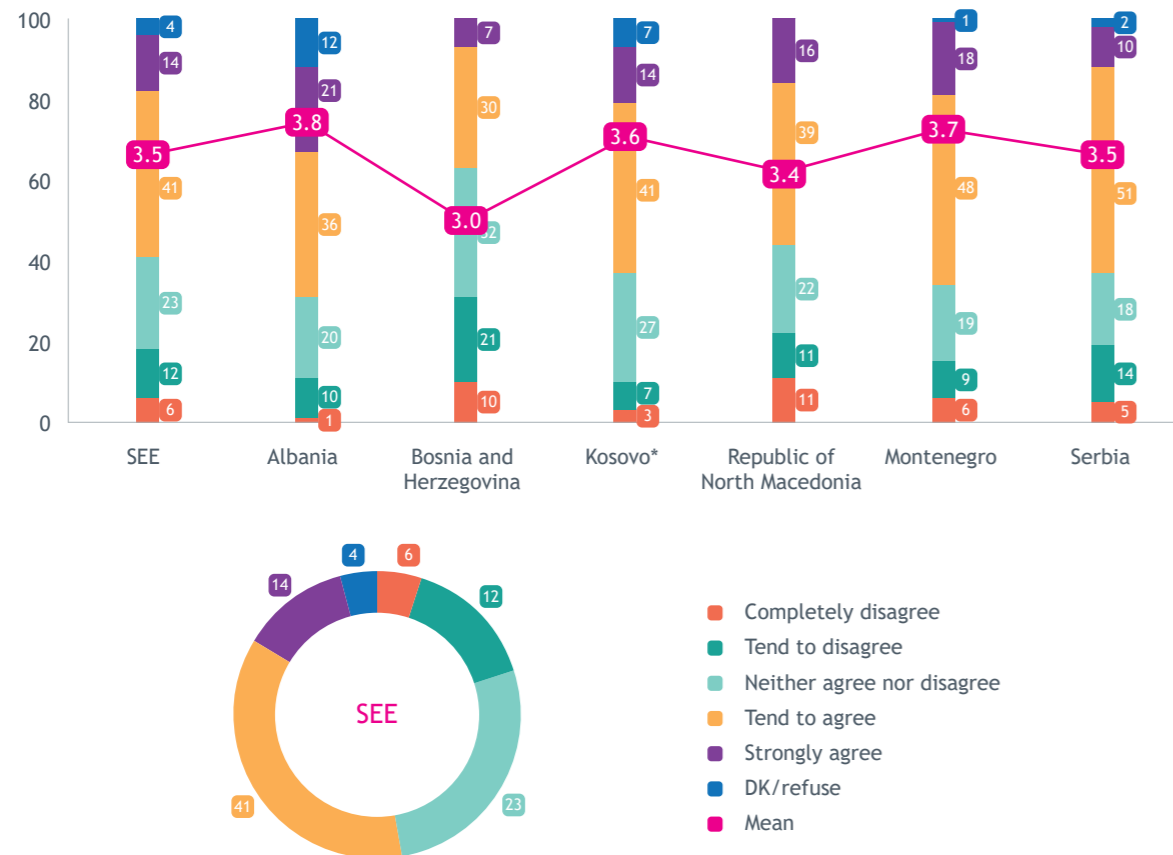
Figure 32: To what extent do you agree with the following statement - Laws and regulations affecting my company are clearly written, not contradictory and do not change too frequently?<sup>28</sup>  
(All respondents - N=1271, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)



<sup>28</sup> The figures might not add to 100% due to rounding.

<sup>27</sup> The figures might not add to 100% due to rounding.

Figure 33: 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?<sup>29</sup>  
 (All respondents - N=1271, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)



has been seen in Albania as well (from 3.5 in 2017 to 3.7 in 2018).

It is interesting to note that small companies, although expressing the feeling of being the most neglected, are in fact the most satisfied with the present regulatory framework (slightly above half exhibit satisfaction). Moreover, only one third of the large businesses' leaders are satisfied, while another third exhibits dissatisfaction. In addition, foreign companies tend to disagree that laws and regulations are clear and consistent, with every third company stating that regulatory framework should be improved.

SEE business representatives are reasonably satisfied with accessibility of relevant regulatory information for their businesses (3.5). Solid 55% of business representatives find information easily accessible, while still almost 18% exhibit dissatisfaction. Moreover, improvement has been made, although barely noticeable.

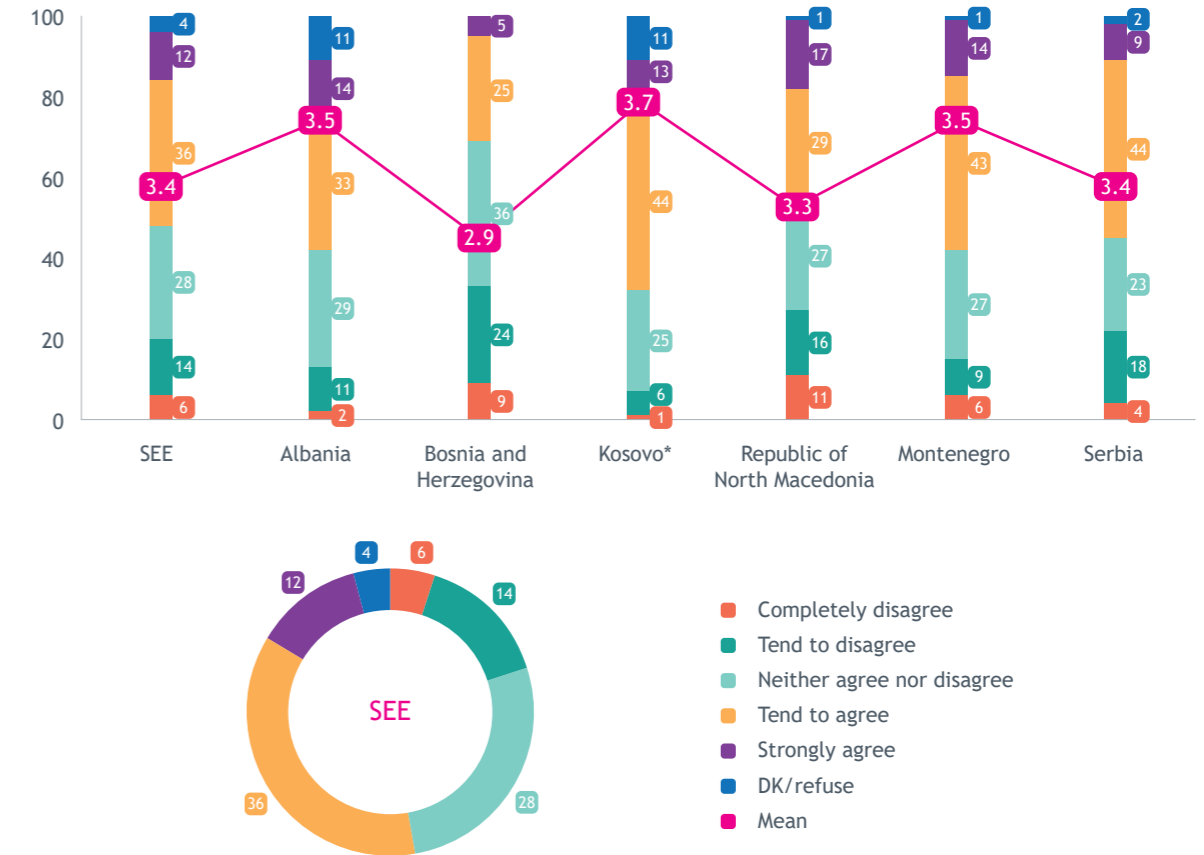
Businesses from Albania reportedly access the relevant information about laws and regulations with the most ease (3.8), with only 11% of them finding such action complicated. Montenegro (3.7) stands relatively close, as two thirds of business representatives find the information easily obtainable. Kosovo\*, Serbia, and the Republic of North Macedonia stand around the average, while same as the last year, business leaders from Bosnia and Herzegovina are the most dissatisfied (3.0).

The greatest improvement has taken place in Albania, from 3.4 in 2017 to 3.8 in 2018, and once again, Montenegro, from 3.5 in 2017 to 3.7 in 2018. The Republic of North Macedonia is again at the other end of the spectrum, with a decline from 3.5 in 2017 to 3.4 in 2018. Also, modest decline in satisfaction has taken place in Serbia and Bosnia and Herzegovina.

It is peculiar that yet again small companies (score 3.5) find it easier to access the relevant information than large companies (score 3.3).

<sup>29</sup> The figures might not add to 100% due to rounding.

Figure 34: 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?<sup>30</sup>  
 (All respondents - N=1271, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)



Relationship between business community and state administration can be assessed as only moderately satisfactory, with still less than 50% of business leaders satisfied with state administration's interpretations of the laws. Score of 3.4 remains relatively unchanged compared to last year, which is a sign that public authorities have to make more effort to bring more consistency to law implementation and execution.

Kosovo\* is the regional leader with a score of 3.7 and 57% of prevalently satisfied business leaders. Bosnia and Herzegovina is once again last with a score of 2.9 and way above average share of dissatisfied businesses (33%). It is a bit encouraging that remaining SEE economies are much closer to Kosovo\* than Bosnia and Herzegovina with respect to their scores. Some economies have made considerable efforts in comparison with the last year like Montenegro and Kosovo\*, raising their scores by 0.3. On the other hand, Serbia and the Republic of North Macedonia have suffered a slight decline (0.1).

<sup>30</sup> The figures might not add to 100% due to rounding.

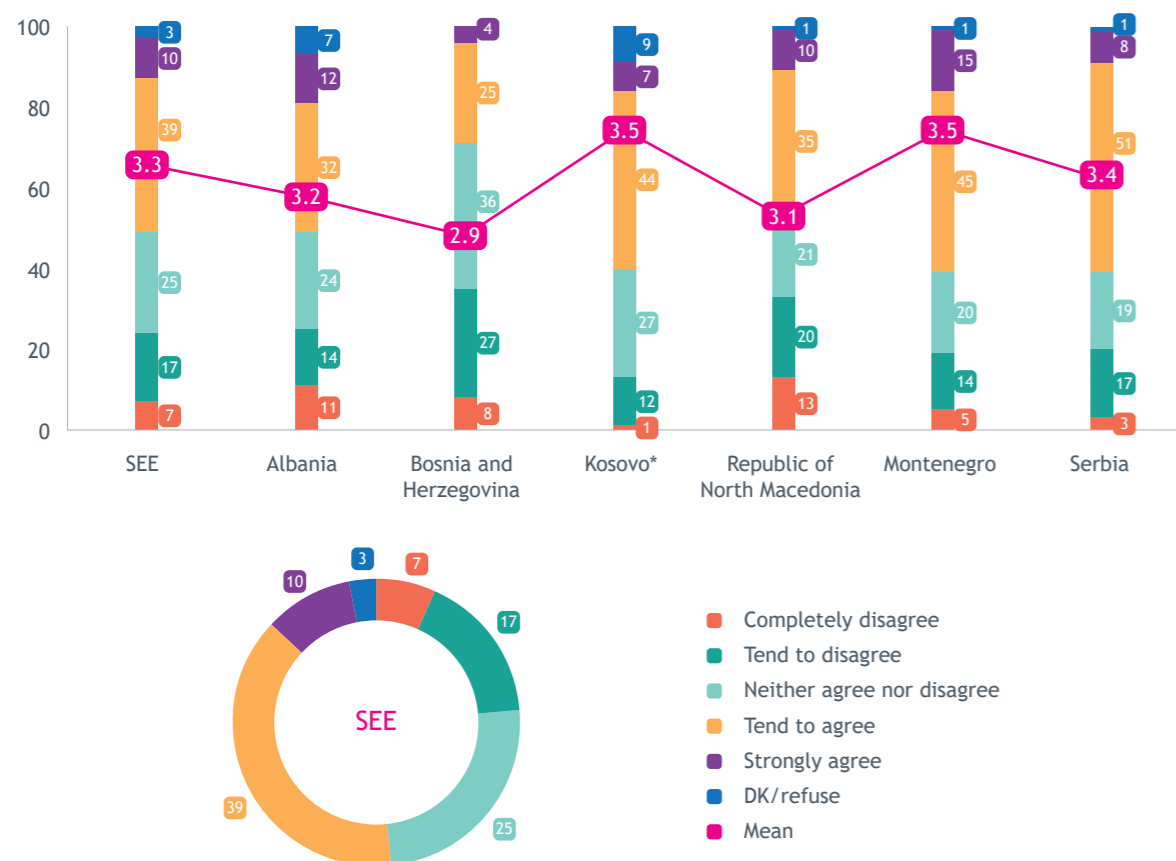
It is interesting that sizable dichotomy exists between the large companies on one side, and all others, including medium-sized on the other. Large companies have scored interpretations of the laws and regulations by state administration considerably lower (2.8) than the other companies have done (3.4 by small and 3.3 by medium ones).

Close to half of SEE businesses are satisfied with timeliness of the information provision by the governments. It is a bit surprising that businesses have exhibited more satisfaction with easiness of obtaining information (score 3.5, figure 33) than on timeliness of that procedure (score 3.3). Compared to the last year, the score deteriorated, if only a bit (3.4 in 2017).

Judging by the results of the survey, resolving information requests takes the least amount of time in Montenegro and Kosovo\* (3.5), with Serbia slightly lagging (3.4). As often the case, Bosnian business leaders express the most dissat-



Figure 35: To what extent do you agree with the following statement - Requests for information held by a government agency are granted in timely manner?<sup>31</sup>  
 (All respondents - N=1271, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)



isfaction (2.9). Most significant decrease compared to 2017 occurred in the Republic of North Macedonia (0.4), while Serbia and Albania suffered a significant decrease (0.2) as well. Albania leads the way on the positive side, with an increase of 0.3 compared to last year's results.

It seems that ownership, market orientation, size or core activities do not have an impact on satisfaction with timeliness of the information provision.

**SEE businesses express moderate satisfaction with pertinence and completeness of information provided by regulatory authorities.** Compared to 2017, there has not been a perceptible change in the regional score, as it remained stable 3.4. Again, somewhat more than half of business leaders expressed satisfaction with information they were provided with, while the number of dissatisfied remained below 20%.

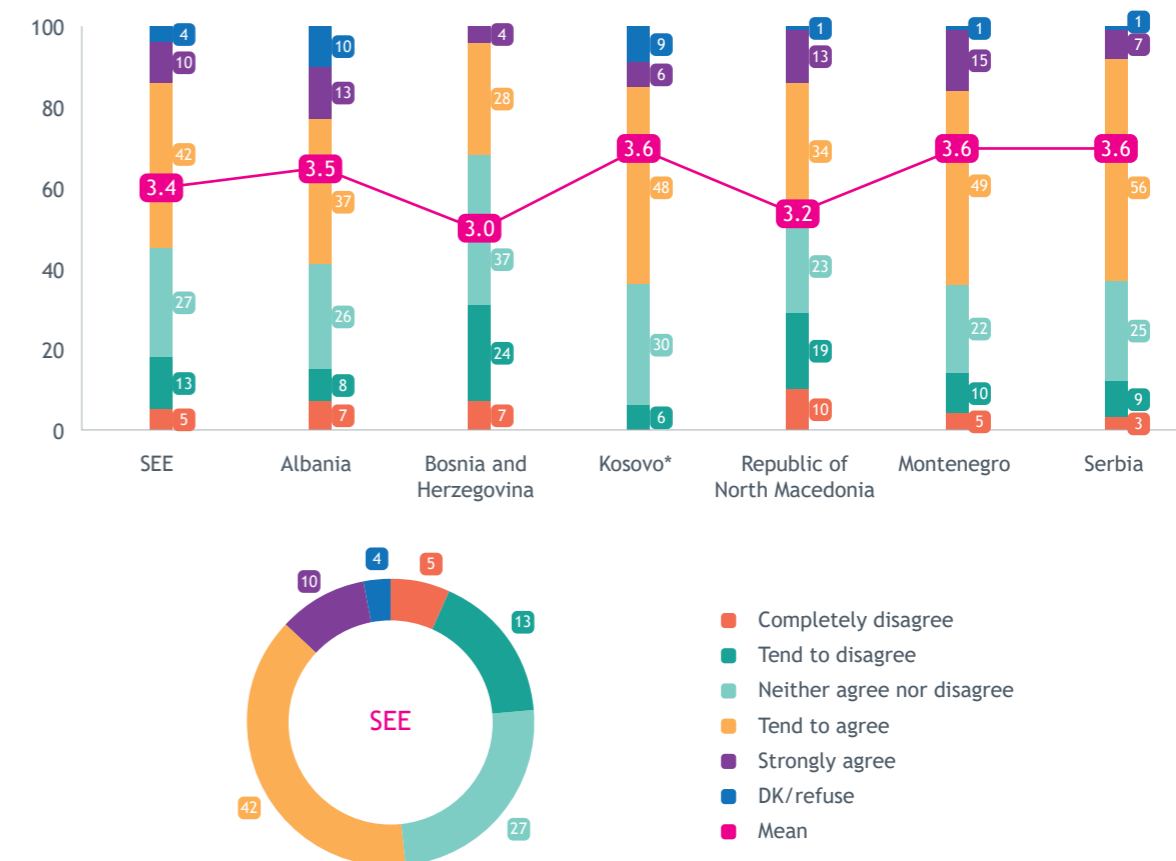
Satisfaction in this domain is evenly distributed (3.5-3.6), with typical outliers being Bosnia and Herzegovina (3.0) and the Republic of North Macedonia (3.2).

In accordance with opinion trend, the Republic of North Macedonia suffered the most significant decline compared to 2017 (0.3), while Montenegro and Albania recorded a considerable improvement relative to the same year (0.5 and 0.2 respectively).

Representatives of the large companies seem to be least satisfied, with less than 40% having positive opinion on pertinence and completeness of provided information.

**Assessment of costs imposed on getting relevant information from state authorities follows pretty much the same pattern as the rest of the group.** About one half of business representatives

Figure 36: To what extent do you agree with the following statement - The information provided is pertinent and complete?<sup>32</sup>  
 (All respondents - N=1271, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)



express satisfaction, as they find them appropriate, a quarter does not have a specific opinion, and a quarter finds them excessive. The regional score of 3.3 remains relatively unchanged compared to 2017.

Business leaders from Montenegro find the costs appropriate and justified (score 3.6, with two thirds of satisfied business leaders), while at the other end of the spectrum, those from Bosnia and Herzegovina and the Republic of North Macedonia find them disproportionate (2.8 and 2.9 respectively, with almost two fifths of dissatisfied business leaders). Again, remaining economies incline to the higher score.

Compared to last year's results, Montenegro has seen a substantial improvement in business sentiments regarding the costs imposed on getting relevant information from state authorities, while the Republic of North Macedonia experienced a decline, at 0.4 each, although in the opposite di-

rections. Similar situation, although more modest (0.2), occurred with Kosovo\* and Serbia, with former being the one that improved.

**Executives of the medium-sized companies exhibit the most satisfaction, as close to 60% find the costs appropriate,** while only slightly over 40% of large companies' executives are satisfied.

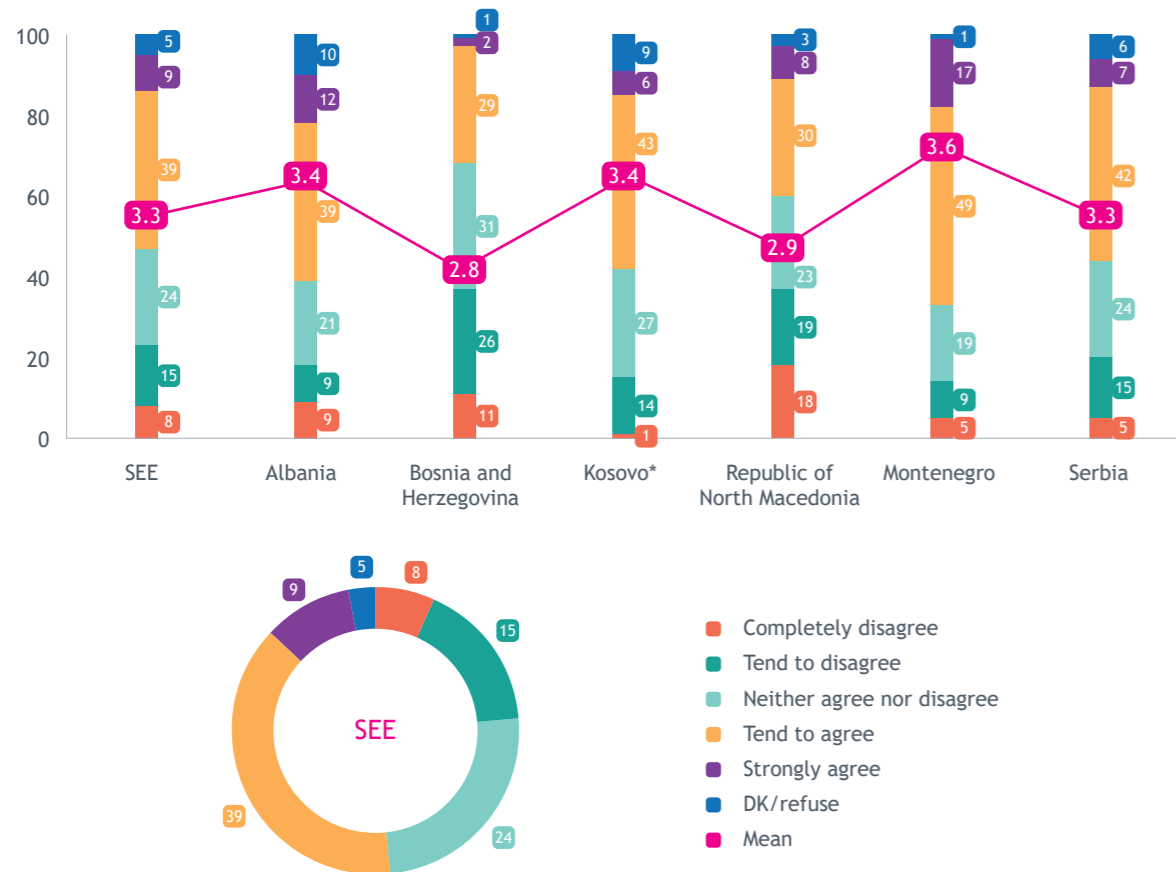
**Considering the aggregate findings of this section it does not seem that the governments of SEE managed to provide significantly improved business regulatory framework over the past year.** As no improvement has been recognised across the board, the governments will have to try to deliver more tangible results to be recognised as cooperative and supporting. Distribution of answers about (dis)satisfaction in terms of governments' performance follows the pattern - 50%-25%-25%, where 50% of the respondents are satisfied, 25% dissatisfied and 25% have no formed opinion.

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

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



Figure 37: To what extent do you agree with the following statement - Requests for information are granted at a reasonable cost?<sup>33</sup>  
 (All respondents - N=1271, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)



Still, some noticeable differences between the economies exist. Developments in Montenegro and the Republic of North Macedonia over the past year tend to skew the score, although moving in opposite directions. Montenegro has reportedly taken a big step forward in creating consistent regulatory framework, making relevant information available on time and at a reasonable cost. On the other hand, in the Republic of North Macedonia there is a sense of dissatisfaction that has enfeebled the relationship with businesses as well. Nevertheless, the decline was not deep enough to put the Republic of North Macedonia below Bosnia and Herzegovina. Low average score of 2.8 with almost 40% of the unsatisfied business leaders should raise some red flags for the Bosnia and Herzegovina government. Albania and Kosovo\* made some progress (0.1 and 0.2 respectively), and with an average score of 3.4 they are closer to Montenegro and Serbia. Kosovo\* has made the most improvement in timeliness of information granting and predictability and stability of laws and regulations.

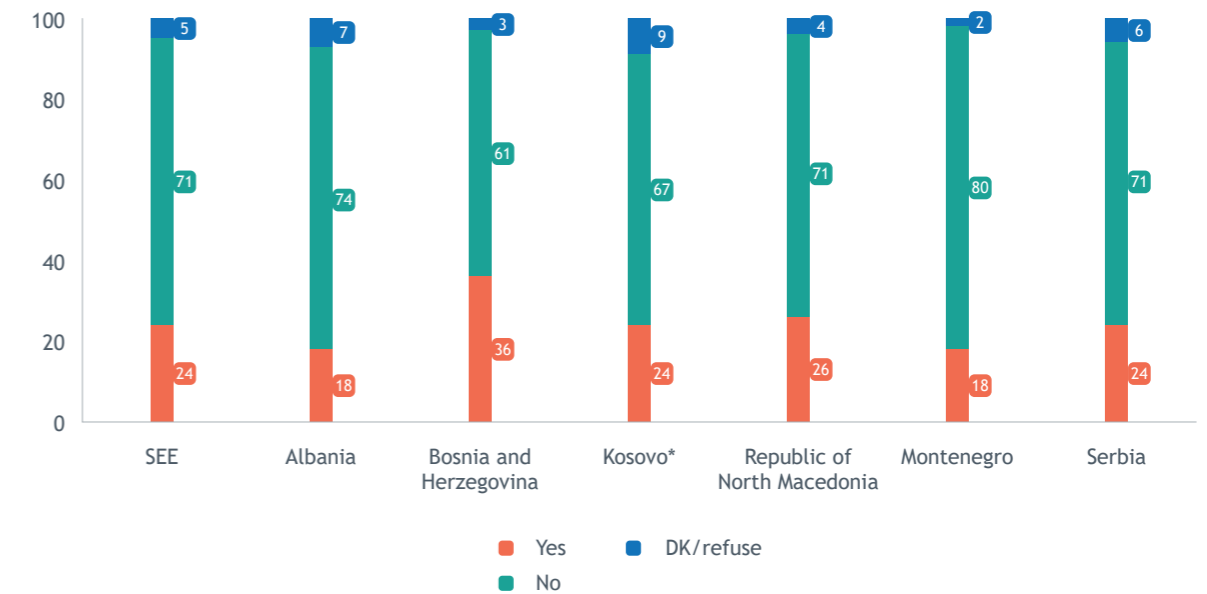
Close to a quarter of businesses decided to skip on participating in public tender or procurement, although they believe they could have offered the goods or services solicited. With generally unchanged confidence in governments' actions, situation with public tenders and procurements has not altered much since 2017.

The practice of skipping on participation is the least common in Montenegro and Albania (only 18% decided to skip). Business leaders from Bosnia and Herzegovina are the most reluctant to participate in public tenders and procurements (36%), which is expected to some extent, given their overall lack of trust in public authorities. Serbia, Kosovo\* and the Republic of North Macedonia are positioned close to regional average.

The most significant loss of willingness to participate has taken place in Serbia (number of those who decided not to participate rose from 14% in 2017 to 24% in 2018).

<sup>33</sup> The figures might not add to 100% due to rounding.

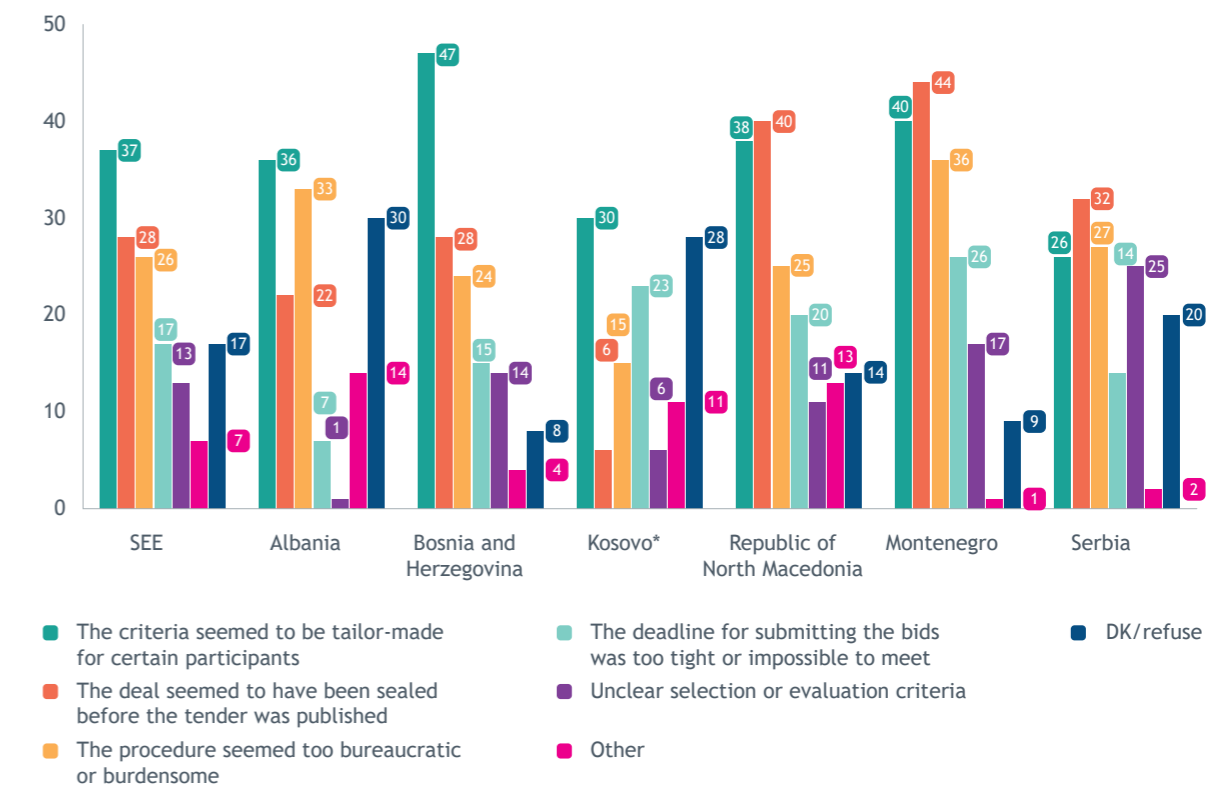
Figure 38: In the past three years, has your company decided not to take part in a public tender or a public procurement procedure even though you could have offered the goods or services solicited?<sup>34</sup>  
 (All respondents - N=1271, share of total, %)



Foreign-owned companies decide not to take part in public tenders and procurements much more often (41%) than their domestic-owned peers (23%).

Also, the practice of avoiding public tenders is more common with exporters than non-exporters.

Figure 39: If yes, was it for any of the following reasons? - Multiple answers allowed  
 (Respondents whose company decided not to take part in a public tender or a public procurement procedure - N=306, share of total, %)



<sup>34</sup> The figures might not add to 100% due to rounding.

Figure 40: What is the share of the public procurement market in your company's last year overall turnover?<sup>35</sup>  
(All respondents - N=1268, share of total, %)



**Belief that the criteria for public procurement are tailored for certain participants is still the dominant reason why SEE companies decide not to participate in public tenders and procurements (37%).** Nevertheless, this reason is cited less and less frequently since 2016, when it was as high as 60%. Second most prevalent reason remains the impression that the deal seemed to have been sealed, making the tender just a formality (28%). Rather than to further simplify the bureaucratic procedures, it seems that public authorities have made them even more complicated (up to 26% from 18% in 2017).

Montenegrin businesses that decided not to participate in the tenders doubt their legitimacy the most (pre-tailoring, and sealing the deal before the tender announcement), and find them the most bureaucratically burdensome. Only a bit better situation occurs in the Republic of North Macedonia, while Bosnian executives tend to cite similar reasons. Business executives from Serbia report unclear selection or evaluation criteria (25%) more than any other SEE economy.

The most significant gain in trust in public authorities, when it comes to public tenders and procurements, seems to have taken place in Serbia, where tailored criteria for a specific bidder are reported as a reason in only 26%, compared to 41% in 2017.

**Public procurements on average account for 13% of overall company's turnover in SEE.**

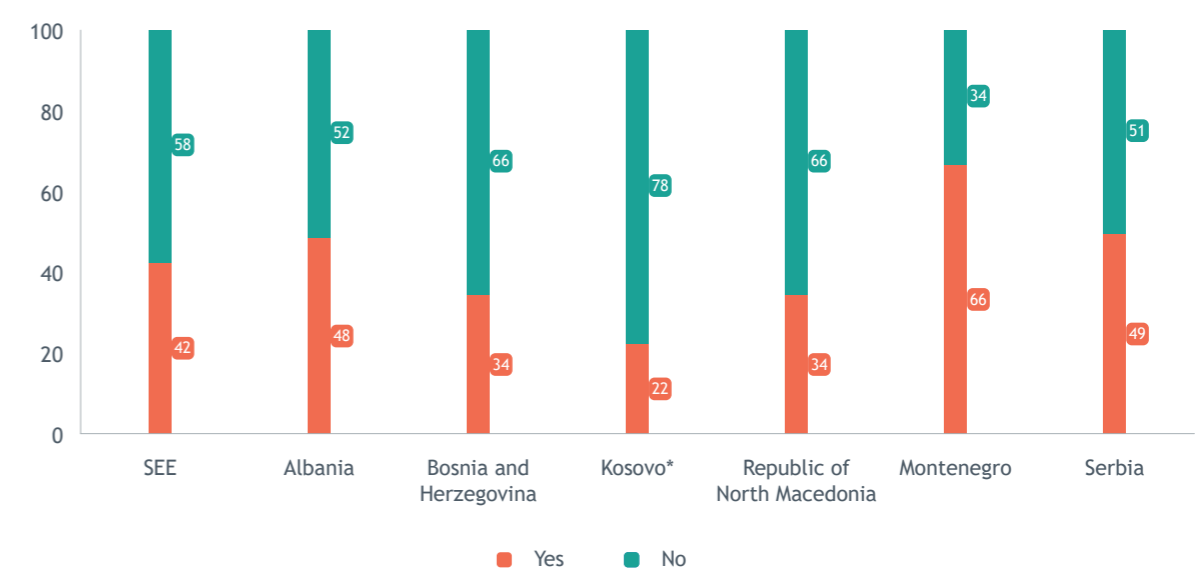
Companies from Kosovo\* stand out as most dependent on public procurements since they account for almost a quarter of their turnover. Companies from other economies are either close to average or slightly below.

**Public procurement bodies have contacted 42% of SEE businesses over the course of previous 3 years.** Compared to 2017 survey results, it is obvious that intensity of communication has fallen, as that represents 11 point decrease.

This practice is the most common in Montenegro (66%) and the least common in Kosovo\* (22%). Most

<sup>35</sup> The figures might not add to 100% due to rounding.

Figure 41: Have you been contacted for any reason by some public procuring entities over the previous 3 years?  
(All respondents - N=506, share of total, %)



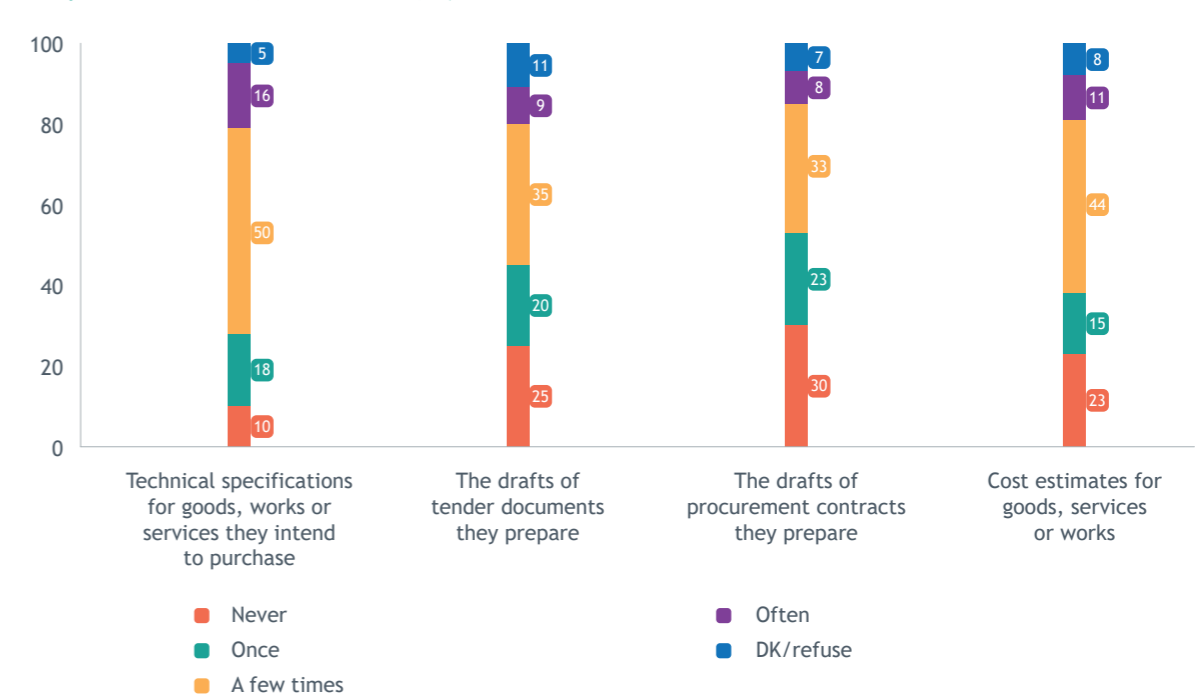
significant 2017 to 2018 changes occurred in Kosovo\* (-19 points) and Serbia (-11 points).

Size of the company is closely correlated with probability of being contacted, as 70% of large firms stated that they have been contacted in previous three years, while only 30% of micro

companies had an interaction with public procuring entities.

**Same as last year, public procurement bodies contact SEE companies most often about technical specifications (66%) and cost estimates (55%).** Moreover, compared to 2017, public procurement

Figure 42: Over the past three years, how often have public procuring entities been in contact to consult you on the following? REGIONAL OVERVIEW<sup>36</sup>  
(All respondents - N=210, share of total, %)



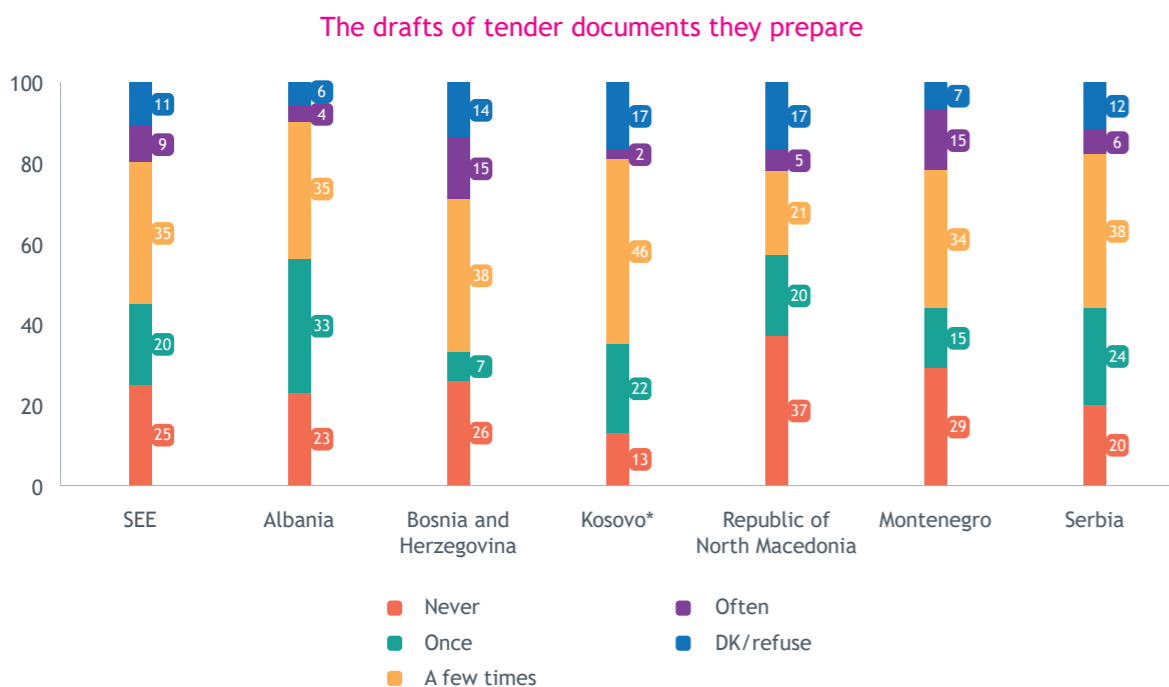
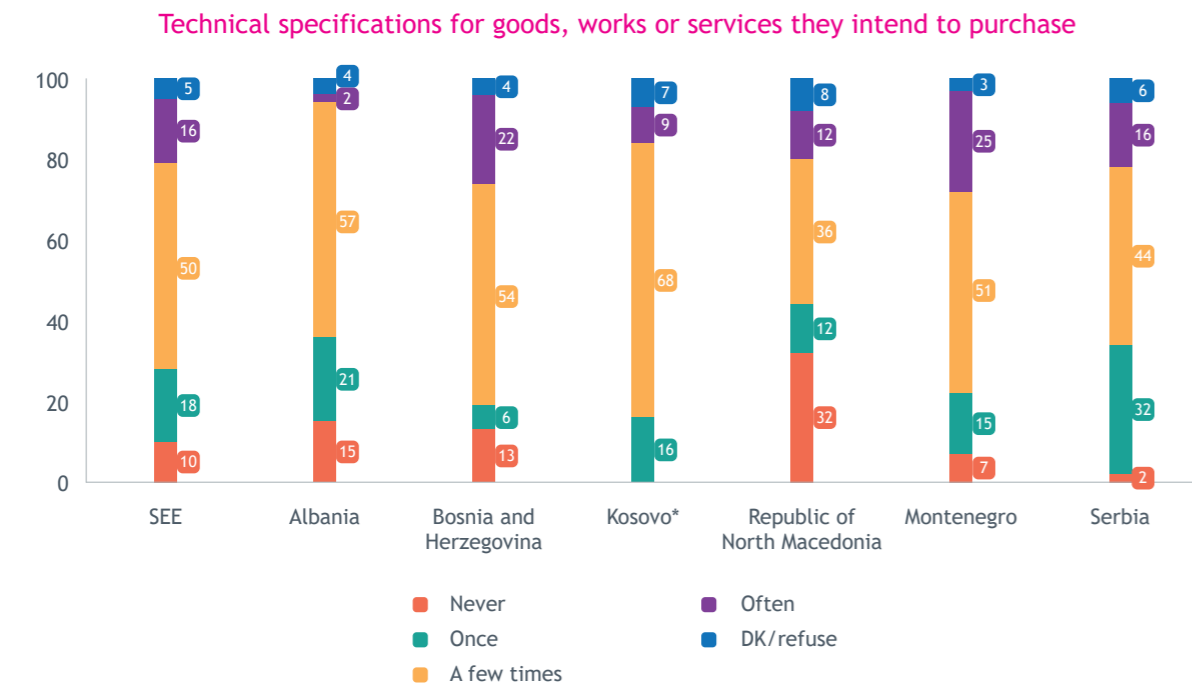
<sup>36</sup> The figures might not add to 100% due to rounding.

bodies seem to put less emphasis on the cost estimates, as they contact business more sporadic on this topic. Communication about the tender and procurement drafts between businesses and public entities seems to be on a slight decline as well.

about the technical specifications (around three quarters of businesses being frequently contacted) than their SEE peers. Serbian businesses are less involved in the process of drafting the tender or public procurement documentation and cost estimates. Due to insufficient sample size, it is not possible to analyse other individual economies as it would provide unreliable results.

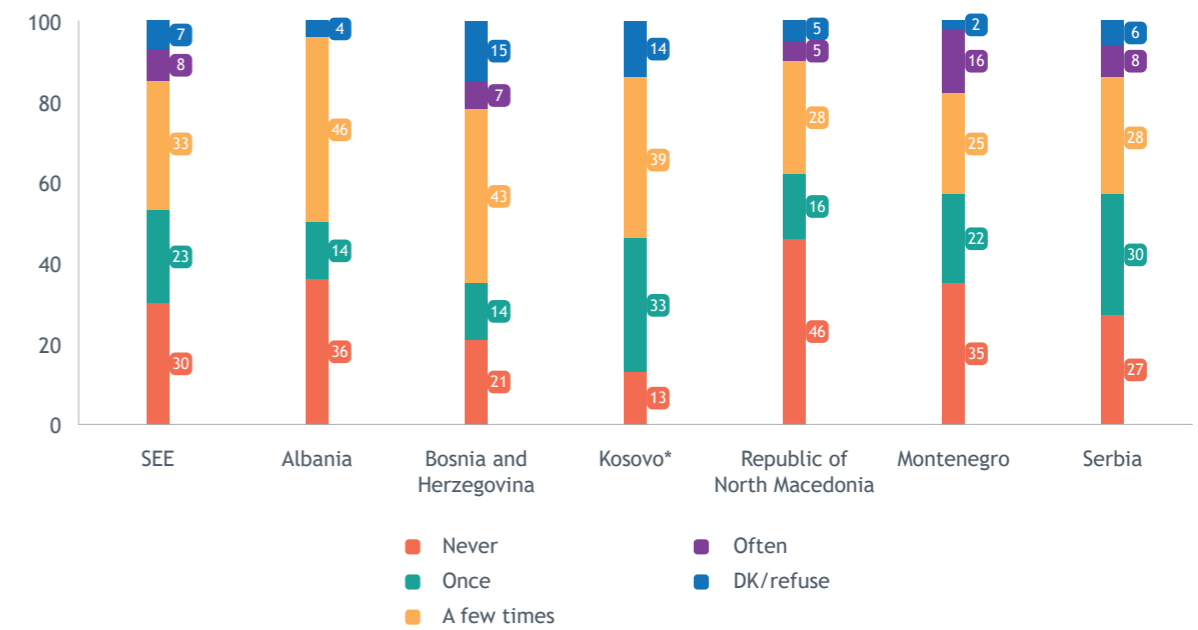
Businesses from Montenegro are contacted more often to provide assistance or information

Figure 43: Over the past three years, how often have public procurement entities been in contact to consult you on the following? ECONOMY OVERVIEW<sup>37</sup>  
(All respondents - N=210, share of total, %, \*denotes insufficient sample size)

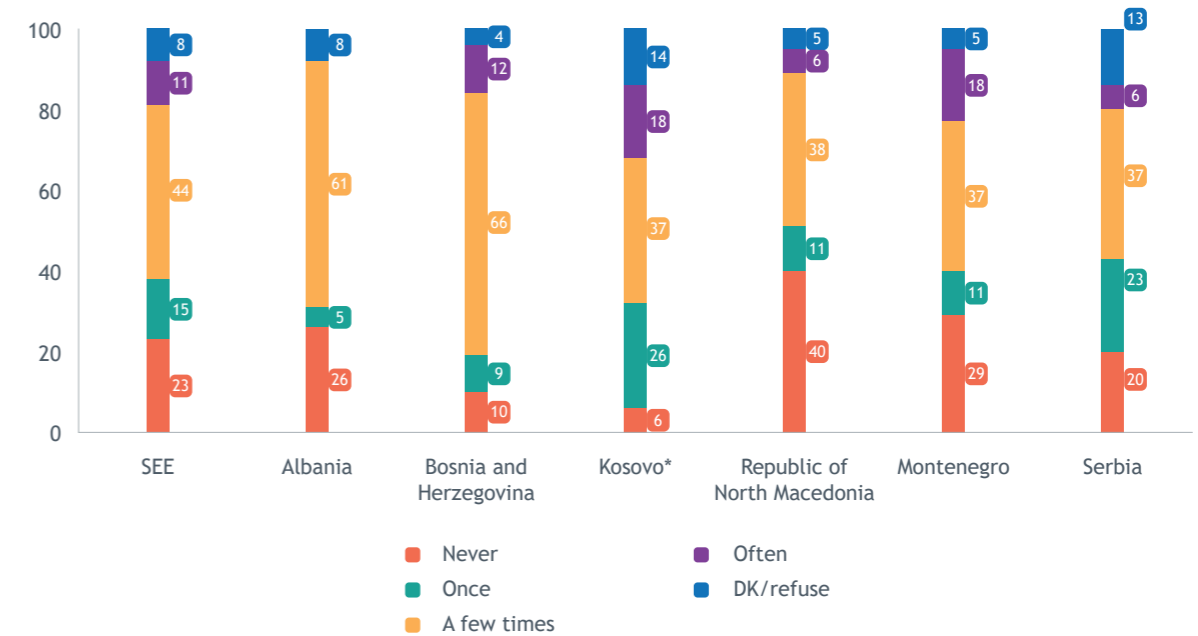


<sup>37</sup> The figures might not add to 100% due to rounding.

### The drafts of procurement contracts they prepare



### Cost estimates for goods, services or works



Only 41% of SEE companies consulted manuals produced by the national procurement bodies when applying for the public tenders and procurements. This significant decline in the number of users (in 2017 50% of executives reported using manuals) has largely been driven by the huge decline in Albania, where only 29% of businesses reported relying on manuals, compared to 76% in 2017.

Moreover, in all other SEE economies but Serbia, the trend of companies relying less on manuals is present, although decline does not surpass

8 points. Contrary to the regional trend, Serbian businesses consulted the manuals more often in 2018 than in 2017 (57% compared to 46%).

Satisfaction with guidelines and manuals used for solving practical problems for public procurement in SEE, although still moderately positive, has slightly faded in 2018 (to 3.3 from 3.5 in 2017). Approximately 40% of business leaders find them useful or very useful in 2018, compared to more than a half in 2017.

Figure 44: Have you used guidelines or manuals produced by the national procurement authority in the past three years? (All respondents - N=506, share of total, %)

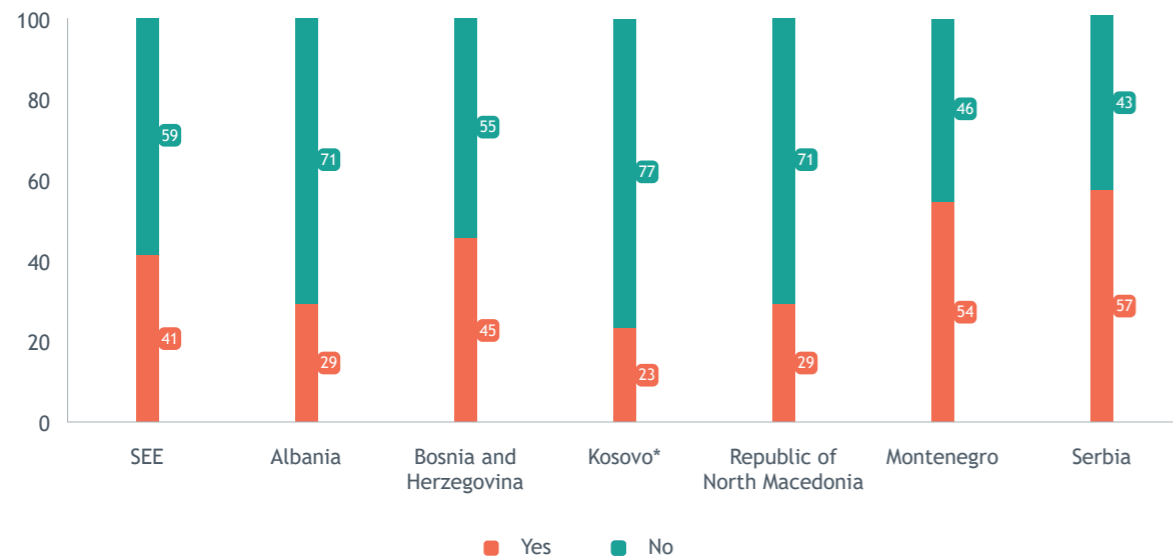
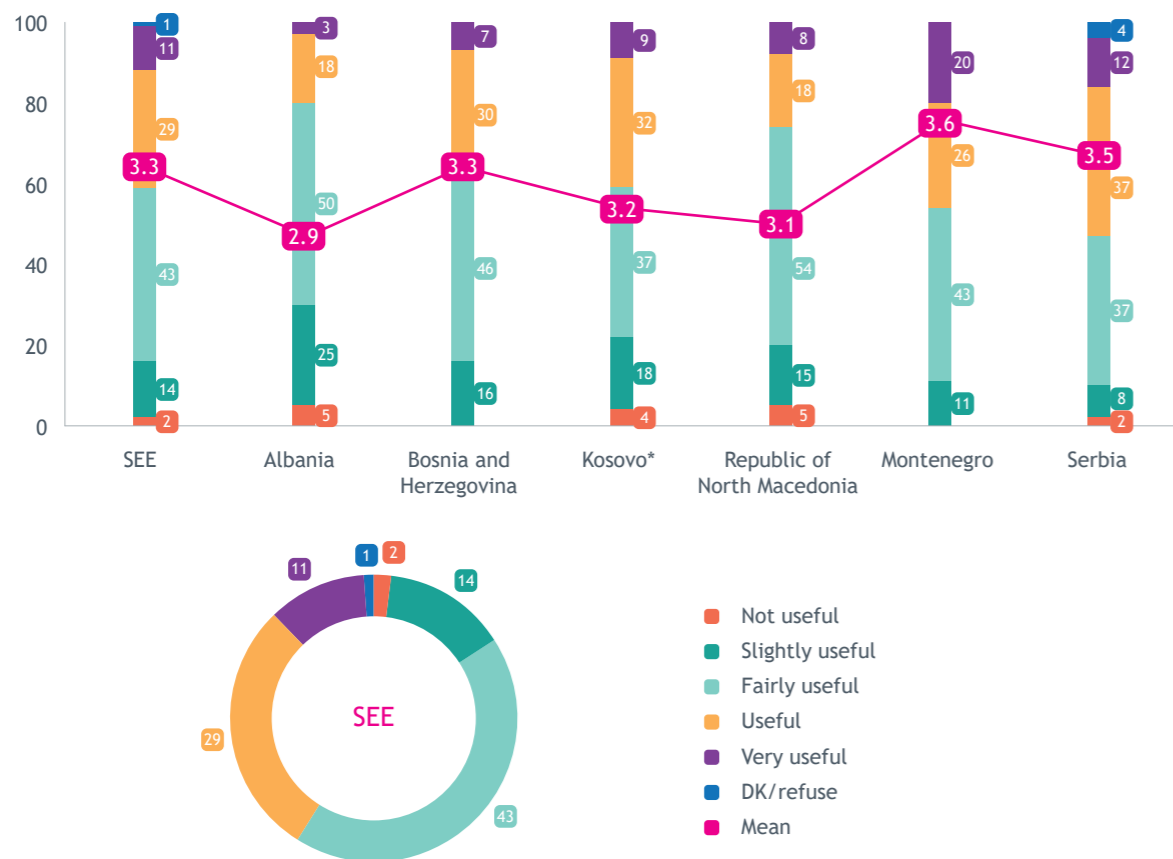
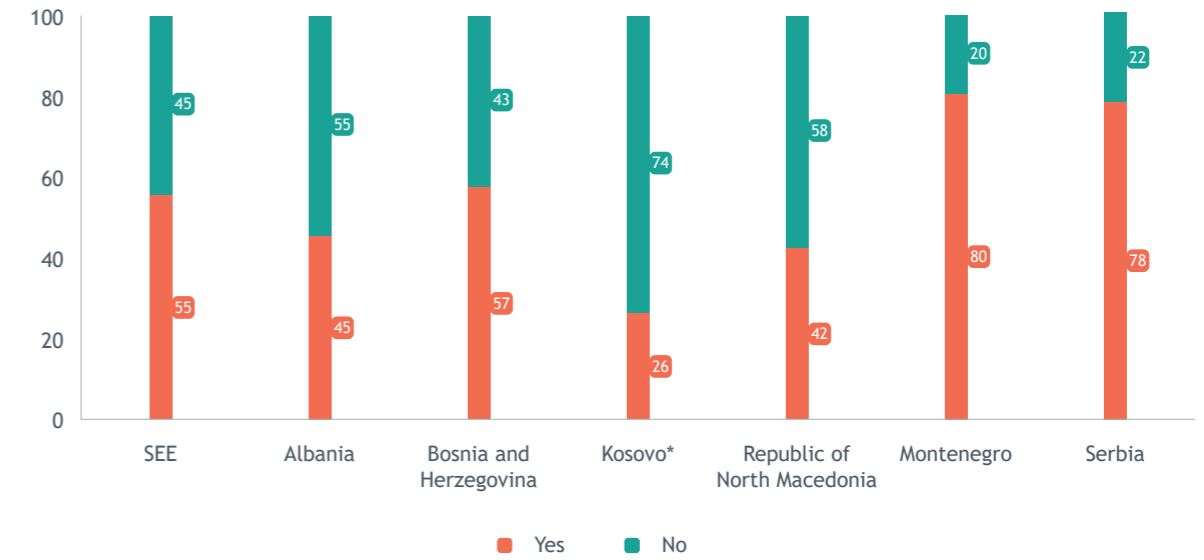


Figure 45: In general, how useful were the guidelines and manuals you used for solving your practical problems?<sup>33</sup> (Respondents who have used guidelines or manuals produced by the national procurement authority in the past three years - N=205, scores are on a scale of 1 to 5 where 1 means not useful and 5 very useful, share of total, %, mean, \*denotes insufficient sample size)



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

Figure 46: When participating in public procurements, have you used the standard forms or models provided by the national procurement authority in the past three years? (All respondents - N=506, share of total, %)



Montenegrin companies that are among the most frequent users of the manuals according to this survey, seem to be the most satisfied (3.6), with Serbia (3.5) being relatively close as well. Almost half of business executives from these two economies find the manual prevalently useful. Executives from Bosnia and Herzegovina express satisfaction in line with regional average.

Large decreases in satisfaction with manuals in Albania and the Republic of North Macedonia, although skewing the score, cannot be reliably interpreted, due to insufficient sample size. Similar situation is with Kosovo\*, with significantly better score, but yet again, coming from insufficient sample size.

Nevertheless, of those economies with representative sample, slight decline has been noted in Bosnia and Herzegovina and Serbia, while in Montenegro the score remained largely unchanged.

**Around 55% of the companies have reported using the standard forms when participating in public procurements over the last three years.** As two thirds reported doing so in 2017, this represents a significant decline.

Montenegro and Serbia are the economies that reported relying on standardised forms the most in the region (around 80%). All other SEE economies except Bosnia and Herzegovina decide more often not to rely on the forms. Businesses from Kosovo\* do not find the forms convenient, as only 26% conveyed using them.

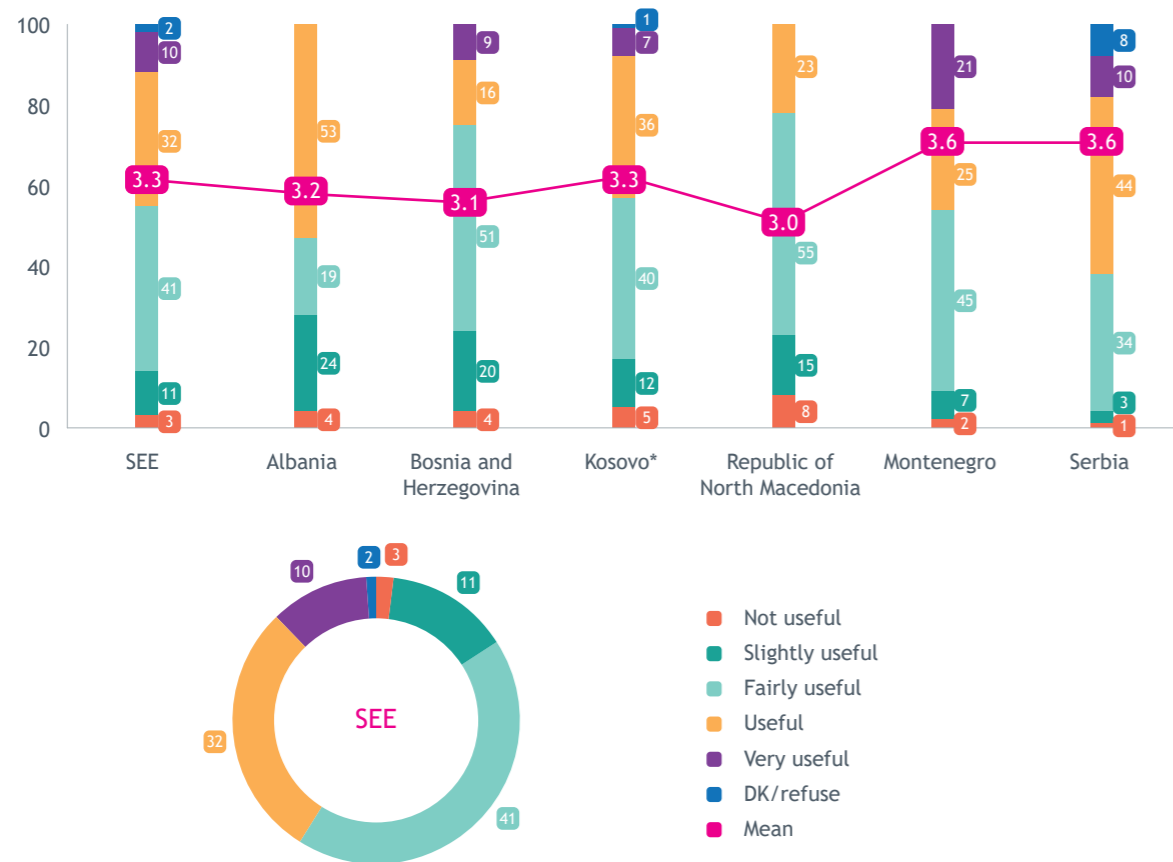
Primary users, Serbia and Montenegro reportedly rely on them somewhat more in 2018 than in 2017. Sharpest decrease in usage can be spotted in Albania, where only 45% use them, compared to almost 80% in 2017.

It seems that convenience of standard forms increases with the size of the company. Micro-enterprises reported relying on standard forms in only 39% of the cases when they have taken part in public procurements. On the other hand, medium-sized companies reportedly rely on them in 70% of the cases. Share for the larger companies is even greater, although coming from an insufficient sample size.

**SEE business leaders that reported relying on standardised forms or models in public procurement procedures find them only moderately useful (3.3).** Moreover, there has been a significant drop in satisfaction compared to 2017 (score 3.6). In 2018 42% of SEE company leaders have been satisfied with standard forms, while in 2017, this share was well above 50%. Decline in satisfaction primarily comes from Bosnia and Herzegovina and the Republic of North Macedonia, where only a quarter of businesses express prevailing satisfaction (3.1 and 3.0 respectively). Expectedly, primary users, Montenegro and Serbia find them the most purposeful (3.6).



**Figure 47: How would you rate the usefulness of the standard forms or models?**<sup>39</sup>  
 (Respondents who have used the standard forms or models provided by the national procurement authority in the past three years - N=281, scores are on a scale of 1 to 5 where 1 means not useful and 5 very useful, share of total, %, mean, \*denotes insufficient sample size)



Slightly less than a quarter (23%) of SEE companies decided to take part in training on public procurement to acquire additional knowledge about the procedures and practices. Compared to 2017 (28%), this represents a slight decrease.

Attending this type of training is reportedly most common in Montenegro (42%) and Albania (30%), while it is least common in Serbia (12%) and in Kosovo\* (17%). In fact, only the Republic of North Macedonia has the share similar to regional average.

Surprisingly, there is no significant correlation between training attendance and revenue coming from public procurements economy-wise.

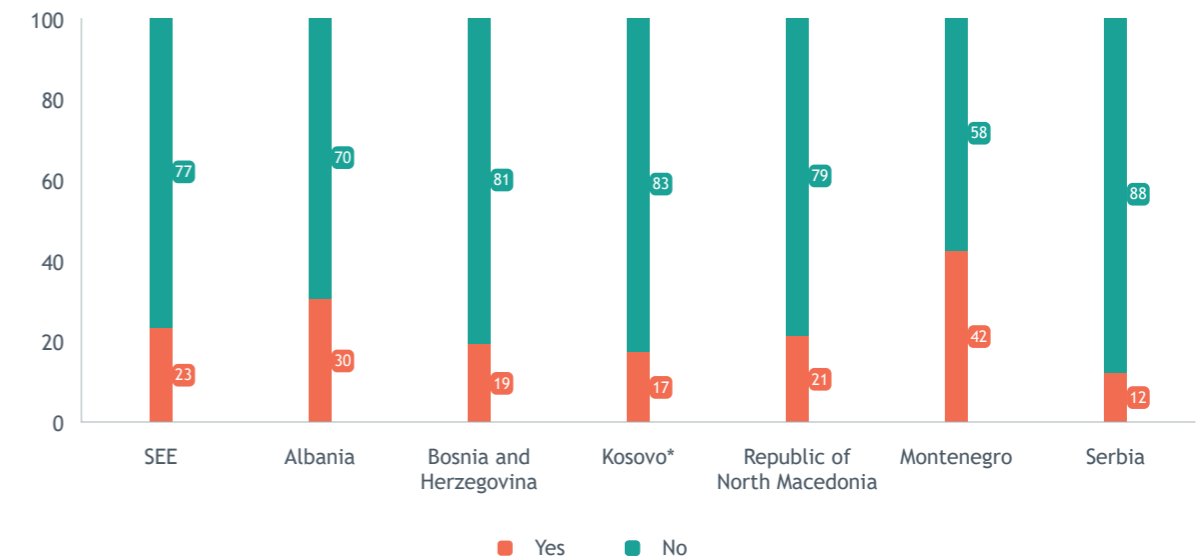
Training on public procurement is seemingly more suitable for companies with more employees. Micro-enterprises reported attendance only in 14% of the cases, while medium-sized enterprises reported taking part in training in 28% of the cases.

Training in public procurement procedures is found considerably useful, as regarded by more than 60% of business leaders in SEE (score 3.8). Compared to 2017, situation remains largely unchanged.

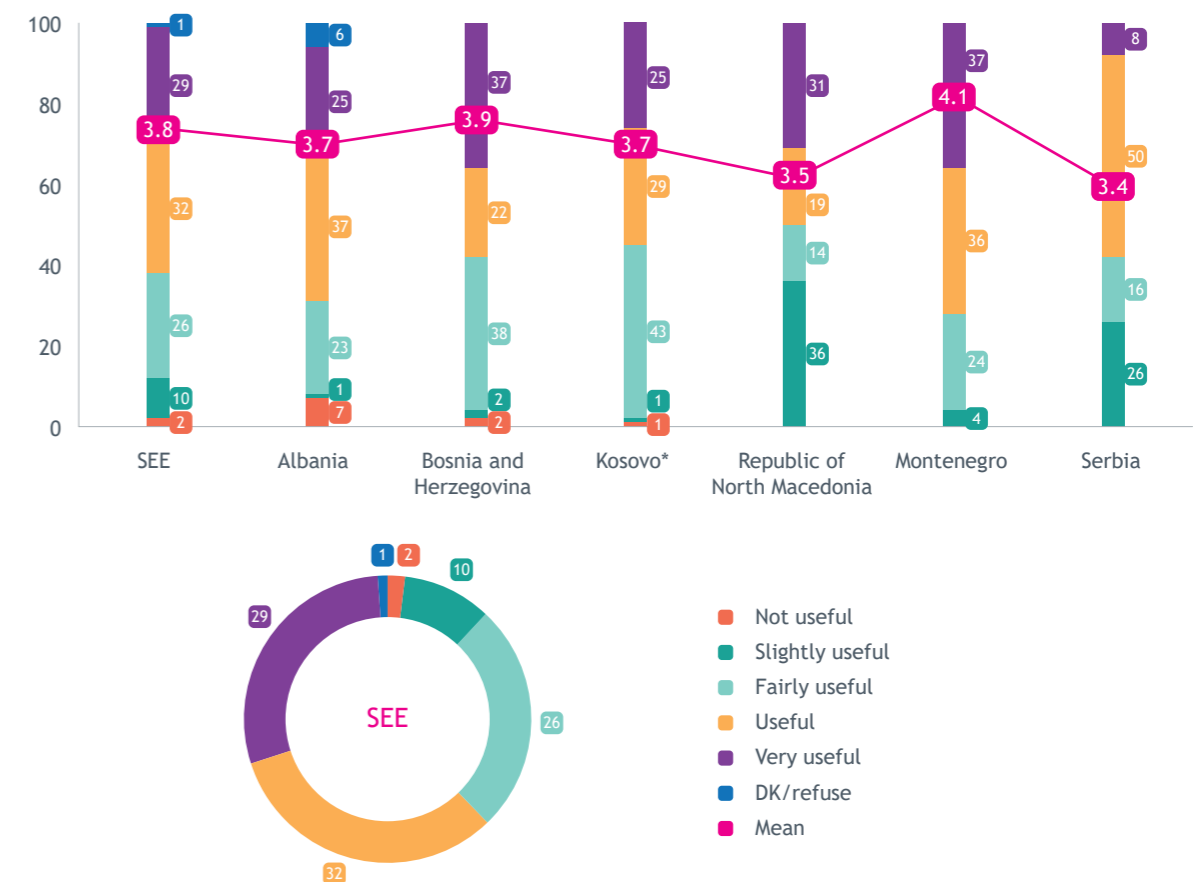
Montenegrin businesses that rely on training the most exhibit the highest level of approval, with almost three quarters largely satisfied (score 4.1). Results of the survey for other economies, although skew the score of SEE, should not be interpreted separately, due to inadequate sample size.

The practice of contacting national procurement authorities for help or support is not widespread in the SEE region. Only 14% of corporate leaders reported to have been in contact, largely unchanged from 2017.

**Figure 48: Have you or somebody else from your company attended any training on public procurement in the past three years?**<sup>40</sup>  
 (All respondents - N=506, share of total, %)



**Figure 49: How would you rate the usefulness of the training in general?**<sup>41</sup>  
 (Respondents who have attended training on public procurement in the past three years - N=115, scores are on a scale of 1 to 5 where 1 means not useful and 5 very useful, share of total, %, mean, \*denotes insufficient sample size)



<sup>39</sup> The figures might not add to 100% due to rounding.  
<sup>40</sup> The figures might not add to 100% due to rounding.  
<sup>41</sup> The figures might not add to 100% due to rounding.

Figure 50: Have you contacted the national procurement authority for advice or other support in the past three years?

(All respondents - N=1271, share of total, %)

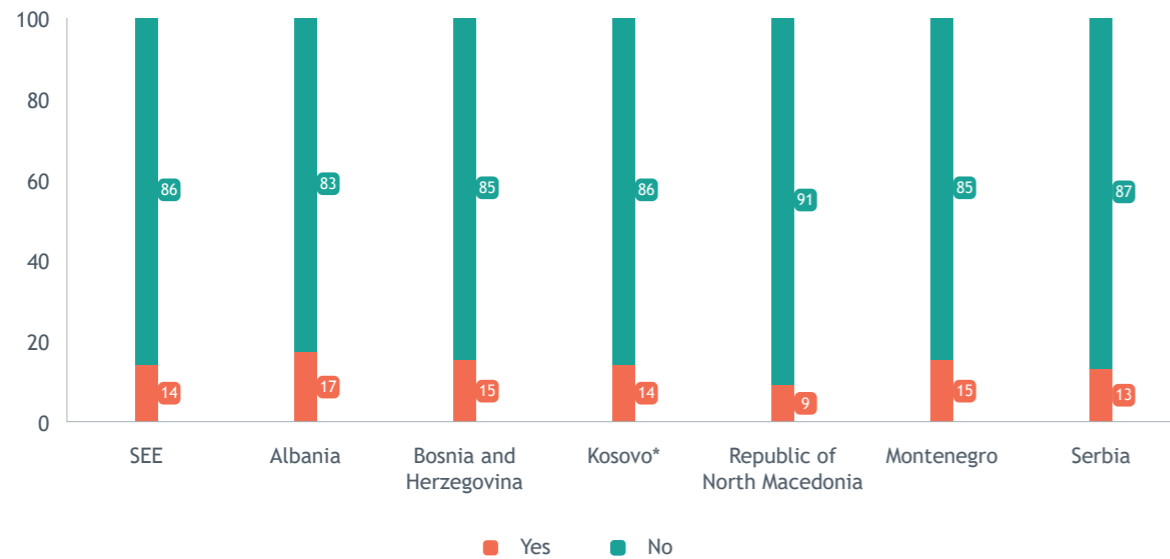
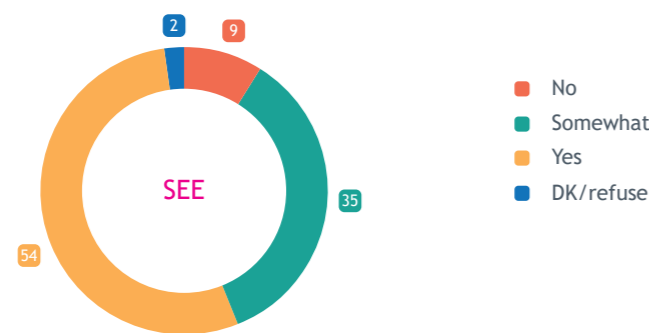
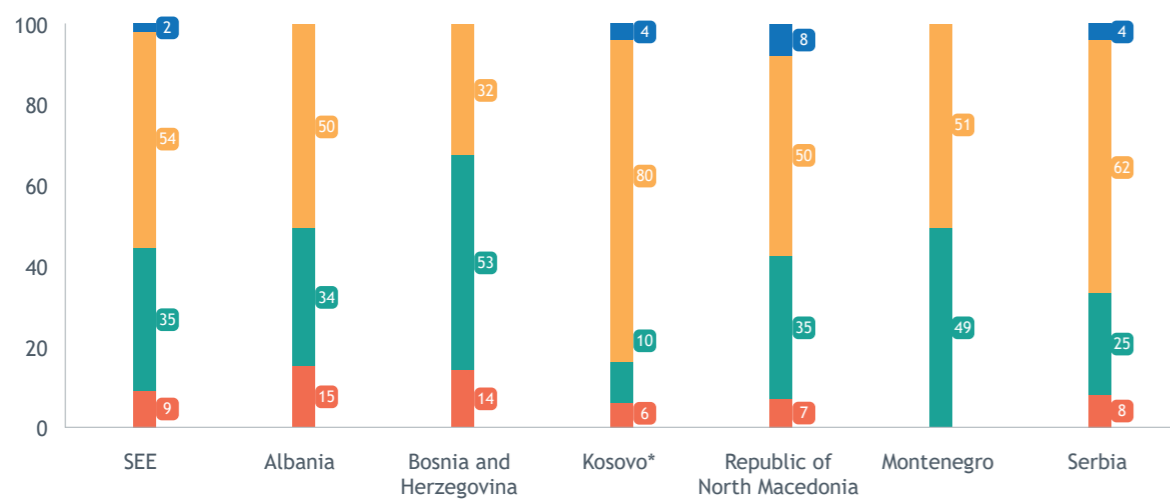


Figure 51: Were the answers provided generally helpful?<sup>42</sup>

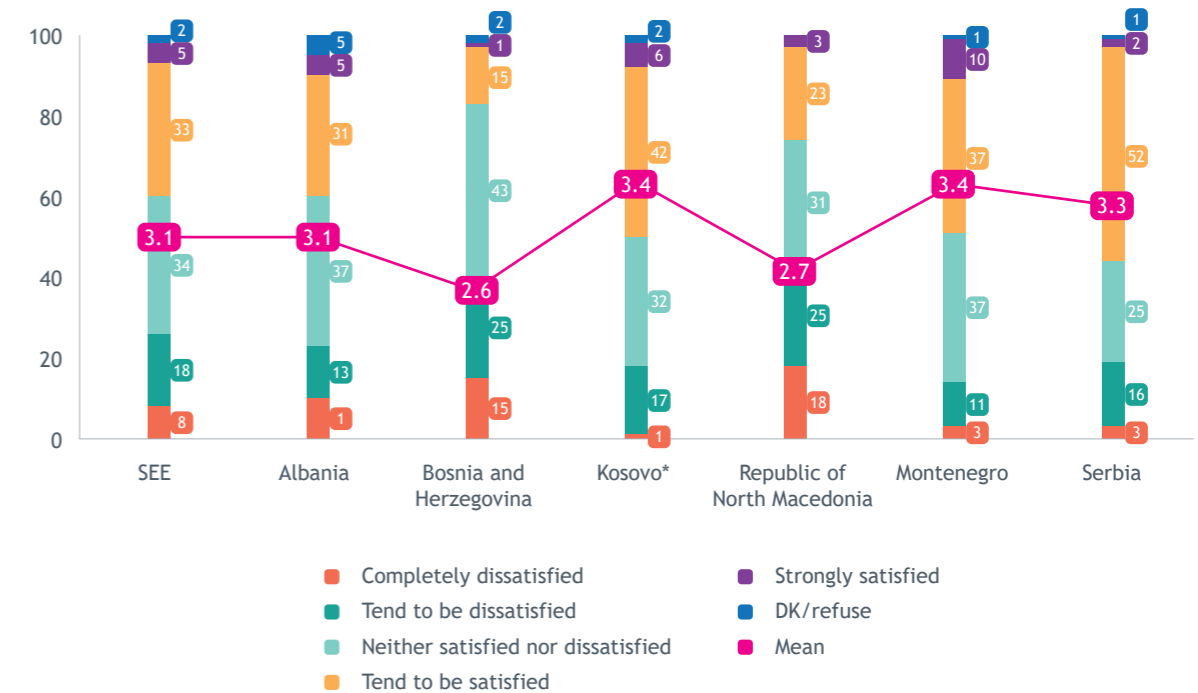
(Respondents who have contacted the national procurement authority in the past three years - N=172, %, \*denotes insufficient sample size)



<sup>42</sup> The figures might not add to 100% due to rounding.

Figure 52: Could you please tell me how satisfied you are with each of the following in your place of living - Public services for businesses?<sup>43</sup>

(All respondents - N=1271, scores are on a scale of 1 to 5 where 1 means completely dissatisfied and 5 strongly satisfied, share of total, %, mean)



Distribution of answers seems to be generally uniform, as no economy, except possibly the Republic of North Macedonia, stands out from the average significantly.

Representatives of larger companies tend to contact national procurement authorities more often than the representatives of smaller ones, which can be at least to some extent explained by more complex undertakings they execute.

Slightly more than half of SEE executives (54%) were satisfied with the feedback they received from public procurement authorities, while almost one in ten found them useless. That is yet another negative development compared to last year, as the executives reported higher rate of satisfaction in 2017 (63%) and lower rate of complete dissatisfaction (6%).

Out of the economies with sufficient sample size, Montenegrin company leaders demonstrate the highest level of contentment, as requests are dealt with some level of satisfaction. Albanian business leaders report a higher level of satisfaction, although still somewhat below average. Executives from Bosnia and Herzegovina are the least satis-

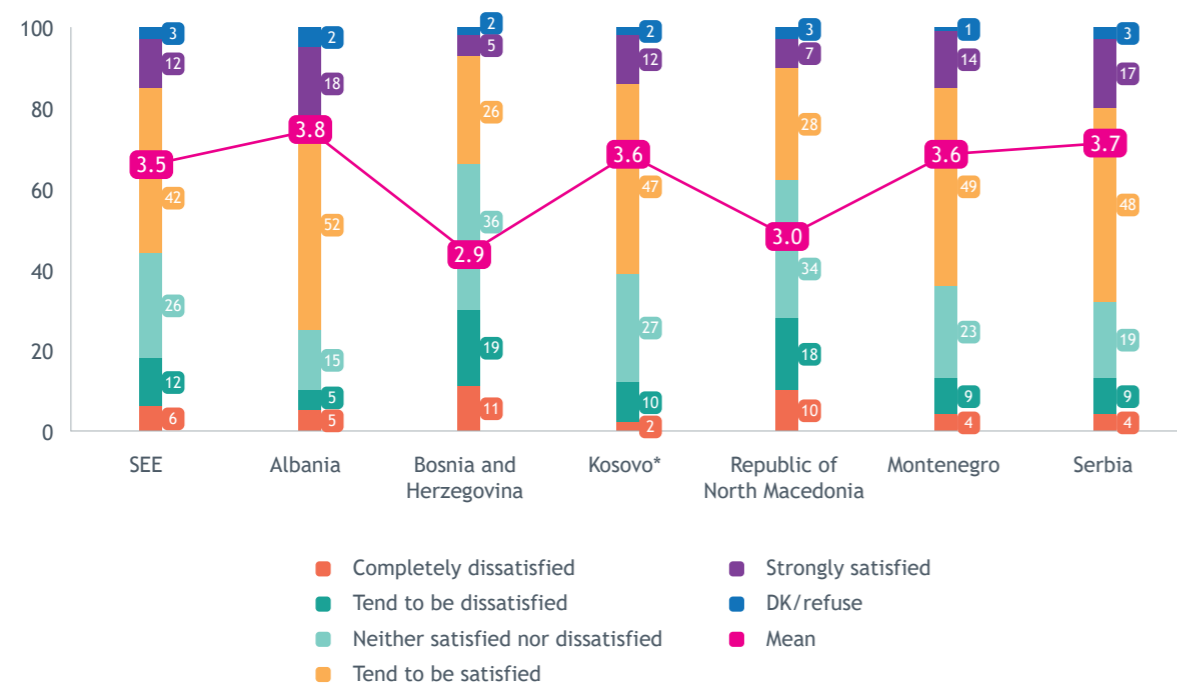
fied in the region, with only a third of them reportedly receiving helpful answers.

SEE businesses are only moderately satisfied with public services for businesses (score 3.1). As has frequently been reported in this survey, general satisfaction with public authorities, and therefore public services provided, has declined in 2018. From 3.3 in 2017, the score dropped to the 2016 level. Share of those largely satisfied decreased from a solid 45% in 2017 to 38% in 2018, while the share of those largely unsatisfied approached a quarter, whereas it was below 20% in 2017.

Businesses from Montenegro and Kosovo\* exhibit the highest level of satisfaction (3.4), with close to a half satisfied, while the share of those completely dissatisfied seems to be negligible. Serbia comes close (3.3), while Albania stands at the regional average (3.1). On the other end of the spectrum, Bosnia and Herzegovina remains the economy with reportedly the least favourable public services for business (2.6) and 40% dissatisfied businesses, while the Republic of North Macedonia seems to be closing the negative gap (2.7).

<sup>43</sup> The figures might not add to 100% due to rounding.

Figure 53: 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?<sup>44</sup>  
(All respondents - N=1271, scores are on a scale of 1 to 5 where 1 means completely dissatisfied and 5 strongly satisfied, share of total, %, mean)



It is interesting that satisfaction with public services for businesses is relatively constant for different types of company size, market orientation and ownership.

SEE businesses are generally satisfied with digital services provided by the public administration. Moreover, satisfaction with digital services continues to improve in SEE, reaching 3.5 in 2018 (3.4 in 2017). Improvement would have been even higher if it was not for the decline in the Republic of North Macedonia. Still, more than a half exhibits satisfaction, while less than one-in-five exhibits some level of dissatisfaction.

Satisfaction with digital services in Albania is the highest in the region (3.8), with as much as 70% of corporate leaders finding provided digital services useful. Serbia comes close (3.7), with Montenegro and Kosovo\* not far behind (3.6). Corporate leaders in Bosnia and Herzegovina are still the most dissatisfied in the region (2.9), with almost a third not finding digital services useful. Score in the Republic of North Macedonia is only slightly better (3.0).

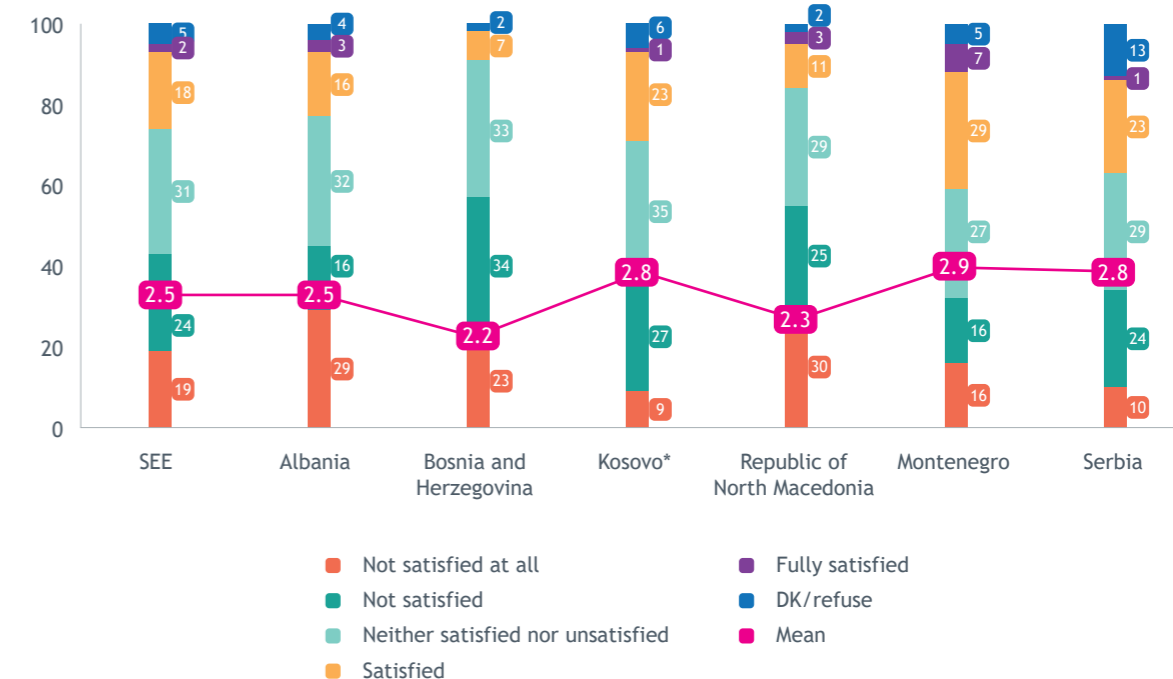
Foreign-owned companies seem to be more satisfied with public digital services (3.7) than the rest of the economy (3.5).

SEE economies are still largely dissatisfied with their involvement in policy-making process. Since the launch of the Balkan Barometer in 2014, progress on this indicator, although incremental, has been evident. However, in this survey instalment, the business satisfaction with their involvement in the policy-making process has receded from 2.7 in 2017 to 2.5. More than 40% of business leaders feel more or less detached from the process of developing regulations that affect them directly.

Montenegro is the economy with the regional-highest score of 2.9 with more than a third respondents satisfied. In fact, it is the only economy where satisfied businesses outnumber dissatisfied, even though only slightly. Out of the remaining economies, only Serbia and Kosovo\* remain economies above the regional average (2.8), but still with a significant portion of dissatisfied businesses. Bosnia and Herzegovina corporate leaders feel the most detached from the policy-making process. Almost 60% reported dissatisfaction, outnumbering the satisfied by eight-to-one ratio.

Decline in satisfaction is evident in all economies but Kosovo\* and Bosnia and Herzegovina. The most significant decline occurred in the Republic

Figure 54: 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?<sup>45</sup>  
(All respondents - N=1271, scores are on a scale of 1 to 5 where 1 means completely dissatisfied and 5 strongly satisfied, share of total, %, mean)



of North Macedonia (from 2.7 in 2017 to 2.3 in 2018).

It is interesting that micro (2.5) and large companies (2.4) are less satisfied with involvement in policy-making than the small and medium-sized ones (2.7).

With the large majority of SEE businesses reporting to have issues with regulatory framework, the governments have a long way to go in creating a business-friendly environment. Compared to 2017, approximately the same share of SEE businesses reported having regulatory obstacles standing in their way of conducting business.

There are no significant changes in rankings or prioritisation of cited obstacles, except for taxation related issues that are stressed considerably more as a key regulatory obstacle (48% of corporate leaders stressed burdensome taxation in 2018, compared to 39% in 2017). Almost one out of four business leaders perceive minimum wage as an obstacle, while one in five perceives employment regulation and trading standards as burdensome. Interestingly, environmental regulation is cited as a problem in only 10% of the cases, indicating that the environmental regulations may not be as so-

phisticated or strictly enforced, considering global business concerns with environmental regulation.

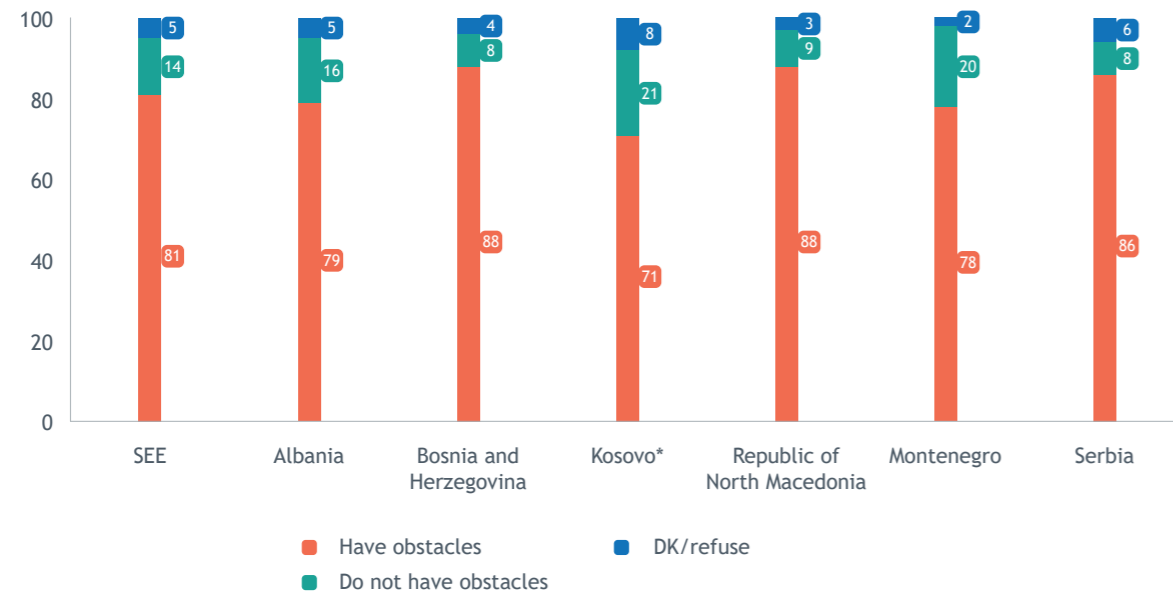
The regulatory obstacles are present in all SEE economies with high intensity. However, that intensity is somewhat higher in Bosnia and Herzegovina, the Republic of North Macedonia and Serbia with almost nine out of ten business leaders facing a regulatory barrier. Other SEE economies are positioned slightly below regional average (eight out of ten facing a barrier).

Seemingly, respondents from Albania are facing considerably more obstacles in 2018 than in 2017, as the share of respondents feeling unhindered in 2017 (40%) waned to just 16%. Keeping with the trends observed during this year, businesses from the Republic of North Macedonia feel more burdened (9 point increase). On the other hand, Montenegro and Serbia have reportedly made some progress, as the share of those who reported regulatory obstacles declined by 16 and 12 points respectively.

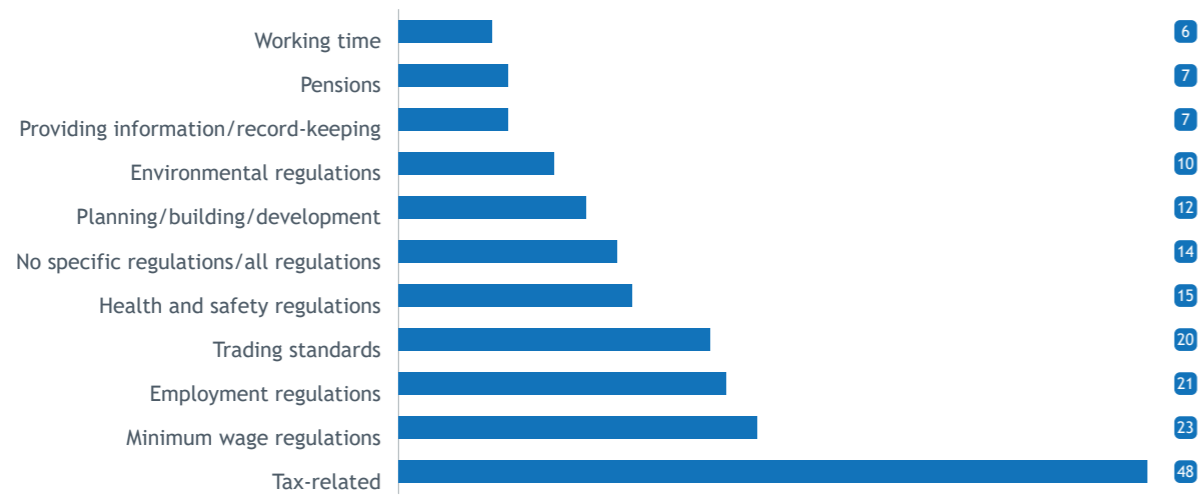
<sup>44</sup> The figures might not add to 100% due to rounding.

<sup>45</sup> The figures might not add to 100% due to rounding.

Figure 55: Which regulations do you consider to be an obstacle to the success of a business?<sup>46</sup>  
(All respondents - N=1271, two answers allowed, share of total, %)



SEE N=1030



<sup>46</sup> The figures might not add to 100% due to rounding.

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

N		Tax-related	Minimum wage regulations	Employment regulations	Trading standards	Health and safety regulations	No specific regulations/all regulations	Planning/building/development	Environmental regulations	Pensions	Providing information/record-keeping	Working time
1030	SEE	48	23	21	20	15	14	12	10	7	7	6
175	Albania	67	39	19	24	8	1	15	8	3	6	9
183	Bosnia and Herzegovina	40	17	28	14	13	24	7	8	17	7	5
148	Kosovo*	34	27	11	25	30	4	11	10	7	6	8
180	Republic of North Macedonia	57	25	20	16	13	14	14	6	7	7	8
177	Montenegro	44	13	18	18	10	28	8	14	6	10	3
174	Serbia	43	22	29	21	17	8	20	14	6	8	3

Businesses from all economies cite taxation regulation as the most prevalent and burdensome barrier to the success of their businesses. Same as the last year, Albanian economy is the most burdened by it, as reported by two thirds of regulation-obstructed businesses.

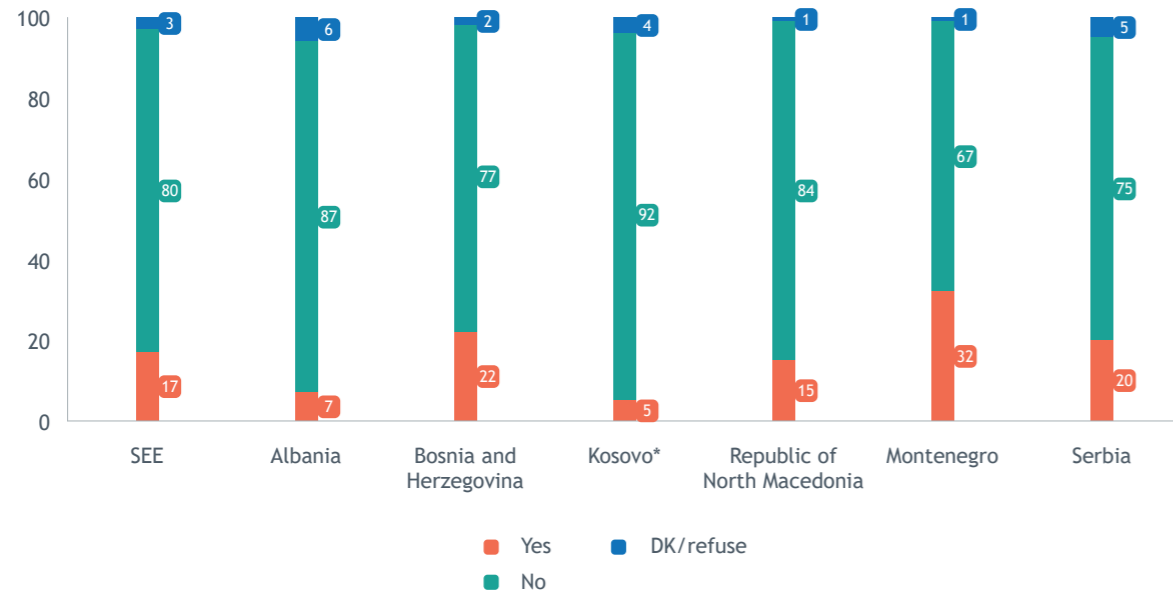
Overall, the greatest progress seems to have been made in Montenegro, mostly in terms of employment practices, planning and development, as well as tax regulations. On the other hand, the largest backtracking compared to 2017 was observed in Albania, with business concerns driven mostly by tax regulation.

Minimum wage still represents significant concern for all economies but Bosnia and Herzegovina and Montenegro. Bosnia and Herzegovina and Serbia are reportedly stalled by employment regulation more than other economies in the region, even though the share reporting this problem decreased compared to last year, though only slightly. Health and safety regulations remain an obstacle in Kosovo\*, more than anywhere else in SEE.

Additionally, perceptions of minimum wage regulations have taken opposite courses in Albania and Kosovo\*. It is a lot higher concern this year in Albania (39% compared to 16% in 2017), while in Kosovo\* it does not represent that much of a burden anymore (27% compared to 57% in 2017).



Figure 56: Has your company had any cases in arbitration courts in the last 36 months?<sup>47</sup>  
(All respondents - N=1271, share of total, %)



Resolving a dispute through court arbitration seems to be declining among businesses in SEE. According to the survey, only 17% of corporate leaders appeared before arbitration courts, compared to 20% in 2017.

Montenegro has reported the highest frequency of cases that end up before court arbitration (32%) and is now followed by Bosnia and Herzegovina (22%). In Kosovo\* and Albania, this way of resolving cases is the least common (5% and 7% respectively).

Compared to 2017, there has been a substantial uptake in Montenegro (from 10% to 32%) and drop in Bosnia and Herzegovina (from 41% to 22%).

Resolving a dispute through arbitration courts is much more common practice for medium-sized (30%) and large companies (41%) than for micro enterprises (9%). Also, it is much more frequent for foreign-owned (43%) than domestic firms (16%). On the same note, exporters are much more prone to go to courts to solve a dispute (21%) than non-exporters (10%).

<sup>47</sup> The figures might not add to 100% due to rounding.

## ACCESSIBILITY OF LOANS

There have been few signs of broader financial market development in the region as of yet. The banking sector remains the (only) key external financing partner for SEE businesses.

The banking sector continues to gradually recover from bad loans, and it is currently well-capitalised and liquid. While its activity is increasing, driven by demand from government and households, business credit activity is stagnating, with only 36% of businesses using loans in the past 5 years and only 27% applying for a loan last year. As expected, large companies, as well as foreign ones and exporters, are more frequent consumers of bank financing, while smaller companies use it only when unavoidable.

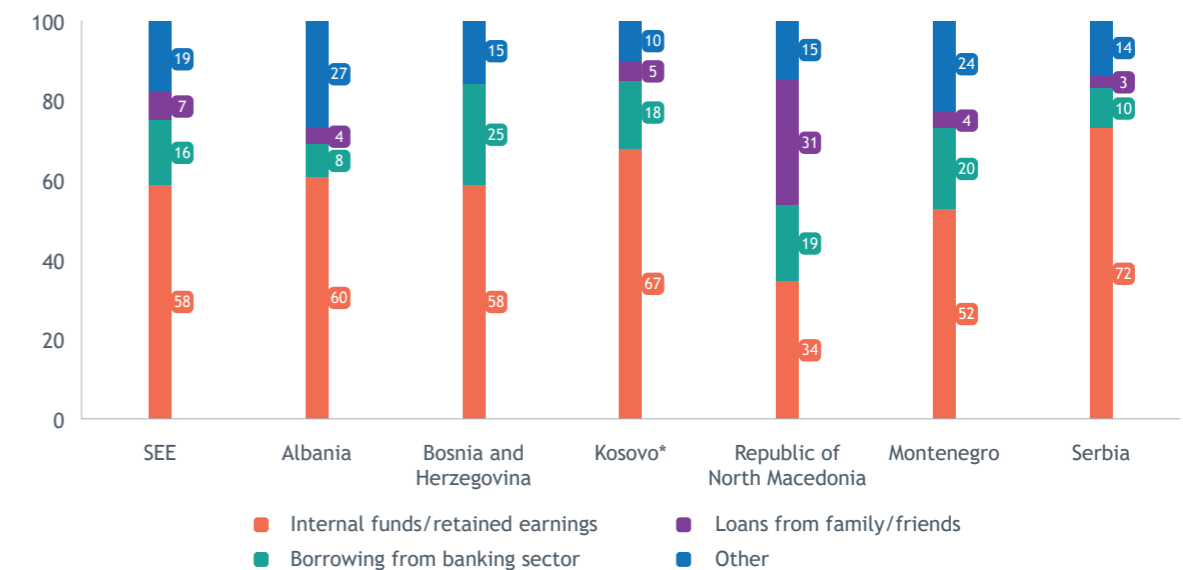
SEE businesses, especially SMEs, still prefer and dominantly use financing from internal sources rather than bank loans, which are often considered a last resort. Internal sources, together with loans from family and friends, account for 65% of SEE businesses financing structures. Bank financing from private commercial banks comprises only 16% of SEE businesses financial structures.

Montenegro and Bosnia and Herzegovina tend to rely on the banking sector slightly more than the others. Serbian businesses finance their operations more dominantly from internal sources than any other SEE economy. In the Republic of North Macedonia, the economic situation probably led to revenue decline and solvency problems for some businesses, therefore making loans from family and friends either necessary or more favourable than bank loans.

Stronger partnership between the banking sector and businesses is a precondition for higher private investments - and joint effort of both sides is required for raising awareness and building trust.

SEE companies dominantly finance their capital from internal funds and by lending from family and friends. Internal funds account for 58% in the financing structure, a higher share than in 2017 (55%). Second most important source, banking sector, accounts for only 16%. Lending from family and friends also represents a noteworthy source of financing regionally (7%), but the share is skewed by the over-proportionate reliance on it by businesses in the Republic of North Macedonia.

Figure 57: 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?<sup>48</sup>  
(All respondents - N=1271, share of total, %)



<sup>48</sup> The figures might not add to 100% due to rounding.

Category *other* is comprised of an array of sources including equity, state-owned institutions, credit cards, trade credits, etc., with each accounting for significantly less than 5% in the financing structure.

Even though financing from internal funds still dominates the financing structure of businesses in every economy in the region, there are some notable differences in trends within the economies. Serbia (72%) and Kosovo\* (67%) are the economies where such financing is actually gaining in importance. On the other hand, in Albania it used to account for more than 80%, while it has now shrunk to 60%, with equity financing gaining in power. In the Republic of North Macedonia, internal sources of finance accounted for almost half of the financing structure, whereas it has now declined to a third. This difference in the Republic of North Macedonia seems to be made by loans from family and friends (31%). This change could have occurred as a consequence of worsening business conditions during the year reported by 26% of the Republic of North Macedonia business leaders (Figure 8: How has your business situation developed over the past 12 months? Has it deteriorated, remained unchanged or improved?), leading to revenue decline and potential solvency problems.

**Relying on commercial banking sector is the most common practice in Bosnia and Herzegovina (25%), while in Serbia (10%) and Albania (8%) not as much.** In other SEE economies funds from the banking sector account for around a fifth in the financing structure. Financing from the banking sector expectedly becomes more important as the size of the company increases, while the opposite is true for internal funds.

**As financing from internal sources dominates the financing structure, expectedly it is the most commonly cited source of funds in SEE (61%).** Borrowing from banking sector is a common practice for 36% of businesses, while 13% rely on resources provided by family and friends. Financing through equity is still rare, signalling the underdevelopment of SEE financial markets. Financing from the state owned-banks and development banks is registered with notable frequency (7%), although its share in financing structure is reportedly negligible in 2018 (3% in SEE).

As with the share of financing instruments, each SEE economy has its specifics. Frequency of financing from internal funds largely corresponds to its share in financing structure. Borrowing from banking sector is the most common practice in Monte-

Figure 58: Which of the following sources of finance has your company used over the past five years? (New Question)  
(All respondents - N=1271, share of total, %) (Multiple answers allowed)

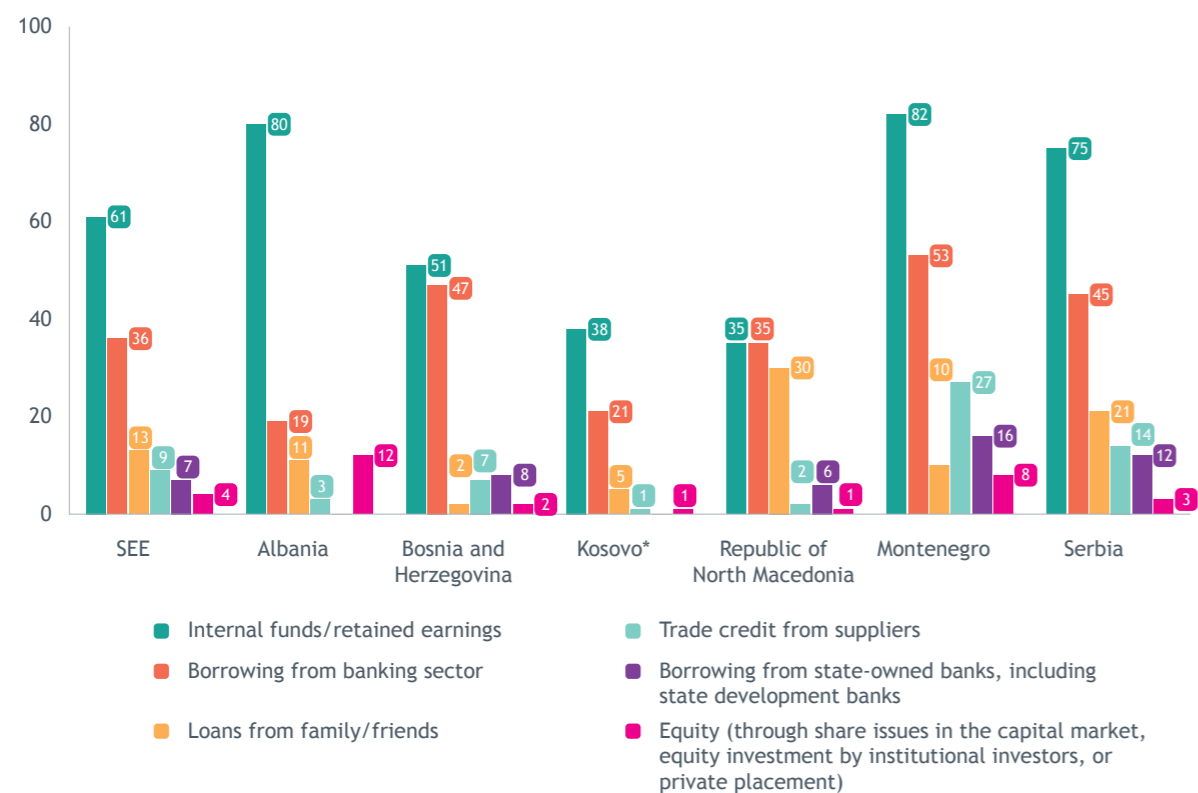
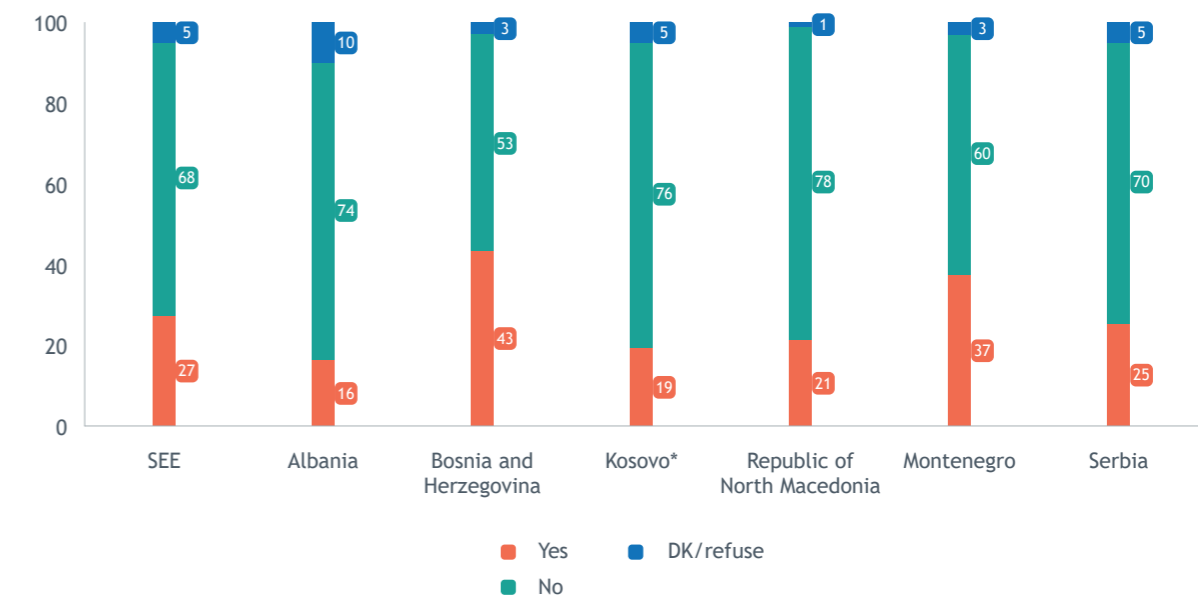


Figure 59: Has your company applied for a loan from a bank in the past 12 months?<sup>49</sup>  
(All respondents - N=1271, share of total, %)



negro (53%), while it is least common in Albania (19%) and in Kosovo\* (21%).

Loans from family and friends, although not accounting for a high share in Serbia (3% of the financing in 2018), are a common practice for 21% of the companies, while in Bosnia and Herzegovina they are used extremely rarely. Borrowing from state-owned and state-development banks appears significant only in Serbia (12%) and Montenegro (16%). Moreover, again only in these two economies taking a trade credit from suppliers is registered with significant frequency. It is an interesting fact that a bit more than half of Kosovo\* businesses either refused to disclose or clearly specify their sources of financing (not shown on the graph).

Larger companies are much more likely to take a loan from a bank than micro-enterprises (70% compared to 30%), while the latter rely more frequently on family and friends (18% compared to 6%). Also, taking a loan is much more frequent with exporters (42%) than with non-exporters (27%).

Only slightly more than a quarter of SEE executives reported applying for a loan over the past year. Compared to the previous survey instalment, this represents a slight decline (30% in 2017).

Expectedly, loan applications are more common in Bosnia and Herzegovina (43%) and in Montenegro (37%). On the other hand, Albania is the

economy where loan applications are least common (16%).

As expected, loan applications are much more common for exporters (33%) than non-exporters (17%), and for large companies (51%) compared to micro (21%).

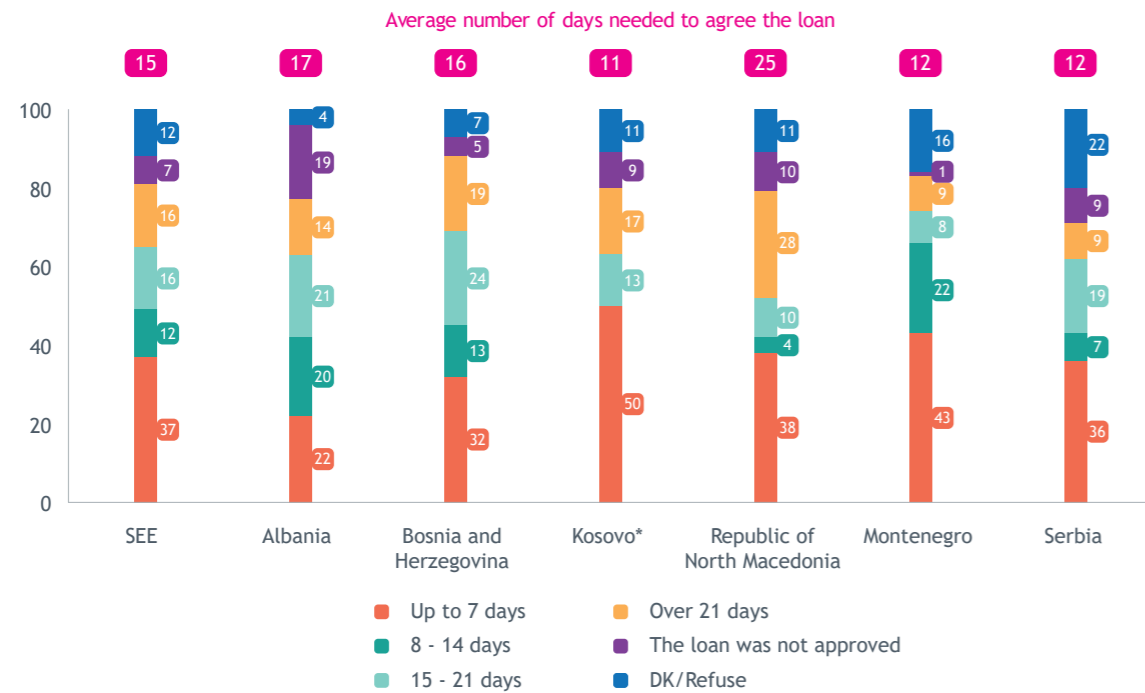
Average number of days needed to agree on the loan	
SEE	15
Albania	17
Bosnia and Herzegovina	16
Kosovo*	11
Republic of North Macedonia	25
Montenegro	12
Serbia	12

It takes 15 days on average for the loan to be approved in SEE. Compared to 2017, the loan approving procedure is one day shorter.

Most efficient credit procedures take place in Kosovo\* (11 days), Montenegro (12 days) and Serbia (12 days). Last year's most efficient, Republic of North Macedonia, is now the economy where credit approval takes the most time - 25 days on average.

<sup>49</sup> The figures might not add to 100% due to rounding.

Figure 60: How many days did it take to agree on the loan with the bank from the date of application? (Respondents applying for a loan- N=342, share of total, %)



Most notable progress was made in Montenegro, where the respondents report a shortening of loan procedure by 10 days. Progress was also made in Bosnia and Herzegovina (4 days) and Serbia (3

days). Credit procedures in the Republic of North Macedonia on average last two weeks longer in 2018 compared to 2017.

Figure 61: You said that you company's loan application was rejected, what was the main reason for this?<sup>50</sup> (Respondents with loan applications rejected - N=25, share of total, %)



<sup>50</sup> The figures might not add to 100% due to rounding.

# CORRUPTION

Although corruption remains a dominant topic in the region, some positive trends are clearly noticeable in this year's Balkan Barometer. Share of businesses that have reported informal payments as common in dealing with officials have dropped considerably from 31% in 2017 to 19% in 2018. Additionally, corporate leaders are somewhat more open to talk about corruption.

While public authorities have not gained much trust by business community as an address for reporting the wrongdoings, digitalisation could introduce a significant improvement. More than 70% of SEE business leaders believe that digitisation could have a profound impact in fighting corruption.

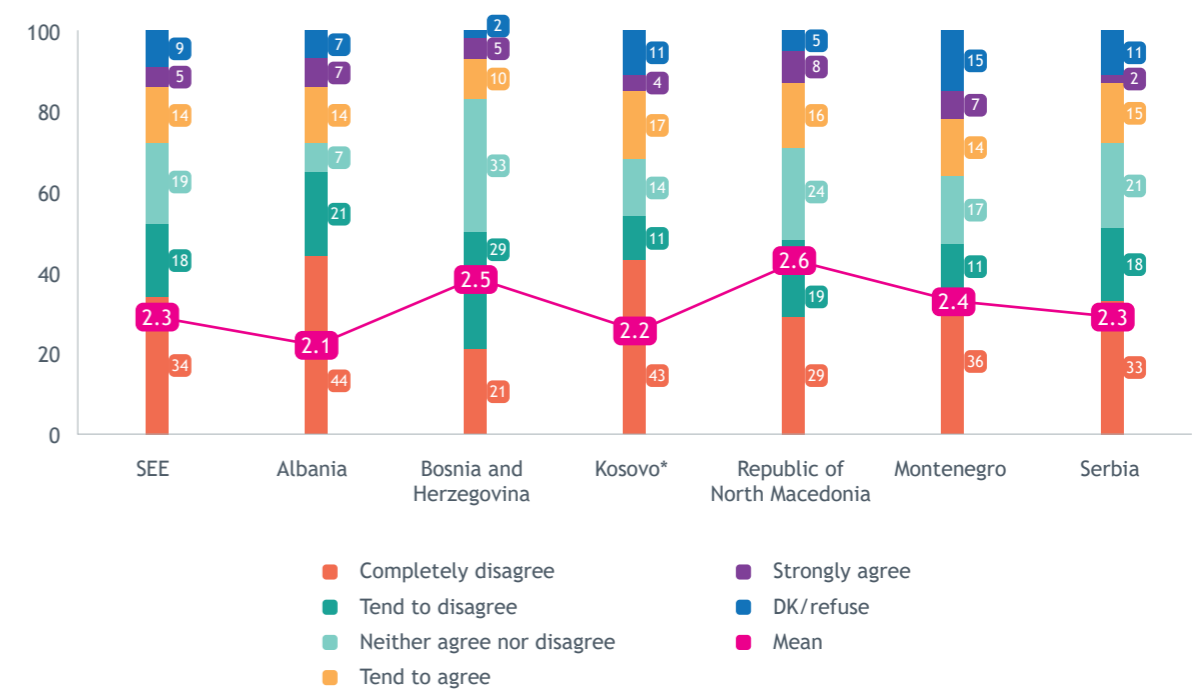
While there are some differences in the economies regarding the corruption perception, overall, the situation is fairly similar across the region.

Slightly more than half (52%) of SEE business leaders believe that additional payments are not needed to get things done. Situation seems to be considerably better in 2018 than it was in

2017, portrayed also by a considerable decrease in the share of those that agreed with the above statement, dropping from 31% in 2017 to 19% in 2018. It may also be worth noting that respondents were slightly less reluctant to talk about this topic, compared to previous polls.

It seems that all SEE economies have similar problems with corruption, as the range of average responses per economy is relatively narrow (2.1-2.6). Similar to last year, the prevalence of bribes is still considered to be the lowest in Albania (2.1), with some two thirds of executives reporting that bribes are not common. Kosovo\* (2.2) is better ranked than regional average as well which is an improvement compared to last year. However, in both cases, the sentiment is fairly polarised with 21% of respondents in both Albania and Kosovo\* agreed with the statement (second highest score in the region), while 65% and 54% in Albania and Kosovo\* respectively disagreed (the highest scores regionally). Serbia closely mirrors the average regional score (2.3), while remaining economies are positioned below the regional average. Montene-

Figure 62: Thinking about officials, to what extent would you agree with the following statement - It is common for companies in my line of business to have to pay some irregular "additional payments/gifts" to "get things done". (All respondents - N=1271, share of total, %) (smaller score is better)





gro is positioned slightly below regional average (2.4) while the Republic of North Macedonia (2.6) is reportedly the most obstructed by corruption in SEE, with almost a quarter (24%) of executives considering bribes common in conducting business.

It is also interesting that managers from Bosnia and Herzegovina were most open to talk about corruption, with only 2% refusing to discuss the question. Thus, it is hard to unequivocally determine the presence and intensity of corruption among SEE economies.

Improvement is largely driven by a sharp decrease in the number of Serbian managers who believe that bribes are necessary to get things done (score improved from 2.7 to 2.3). A positive trend is also observed in Montenegro, while things deteriorated slightly in Albania (average response decreased from 1.9 in 2017 to 2.1).

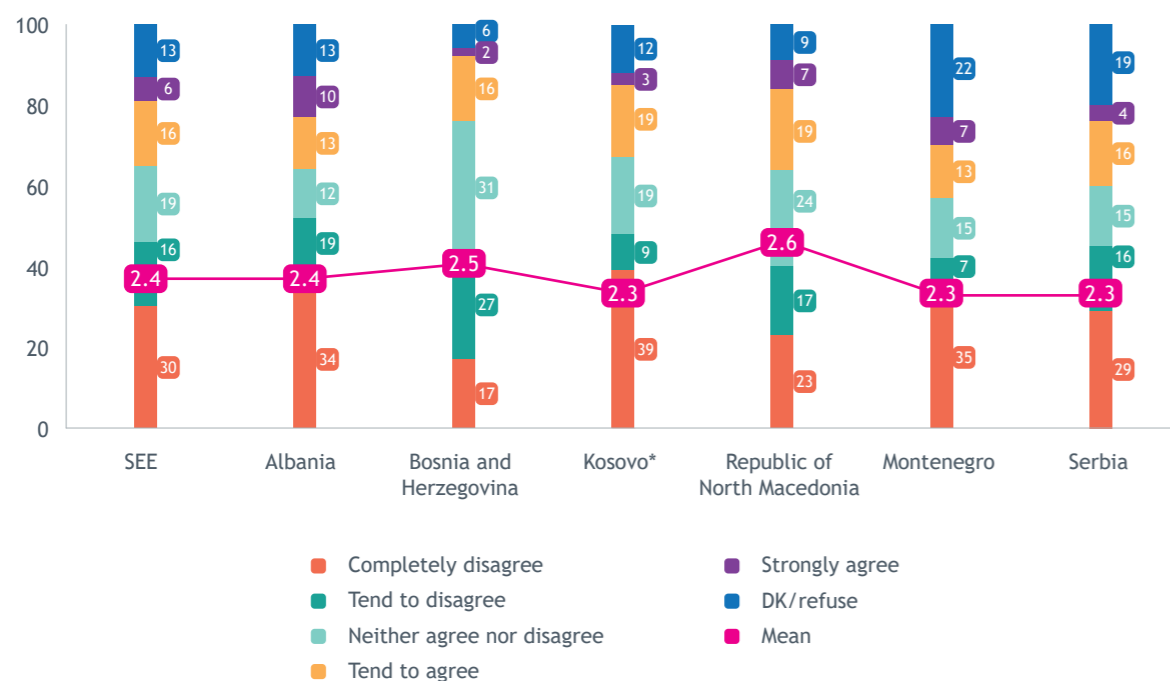
Perception of corruption is much lower among large businesses (2.1) than among medium, small and micro enterprises (between 2.3 and 2.4). Also, owners of domestic companies report bribery more often than foreign ones.

More than 20% of SEE business leaders report to know the amount of a bribe in advance. Slightly improved score (2.4 in 2018, compared to 2.5 in 2017) could indicate that the corruption is actually less present, since it is harder to form expectations when the number of corruption cases is smaller.

Similar to the presence of corruption, differences among economies are not overly significant. Moreover, with the exception of Albania, scores and rankings of the economies are in line with reported presence of corruption. Republic of North Macedonia (2.6) and Bosnian (2.5) business executives are more likely to know exactly the amount of payment than the rest of the region, with Kosovo\*, Montenegro and Serbia at the other end of the spectrum (2.3).

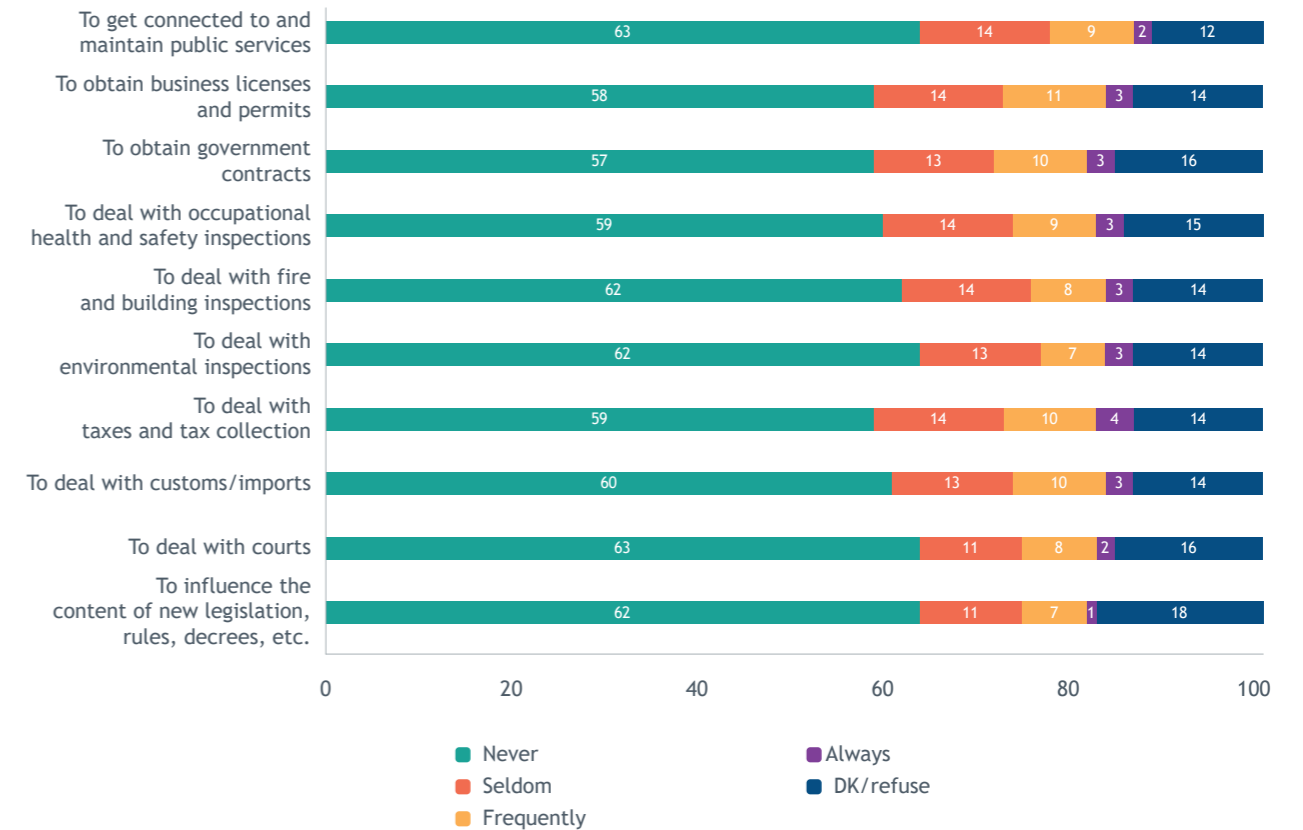
Situation significantly changed in Montenegro, where business leaders are less aware of bribery costs (where corruption is reportedly less present in 2018 than in 2017). On the other hand, business leaders in Albania reported higher accuracy in estimating the cost of bribery (where the corruption is reportedly more present in 2018 than in 2017).

Figure 63: Thinking about officials, to what extent would you agree with the following statements? Companies in my line of business usually know in advance how much this 'additional payment/gifts' will cost.<sup>51</sup> (All respondents - N=1271, share of total, %) (smaller score is better)



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

Figure 64: 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?<sup>52</sup> (All respondents - N=1271, share of total, %)



Again, large businesses are less familiar with the cost of bribery (1.9) compared to smaller companies (2.5).

On average, around 60% of SEE business leaders reported informal payments unnecessary while obtaining public services or dealing with public authorities. In line with answers of this section so far, it seems that public authorities are making slow, but gradual progress in improving their conduct. That is reflected in the share of those reporting unofficial payments completely unnecessary increasing by 5 points on average compared to 2017. Moreover, businesses are slightly more open to talk about corruption, as the share of those who refused or did not know the answer shrunk by 5 points.

It seems that the answers are largely uniform along the listed factors, with no obvious clustering. Generally, in addition to 60% of executives finding bribes completely unnecessary, somewhat below 15% find it necessary only seldom. Frequent payments are reported by only 12% of executives on average across the listed purposes.

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

While the situation has changed for the better in all listed factors, improvement has been slightly more obvious in obtaining licences, government contracts and dealing with customs (8 points more reported informal payments for these purposes unnecessary). Some, like dealing with health inspections, improved more modestly (2 points more reported informal payments for these purposes unnecessary).

Montenegrin executives have been the most reluctant to talk about corruption, as close to 30% have not provided the answer about bribes for listed purposes. On the other hand, most open when talking about corruption have been executives from the Republic of North Macedonia and Bosnia and Herzegovina -- economies with highest reported level of corruption in the region.

It is peculiar that the Republic of North Macedonia, although perceived as the economy with the highest level of corruption by its business leaders, exhibits the best results across the board in SEE when it comes to concrete listed purposes. Over three quarters of the Republic of North Macedonia executives



utives have reported informal payments unnecessary in almost all listed occurrences, while bribing has been reported frequent and necessary in only 7% of instances on average. Kosovo\* has somewhat inferior results compared to the Republic of North Macedonia, but it demonstrated significantly better results than the rest of SEE. On the contrary,

Montenegro, apart from being the economy with smallest share of businesses providing answers, stands out from the average significantly, with less than 50% of business leaders reporting bribes unnecessary while conducting business. Serbia and Bosnia and Herzegovina, although somewhat better results than the rest of SEE.

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? (results by economies)<sup>53</sup>  
(All respondents - N=1271, share of total, %)



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

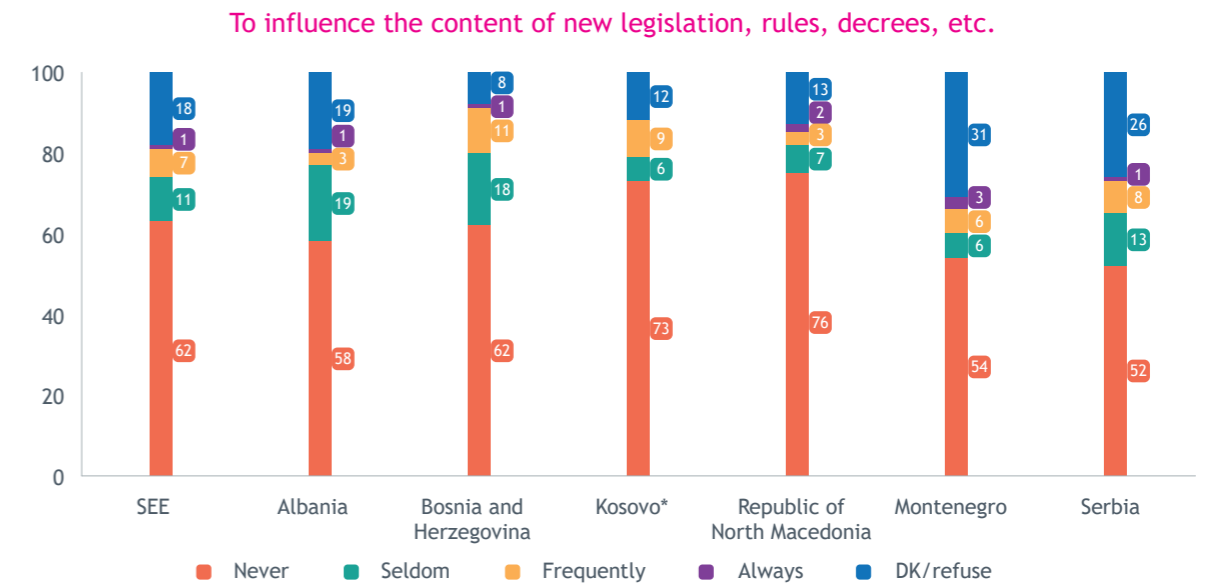
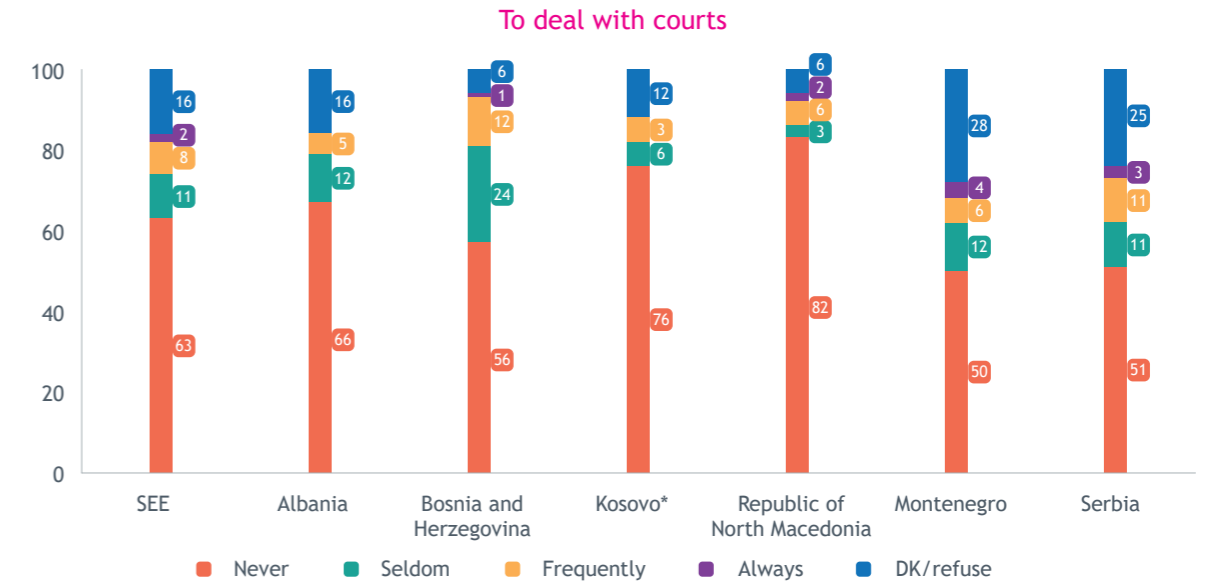
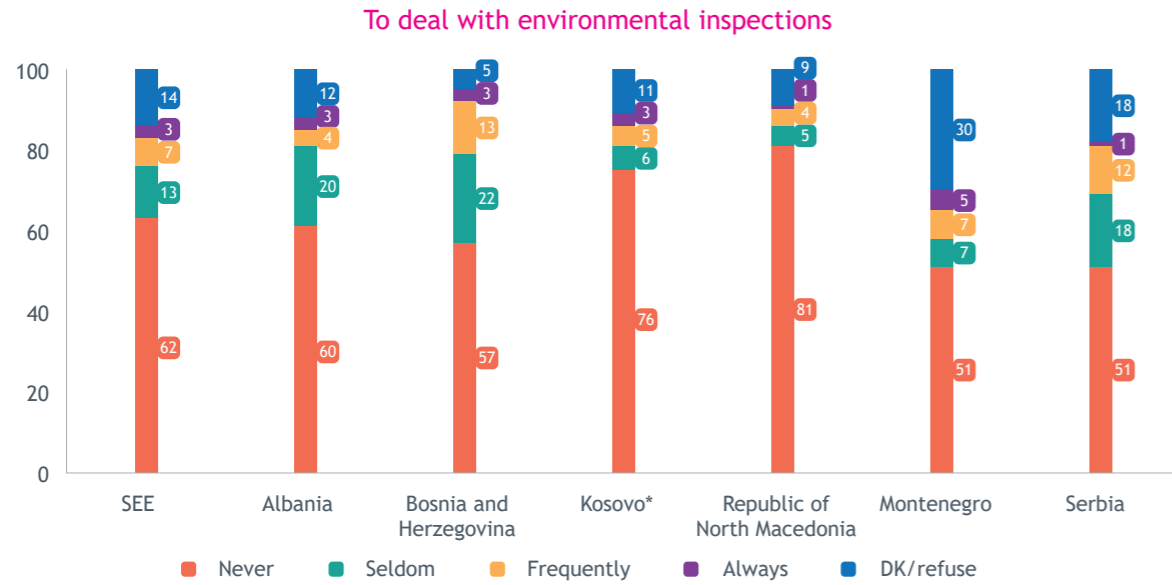
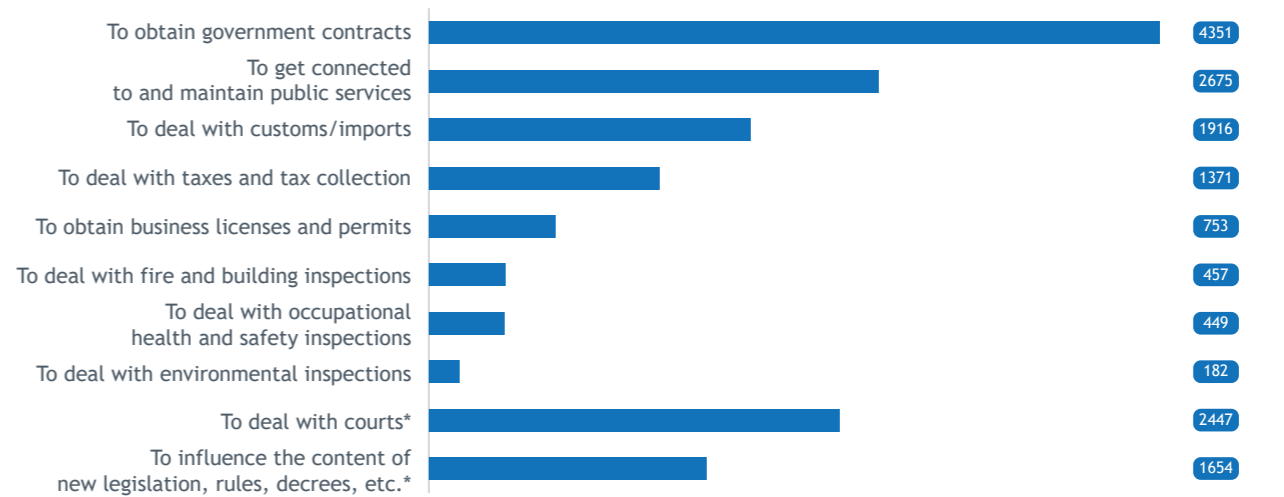


Figure 66: Please estimate what is the approximate amount (in EUR) of unofficial payments/gifts that companies like yours would make in a given year for the following purposes. (Results at the SEE level)  
\*denotes insufficient sample size



Purpose	N
To obtain government contracts	41
To get connected to and maintain public services	69
To deal with customs/imports	45
To obtain business licenses and permits	58 <sup>54</sup>
To deal with taxes and tax collection	52
To deal with fire and building inspections	42
To deal with occupational health and safety inspections	66
To deal with environmental inspections	47
To deal with courts*	25
To influence the content of new legislation, rules, decrees, etc.*	15

Although close to 150 SEE executives state that informal payments are extensively used for dealing with public authorities and obtaining services, they largely remain reluctant to reveal concrete amounts.

The costliest bribes are the ones used to obtain government contracts (4,351 EUR), while connecting and maintaining public services unduly amounts to 2,675 EUR on average. Next are those dealing with customs (1,916 EUR), tax (1,371 EUR) and obtaining business licences and permits (753 EUR).

Figure 67: In different societies, there are different views on the most effective ways to stop wrongdoing. Which one of these do you think is the most effective way in your economy's society?<sup>55</sup> (All respondents - N=1271, share of total, %)



54 One observation from Kosovo\* is excluded, being the obvious outlier - 47,563 EUR

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

According to the survey, environmental inspectors are the least expensive to bribe (182 EUR).

Compared to last year's survey, there has been a significant uptake in the amount of perceived bribes in SEE, with some unofficial services doubling in value. Seemingly, getting connected to public services via unofficial channels costs almost six times more in 2018 than in 2017. Also, getting the government contracts through corrupt practices seems to cost almost four times more. The only reported bribes getting smaller in value in the meantime are those directed at fire and building and environmental inspections.

However, there is a reason to believe that the sample in this matter, although numerically sufficient, is not representative, since it is significantly skewed by existing outliers.

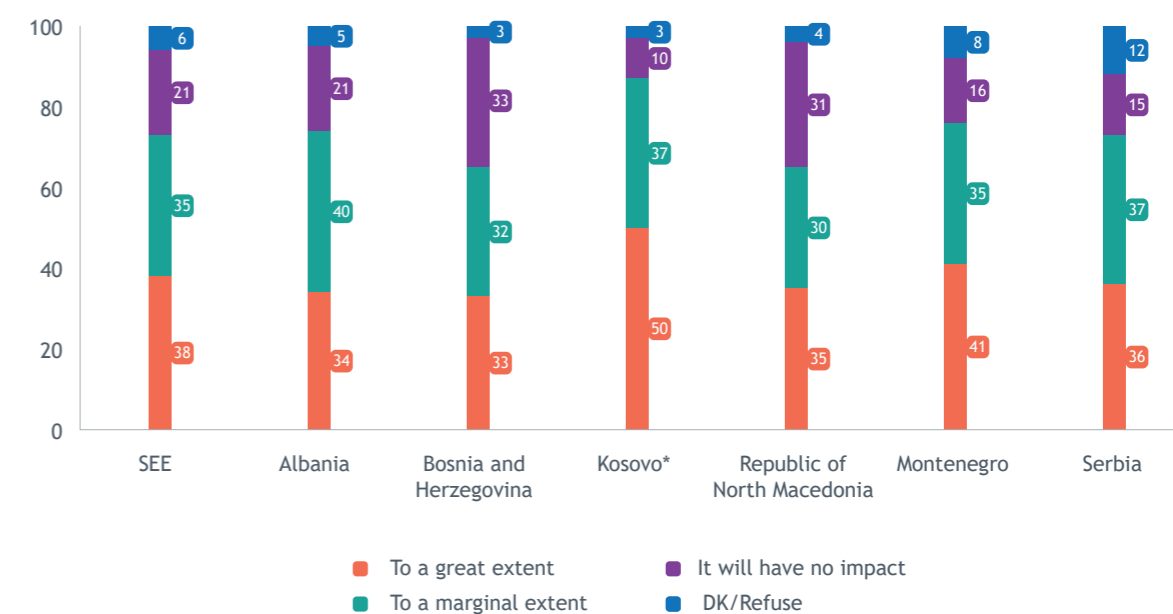
Although 46% of SEE business leaders believe that reporting a wrongdoing to the authorities is the most effective way to stop it, one quarter still believes that it cannot be stopped effectively. Reporting to general public, either through journalists or directly, is evaluated as the most effective way for almost 20% of business leaders. It is interesting that the results in 2018 are identical to those from 2017, even though some improvements corruption-wise were noticeable.

The most faith in public authorities is put by business leaders from Montenegro (55%), Kosovo\* (55%) and Albania (52%). This result is largely expected for Kosovo\* and Albania, given generally the lowest level of perceived corruption in these two economies, while Montenegro has had more mixed results. Given the general dissatisfaction and mistrust in government exhibited throughout the survey, it has been expected that business leaders from Bosnia and Herzegovina would be less confident in official channels (34%).

A quarter of business leaders from Albania believe that condemnation of wrongdoing by the general public, either through the news or directly, is the most effective way. On the other hand, their Serbian peers do not put that much faith in this channel (13%).

Most business leaders who believe that corruption and other types of misbehaviour are so deep-rooted that they cannot be stopped effectively come from the Republic of North Macedonia (38%), Bosnia and Herzegovina (36%) and Serbia (32%). At the other end of the spectrum, significantly smaller share of Albanian, Montenegrin and executives from Kosovo\* share this opinion.

Figure 68: To what extent do you believe digitalisation of public services would have a positive impact on preventing corruptive practices?<sup>56</sup> (new question) (All respondents - N=1271, share of total, %)



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

It seems that public authorities gained the most trust in Kosovo\* over the course of 2018, with 15% more executives believing that public officials are the right address to report a wrongdoing.

Executives of large companies tend to believe considerably less in formal channels (36%) as a means of stopping wrongdoing, compared to the rest of respondents.

Digitalisation of public services could be an efficient way to tackle corruption, as more than 70% of SEE business leaders believe that it could be impactful. Furthermore, more than half of them believe that the effect would be largely significant. Still, a quarter of executives is not as confident.

Kosovo\* by far puts the highest faith in digitalisation as an effective prevention mechanism against corruption. Other SEE economies, apart from slightly less convinced Bosnia and Herzegovina and the Republic of North Macedonia, do not deviate much from the average.

# TRADE AND INVESTMENT

Stronger regional integration is required in order to achieve more dynamic and sustainable economic growth. Economic integration can provide access to a larger consumer base, labour market with more qualified workers, more accessible sources of finance, and transfer of technologies. Multi-annual Action Plan (MAP) initiative for fostering regional cooperation, reflected through trade, investment, mobility and digital integration, is an excellent starting point for policymakers.

Currently, SEE businesses are not investing much outside their own economies and do not plan to do so. Only 9% of companies have decided to invest abroad in order to access new markets or to further integrate into global value chains. As expected, greater share of companies investing abroad could be found among large and foreign companies, ICT sector, and exporters.

SEE businesses are not well informed about CEFTA. Consequently, only half of all surveyed managers experienced at least some benefits from CEFTA.

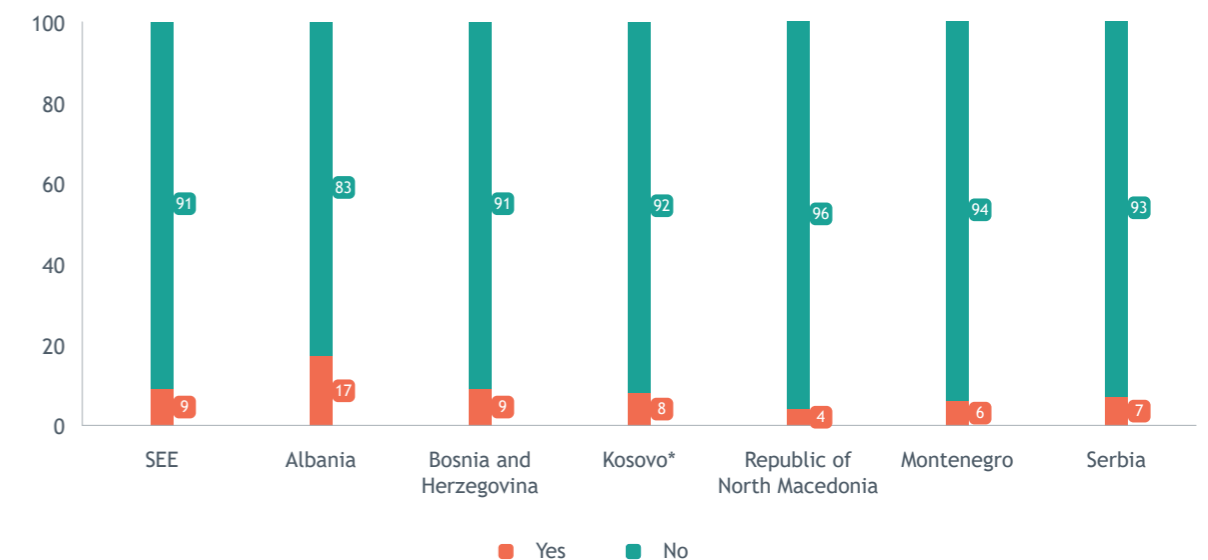
Companies from SEE region are also dominantly focused on domestic market, both in terms of sales and purchases. Three out of ten businesses are exporters, with export comprising only 17% of total sales of surveyed companies. Majority of in-

terviewed non-exporters have stated that they do not have a plan or even an interest to export. Most of the remaining companies that show interest or plan to export identified suitability of goods and production and logistical capacities as key issues. When it comes to import, 50% of companies are importers, with total value of import in purchases being slightly above 20%. If the liberalisation process continues and purchasing power of SEE economies grows, it is expected that both the number of importers and import value, as well as the portfolio of imported products will increase.

As the most important obstacle to export to the SEE region businesses have again identified the need to hardcopy documents. Businesses are generally satisfied with customs clearance performance. Majority of importers and exporters reported customs clearance within two days.

SEE companies are very confident in their competitiveness on domestic market, as majority of them do not feel threatened by global or SEE competition. However, it is interesting that despite such strong confidence, representatives of businesses agree that local suppliers should be given a protection and priority in domestic procurement.

Figure 69: Has your company invested abroad, or plans to do so in the next 12 months? (All respondents - N=1271, share of total, %)





In general, it seems that SEE businesses have not invested much abroad with little plan to do so next year. Only 9% of surveyed SEE companies have invested abroad or plan to do so in the next 12 months. Albania became a regional leader in this category, with a jump from only 4% of companies investing abroad in 2017 to 17% of those that undertook such investments in 2018. Other economies are close or below the regional average, with businesses in the Republic of North Macedonia least inclined to invest abroad.

As expected, greater share of companies investing abroad could be found among large companies (31%), foreign companies (24%), ICT sector (20%), and exporters (12%). Decision to invest abroad usually implies well established position on domestic market and enough resources that should cover not only the initial investment, but also market intelligence and administrative activities. It is not likely that smaller firms or companies with products or services developed for domestic markets would be eager to undertake such a venture.

SEE companies surveyed have invested or plan to invest predominantly in SEE (52%) or EU (42%). Albanian businesses that are most inclined to invest abroad split their investment targets between the EU (51%) and SEE (41%), probably targeting business connections and buyers from its diaspora. However, it should be mentioned that due

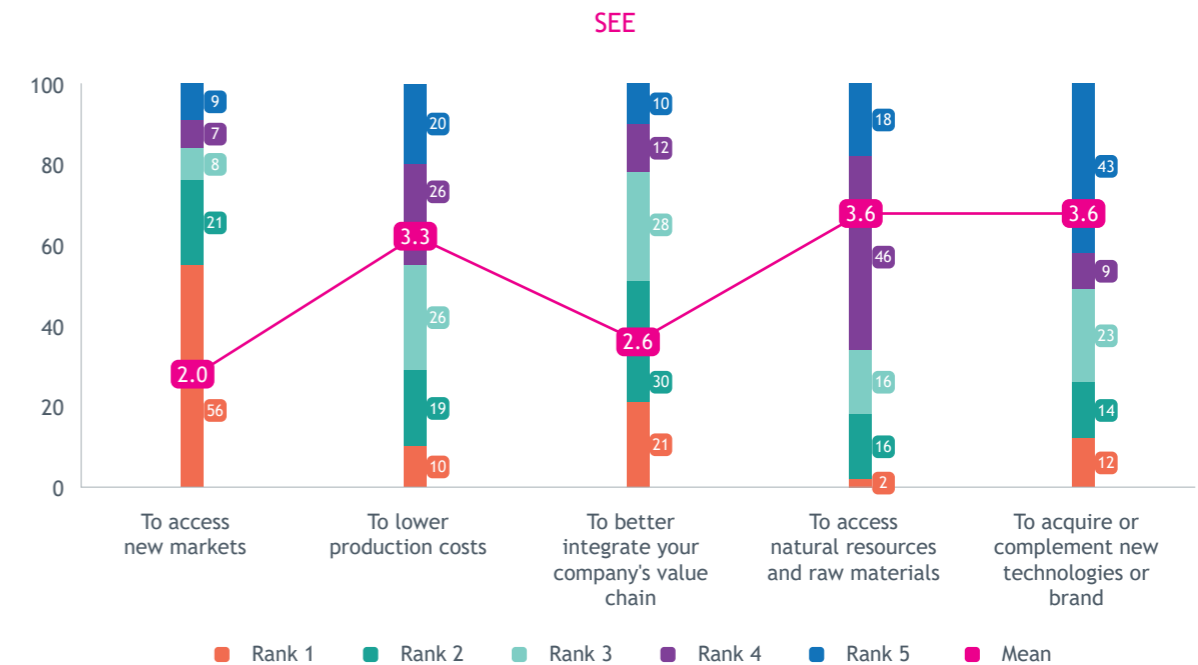
to sample size (only 110 companies in total that invested or plan to do so) further interpretation of results at economy level is not advised.

Access to new markets is the most important reason for companies to invest abroad, as stated by more than half of companies. Acquiring new customers is particularly important for some industries which are not able to reach economies of scale in relatively small domestic markets.

Further integration into global value chains is also one of the main reasons for investments abroad. This is particularly important for firms that manufacture highly customised products in small series that are very dependent on building strong links with foreign suppliers or buyers.

Furthermore, acquiring new or complementing existing technologies and brands seems to be moderately important for SEE companies. It is known that SEE economies are less productive and more labour-intensive, and that further improvements in competitiveness are correlated with adoption of new technologies and knowhow. However, these processes are knowledge-intensive and expensive, and therefore, available to fewer number of companies. That is why almost half of companies stated that such reason is not important at all for them when investing, while some other (26%) - financially more powerful - consider process

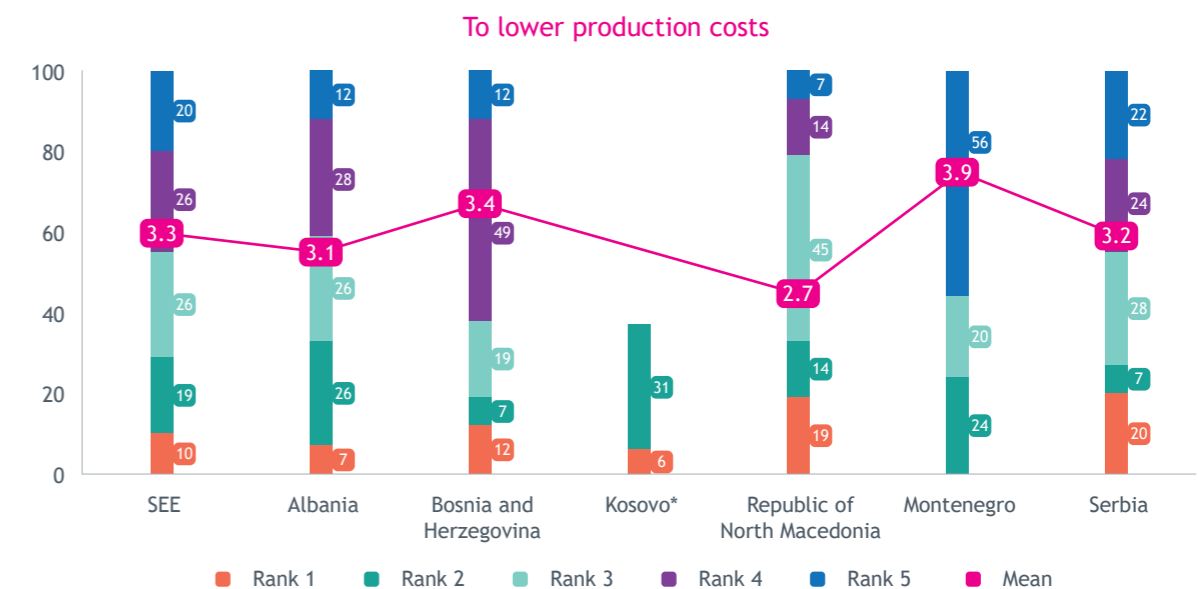
Figure 71: Which of the following reasons best describes your company's motivation to invest abroad? Please rank your answers with 1 being most important and 5 being least important.<sup>57</sup> (Respondents whose company invested abroad or plans to do so in the next 12 months - N=110, ranks are on a scale of 1 to 5 where 1 means most important and 5 least important, share of total, %, mean)



of technology transfer as very important factor. Lowering production costs seems to be equally important for companies as technology transfer. On the other hand, access to raw materials and nat-

ural resources is not considered as an important factor among interviewed companies.

Figure 72: Which of the following reasons best describes your company's motivation to invest abroad? (Results by economies)<sup>58</sup> (Respondents whose company invested abroad or plans to do so in the next 12 months - N=110, ranks are on a scale of 1 to 5 where 1 means most important and 5 least important, share of total, %, mean, ^denotes insufficient sample size)



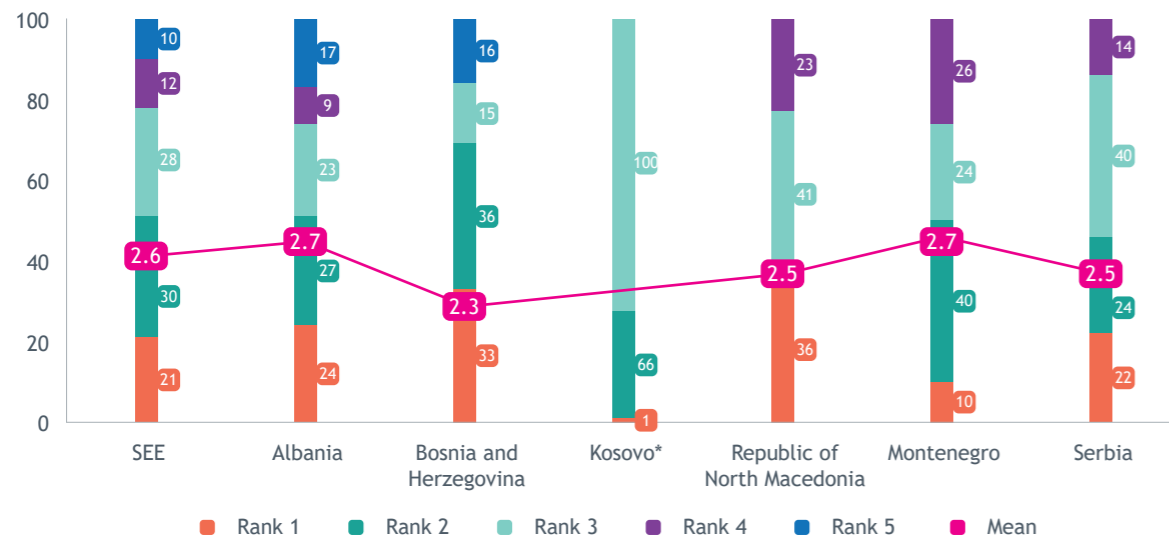
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58 The figures might not add to 100% due to rounding.

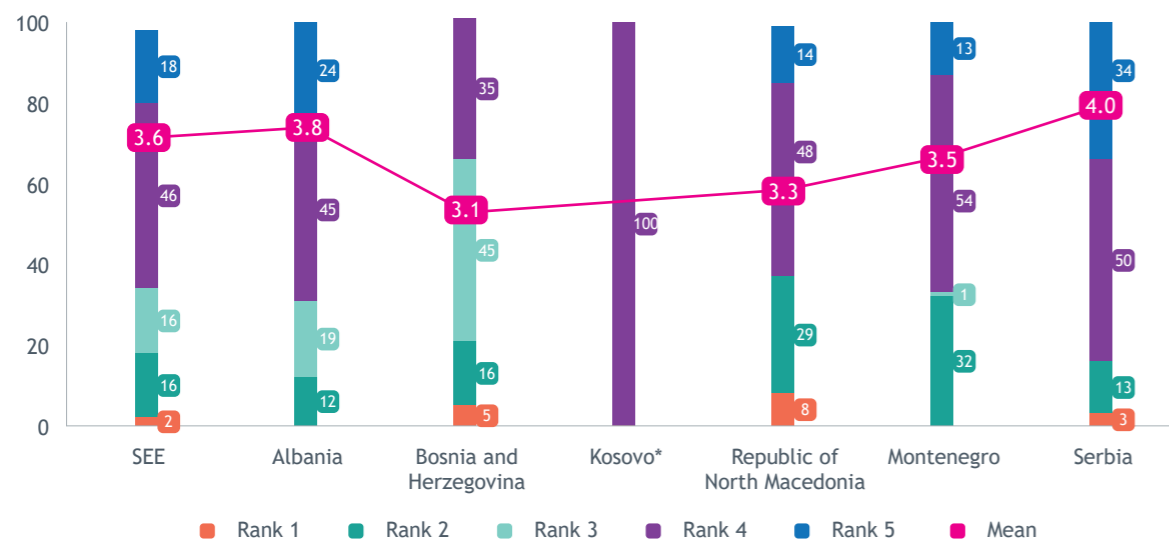
Figure 70: Where did you invest or plan to do so? (Respondents whose company invested abroad or plans to do so in the next 12 months - N=110, share of total, %, ^denotes insufficient sample size)



To better integrate your company's value chain



To access natural resources and raw materials



To acquire or complement new technologies or brand

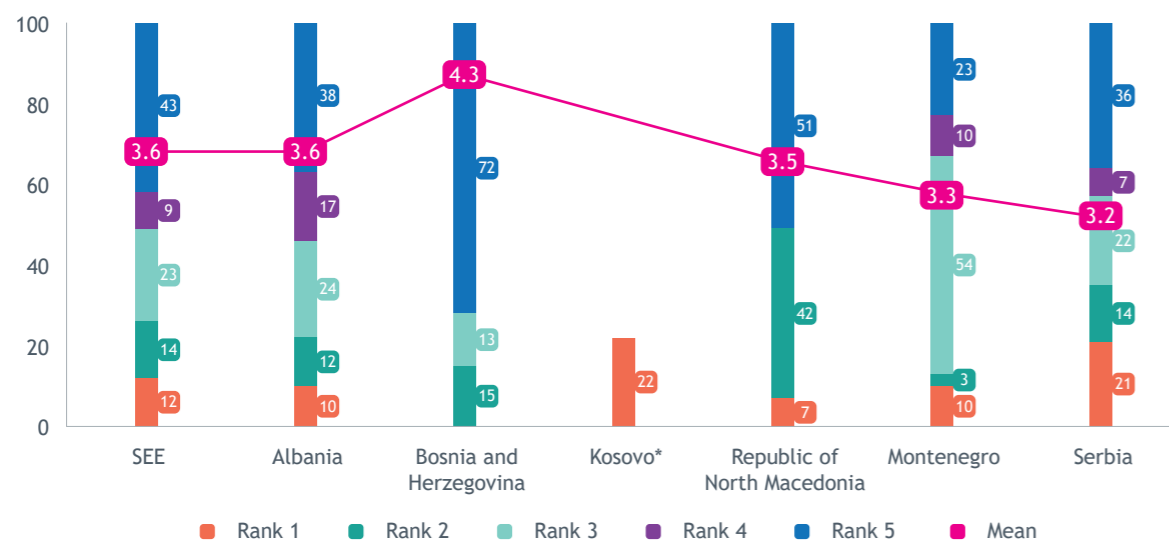
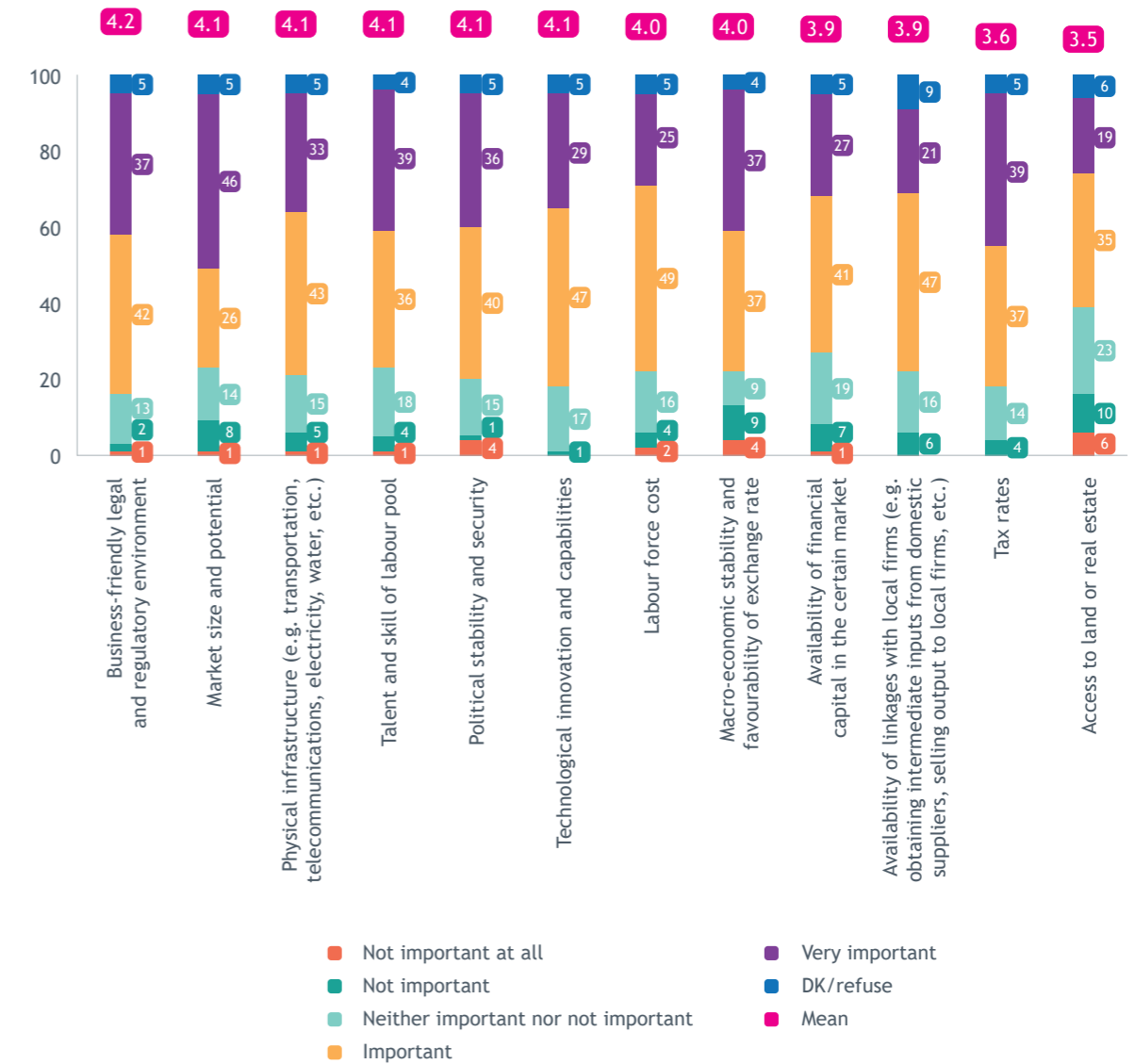


Figure 73: Which of the following reasons best describes your company's motivation to invest abroad? Please rank your answers with 1 being most important and 5 being least important (Respondents whose company invested abroad or plans to do so in the next 12 months - N=85, scores are on a scale of 1 to 5 where 1 not important at all and 5 very important, share of total, %, mean)



It is not possible to pinpoint a single most important reason for investing abroad - it is rather a combination of more factors that drives companies' investment decisions. As it can be seen on the graph, wide range of factors are considered as very important (mean score 4.2 and 4.1). The range between most and least important factors varies from 3.1 to 4.2 indicating that some factors are less important than others (where higher number represent higher importance).

Again, business friendly environment along with market size and new customers seem to be the most important drivers of company's decision to invest abroad. In addition, companies are very interested in investing in economies that provide macroeconomic stability -- including favourable

tax regime, business friendly environment, and stable exchange rate. Political security, physical infrastructure, and sufficient size of labour market - more important than cost of labour, are also key factors for companies' decisions. Access to land and real estate is not important reason when investing, and it is probably correlated with the fact that such access is relatively accessible and affordable in domestic economies.

It is not possible to analyse economy-level data due to small sample size, but it is expected that access to new market is of particular importance for smaller economies, such as Montenegro, while it is of less importance for Serbia - SEE region's largest domestic market.

Figure 74: Has your company exported goods or services over the past 12 months?<sup>59</sup>  
(All respondents - N=1271, share of total, %)



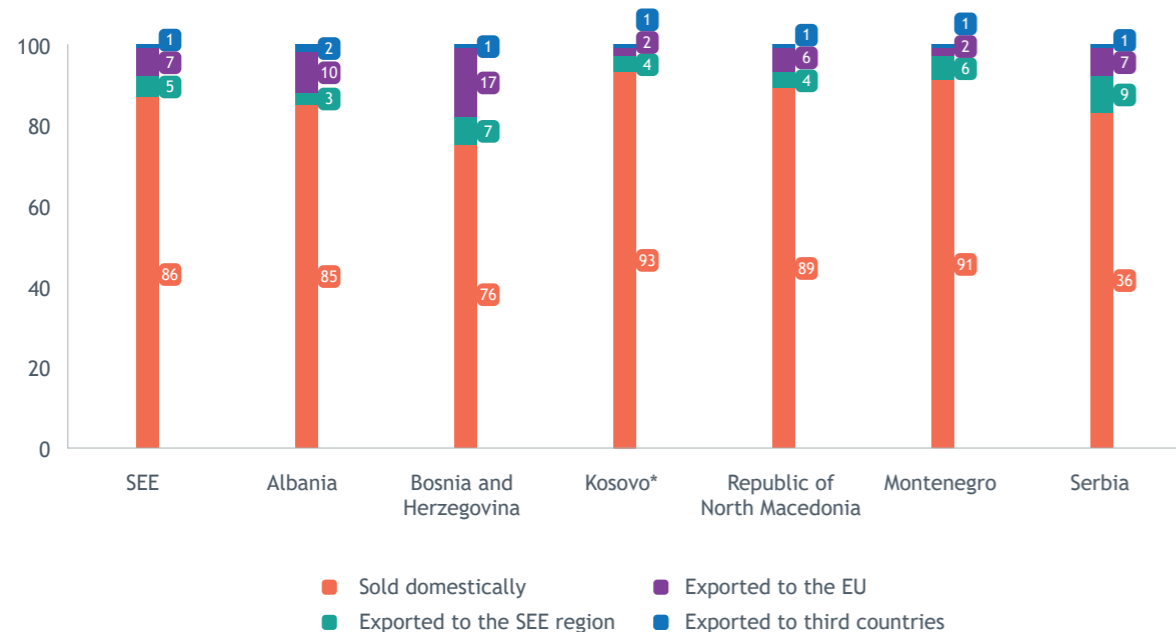
Nevertheless, graphical interpretation of the results by factor and economy is given in the [Appendix](#).

Companies from SEE region are dominantly focused on domestic market. In terms of the number of exporters, 3 out of 10 companies export their products. However, when that share of exporters is weighted by export value, results show

that only 14% of sales are generated on foreign markets, while 86% is achieved on domestic. EU and SEE are the most and equally important exporting markets, while export to third markets is irrelevant.

Bosnian businesses seem to be most export-oriented, with half of them exporting, while one quarter of their businesses' revenue comes from

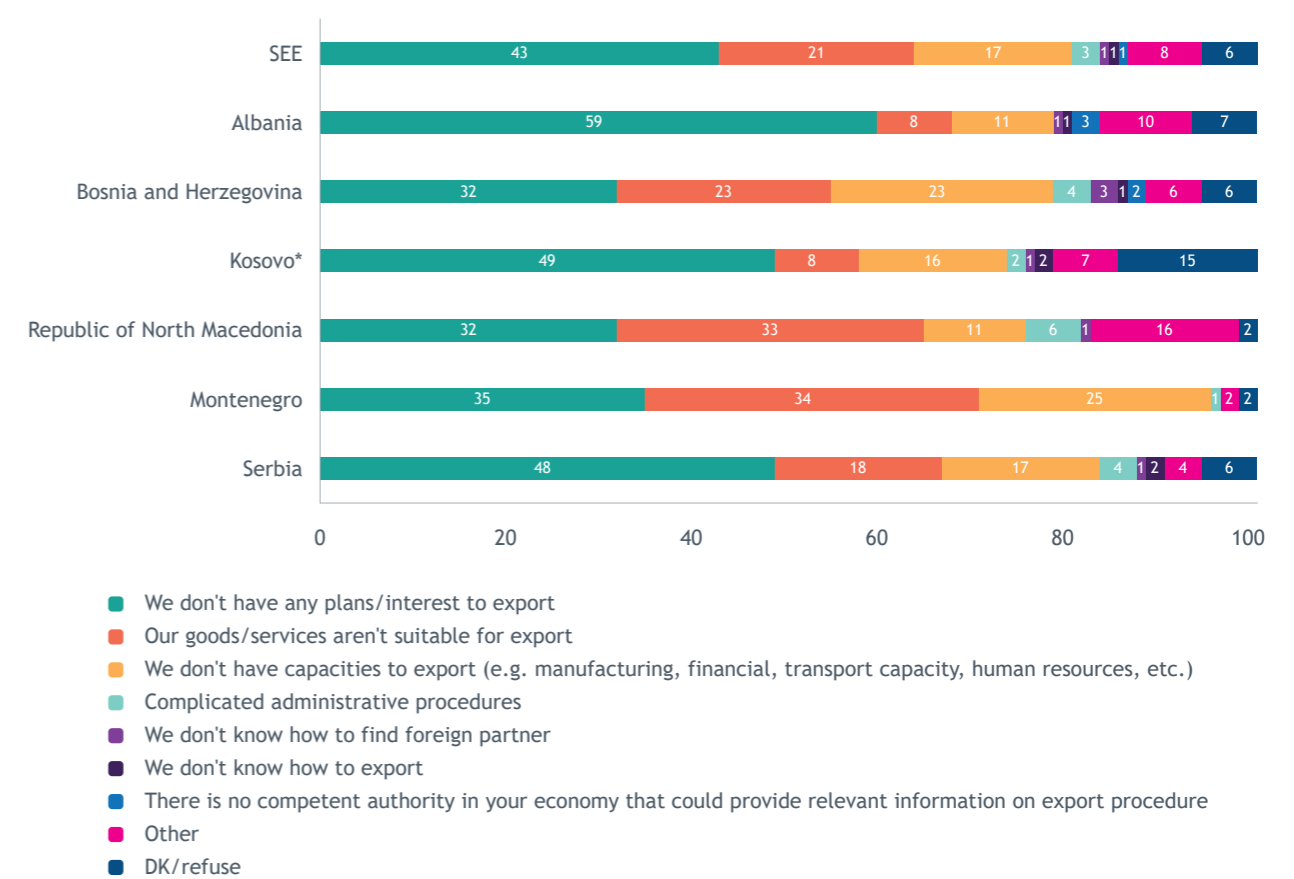
Figure 75: What percentage of your company's sales are made domestically, exported to the SEE region, to the EU or to the third countries?<sup>60</sup>  
(All respondents - N=1271, share of total, %), ^ denotes insufficient sample size



<sup>59</sup> The figures might not add to 100% due to rounding.

<sup>60</sup> The figures might not add to 100% due to rounding.

Figure 76: Why doesn't your company export?  
(Respondents who do not export - N=887, %), ^ denotes insufficient sample size



international market. On the other hand, Kosovo\*, Montenegro, and the Republic of North Macedonia are most oriented towards domestic markets. Out of ten euros of revenue created by their companies, more than nine come from domestic market. Other SEE economies are between these perimeters, relatively close to the average.

Market orientation is closely correlated to size and ownership. Larger firms are more frequently seeking chances outside domestic market, and therefore generate 40% of their revenue on foreign markets. Similar situation is with foreign companies, which, as subsidiaries, do not have problems with finding buyers and accessing foreign markets. Therefore, the share of exports in their revenue is higher than 30%.

It is important to carefully follow further development of market orientation of SEE businesses, as consensus is that export-led growth is probably the only engine for achieving sustainable and dynamic growth. Therefore, more exporting firms and more significant shift from relying exclusively on purchasing power of domestic market towards large and wealthier European market would be en-

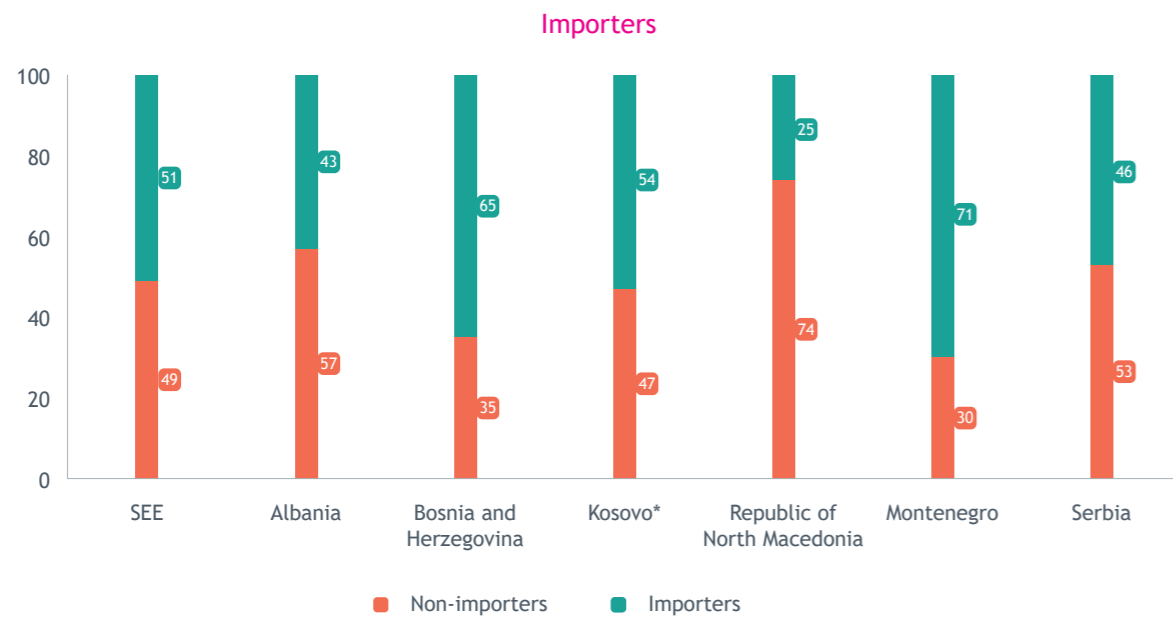
couraging indicators signalling that SEE economies are becoming increasingly competitive and developed.

Majority of interviewed non-exporters stated that they have no plan or even interest to export. Therefore, those are companies that are strategically and operationally exclusively focused on domestic market and that did not even attempt to find buyers abroad or to test their competitiveness internationally. The greatest share of such companies is in Albania (6 out of ten) and Kosovo\*, while the lowest percentage is in Bosnia and Herzegovina, the Republic of North Macedonia, and Montenegro.

Most of the remaining companies that have interest or plan to export identify suitability of goods and production and logistical capacities as key issues. In Bosnia and Herzegovina and the Republic of North Macedonia, complicated procedures and lack of ability to find adequate foreign partners are also binding constraints.

Companies from SEE region are primarily focused on domestic market when it comes to

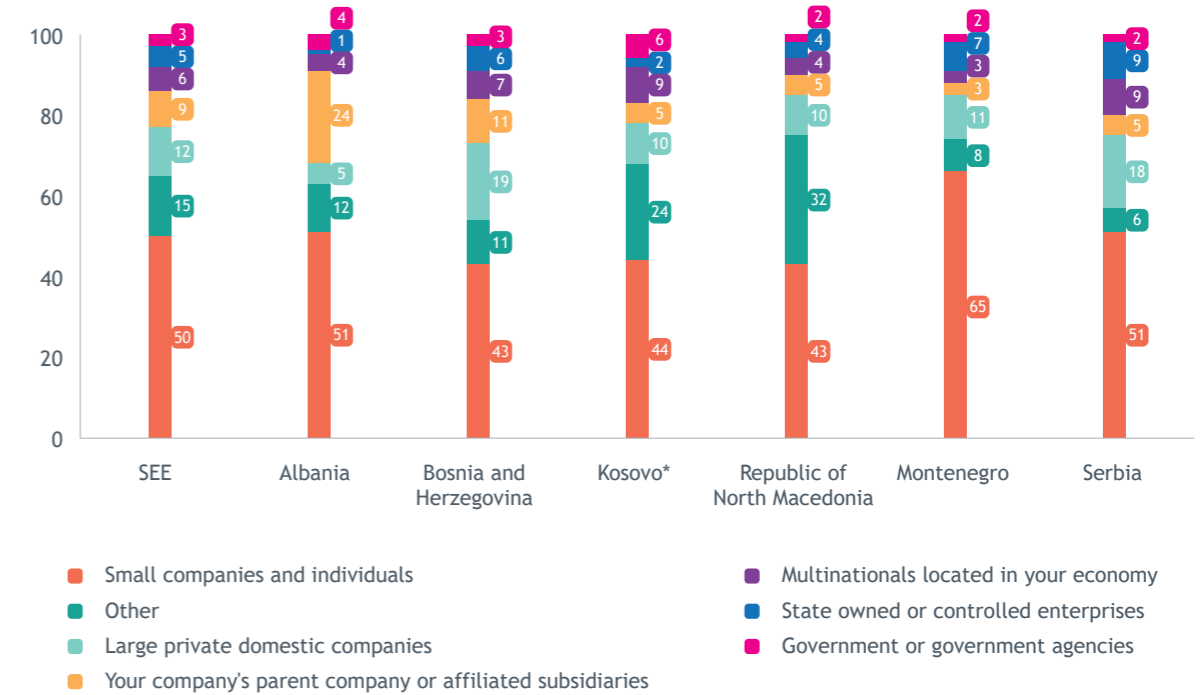
Figure 77: Has your company imported goods or services over the past 12 months?<sup>61</sup>



**purchasing supplies and input.** In terms of the number of exporters, every other company is purchasing its supplies and input from abroad. However, when it comes to share of imported goods in total purchases, it drops down to 31%. EU and SEE are the most important importing markets, with EU holding higher share, while import from third markets stands at only 5%.

**Serbian and Republic of North Macedonia businesses are the least import-dependent, as great majority of inputs are supplied from domestic market.** Domestic purchases in these two economies comprise around 80% of total value of purchases. On the other hand, Montenegro, as the smallest economy in SEE, is driven to acquire necessary inputs from other economies. Therefore,

Figure 79: What percentage of your domestic sales is made to?<sup>63</sup>  
(All respondents - N=1271, share of total, %)

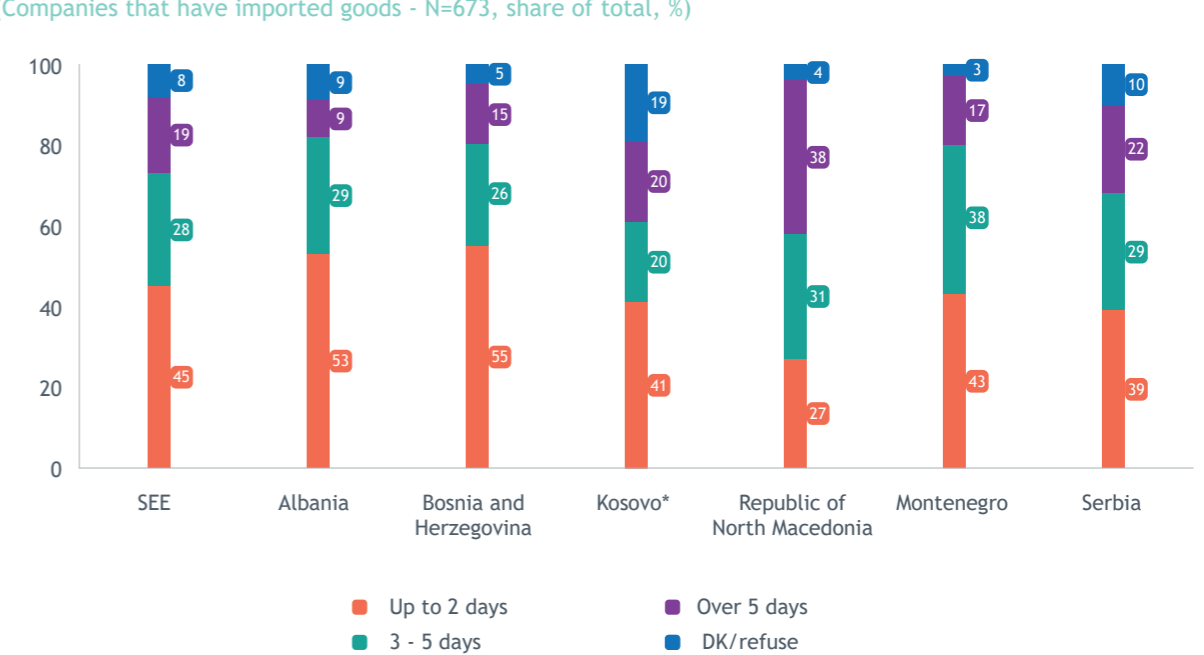


as much as 70% of Montenegrin businesses import goods, while 49% of all purchases refer to foreign suppliers. Other SEE economies are between these perimeters and relatively close to the average.

**that the number of importers and import value, as well as the portfolio of imported products, will increase due to increased demand for, among other, modern technology and better-quality consumer goods.**

If the liberalisation process continues and purchasing power of SEE economies grows, it is expected

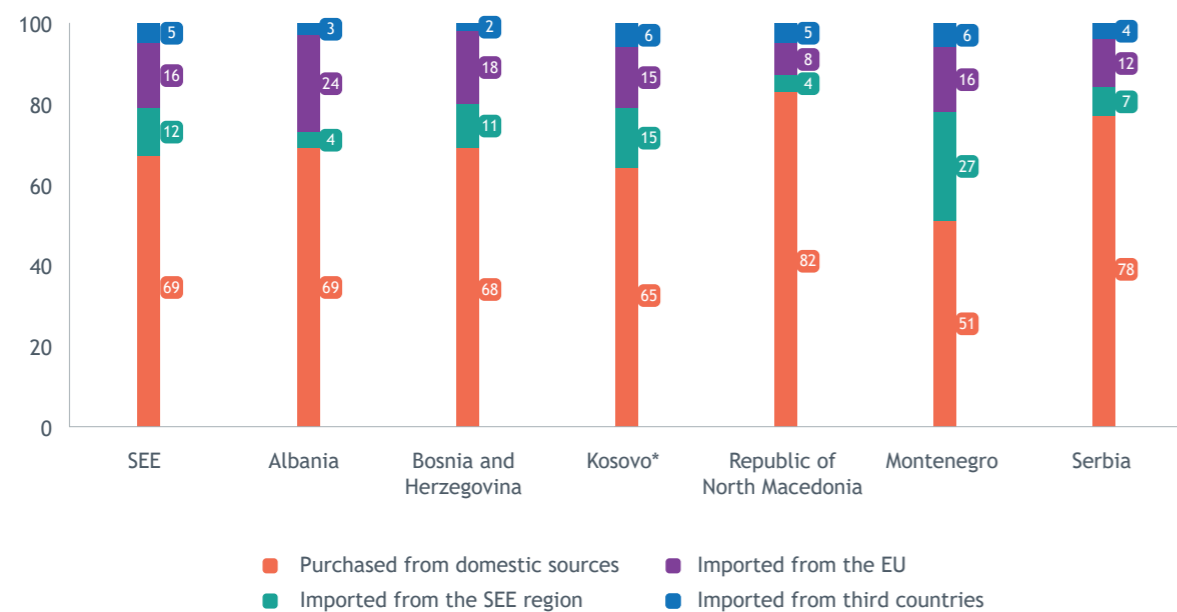
Figure 80: If you have imported goods in the past 12 months, what is the average number of days to clear imports through customs?<sup>64</sup>  
(Companies that have imported goods - N=673, share of total, %)



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

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

Figure 78: What percentage of your company's inputs and supplies are...?<sup>62</sup>  
^denotes insufficient sample size



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

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



**Small firms and individuals remain the main buyers for SEE firms.** This is the situation across all SEE economies, with SMEs and individuals being the most important in Montenegro (65% of sales made to them) and least important for Bosnia and Herzegovina and the Republic of North Macedonia (43%).

**Large private domestic companies are also important source of revenue for SEE businesses,** comprising from 10% to 20% of total sales (except in Albania). Public sector, consisting of government and state-owned enterprises, is responsible for 8% of businesses' total sales. It could be assumed that this amount corresponds to the value of public procurements in SEE economies. Sales to parent companies are particularly important for Albanian businesses, comprising 24% of their total sales. However, this percentage is significantly lower for the region and is below 10% on average.

It is important to note that purchases from multinational companies located in SEE economies contribute with only 6% to the total sales. This could be used as a proxy for a level of effective integration of often subsidised foreign companies.

**Almost half of importers reported customs clearance within two days, while additional 28% stated that it required 3 to 5 days to clear imports through customs.** With 19% of importers re-

porting that the entire process took more than five days, the general situation with customs efficiency is very similar to 2017.

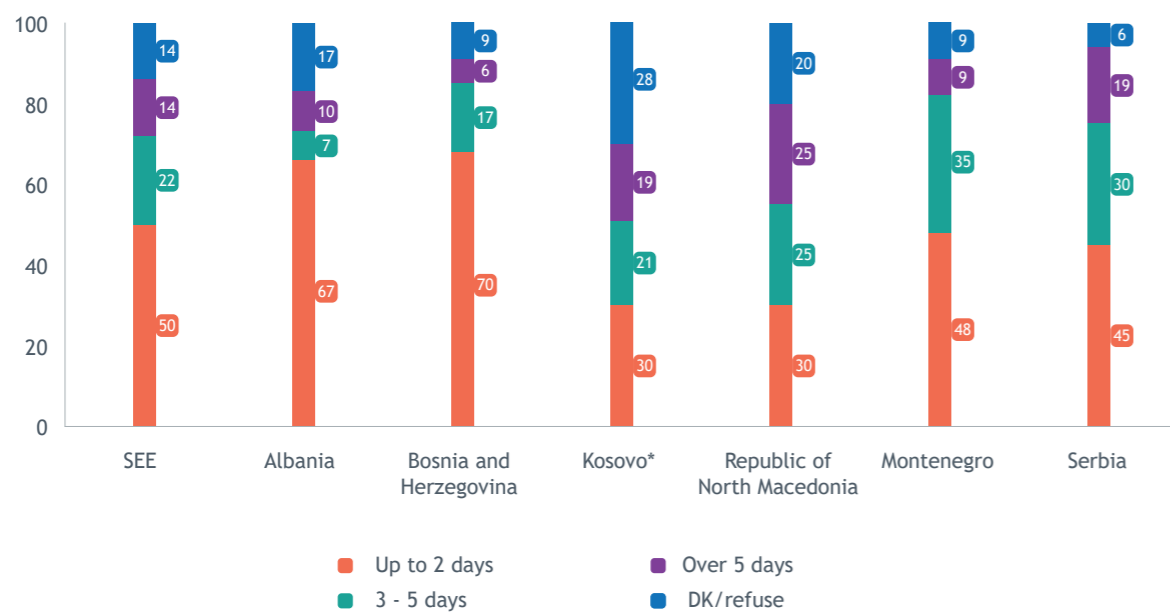
**According to the survey respondents, importers from Albania have the shortest import procedures.** 53% of them stated that the entire process has been done in only two days, with only 9% of those who spent more than five days on average dealing with import procedures. On the other hand, Republic of North Macedonia importers were the least satisfied with customs administration efficiency, as 38% of them needed to spend more than 5 days in order to clear imports.

**Large enterprises, foreign companies, as well as frequent traders, spent less time on average dealing with customs procedures while importing.**

**One half of exporters reported customs clearance within two days, while additional 22% stated that it required 3 to 5 days to clear export through customs.** With only slightly less than 15% of exporters waiting more than five days, the general situation has slightly deteriorated compared to 2017 - due to extension of customs clearance in the Republic of North Macedonia and Serbia.

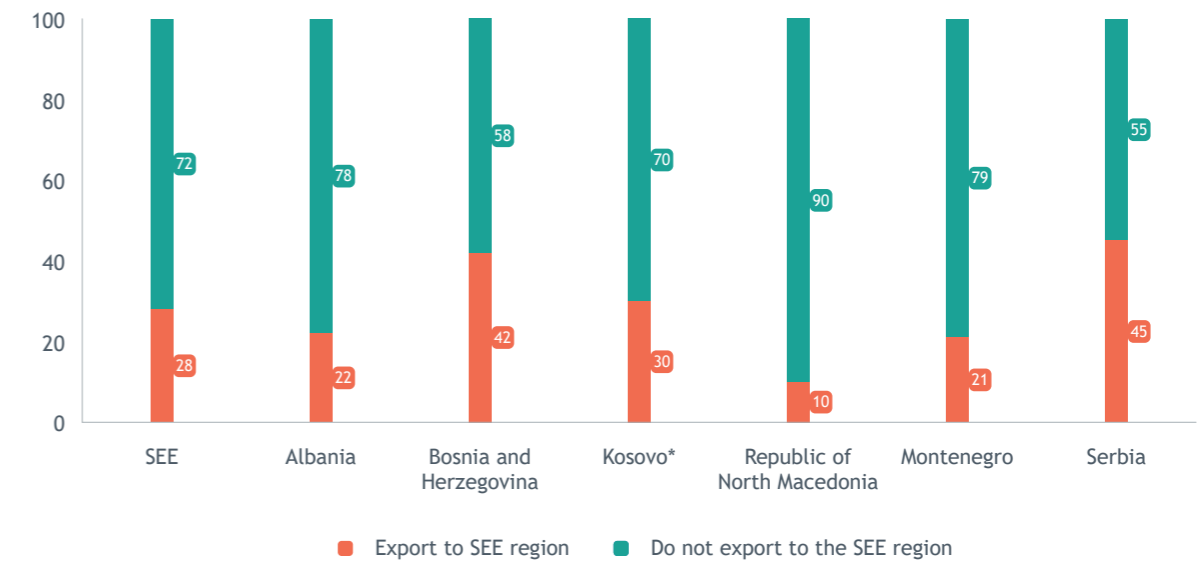
**Bosnia and Herzegovina, economy with the highest number of exporters among businesses,**

Figure 81: If you have exported goods in the past 12 months, what is the average number of days to clear exports through customs?<sup>65</sup> (Companies that have exported goods - N=458, share of total, %)

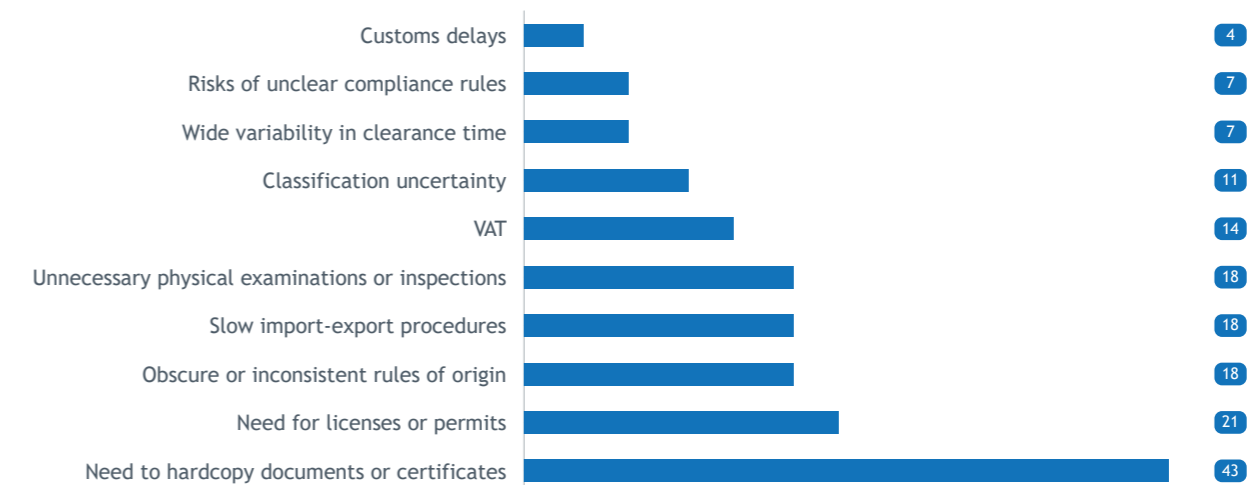


65 The figures might not add to 100% due to rounding.

Figure 82: If your company exports to the SEE region, what are the main obstacles to your exports?<sup>66</sup> (All respondents - N=1271, share of total, %)



Exporters to the SEE region



seems to be the one with the most efficient customs administration. As much as 70% of Bosnian and Herzegovinian exporters reported goods clearing customs in only two days, with only 6% spending more than five days on average dealing with export procedures. On the other hand, exporters from the Republic of North Macedonia were the least satisfied with customs administration efficiency, as 25% of them needed to spend more than five days in order to clear exports. Slightly less than 20% of Serbian exporters have also stated that it took them more than five days to clear exports, with 45% reporting to have cleared customs in two days.

Same as with import procedures, large enterprises, foreign companies as well as frequent traders spent on average less days dealing with customs while exporting.

As the most important obstacle to exporting to the SEE region, businesses have again identified the need to hardcopy documents. Medium and large companies (more than half of them) find bureaucratic constraints particularly burdensome. Second most important factor also remained the same as in 2017, and that is the need for licencing, where every fifth firm had troubles with obtaining licences and permits.

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

Observed year-to-year, the strongest progress has been made in unnecessary physical examinations and need for licencing, as number of exporters considering these activities as a constraint fell by 8 points and 5 points respectively. Factors that dropped significantly (by more than 5 p.p.) refer to VAT and customs delays.

However, it is still clear that SEE businesses are emphasising the same constraints for a number of years, and that more thorough review of customs procedures should be undertaken regionally.

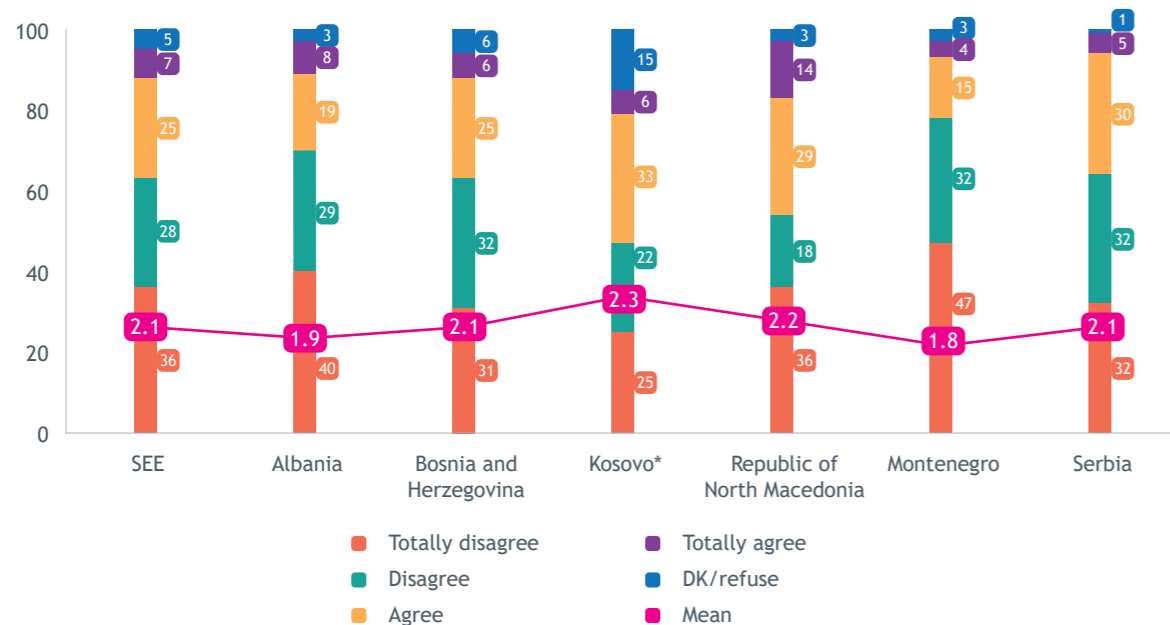
Table 3: Obstacles to exporting to the SEE region (for each economy) (Respondents who export to the SEE region - N=356, %)

N	2018	Need to hardcopy documents or certificates	Need for licenses or permits	Unnecessary physical examinations or inspections	Slow import-export procedures	Obscure or inconsistent rules of origin	VAT	Wide variability in clearance time	Classification uncertainty	Customs delays	Risks of unclear compliance rules
356	SEE	43	21	18	18	18	14	7	4	11	7
49	Albania	27	14	36	23	14	5	9	9	23	14
87	Bosnia and Herzegovina	45	21	12	17	19	14	12	2	5	2
62	Kosovo*	40	20	10	17	17	27	0	3	20	3
21*	Republic of North Macedonia	40	60	10	10	20	10	10	10	10	10
48	Montenegro	62	29	19	10	10	33	5	0	0	5
91	Serbia	47	18	29	20	20	4	11	4	11	13

Except for the need to hardcopy documents or certificates and need for licences, there are other economy-specific constraints impacting

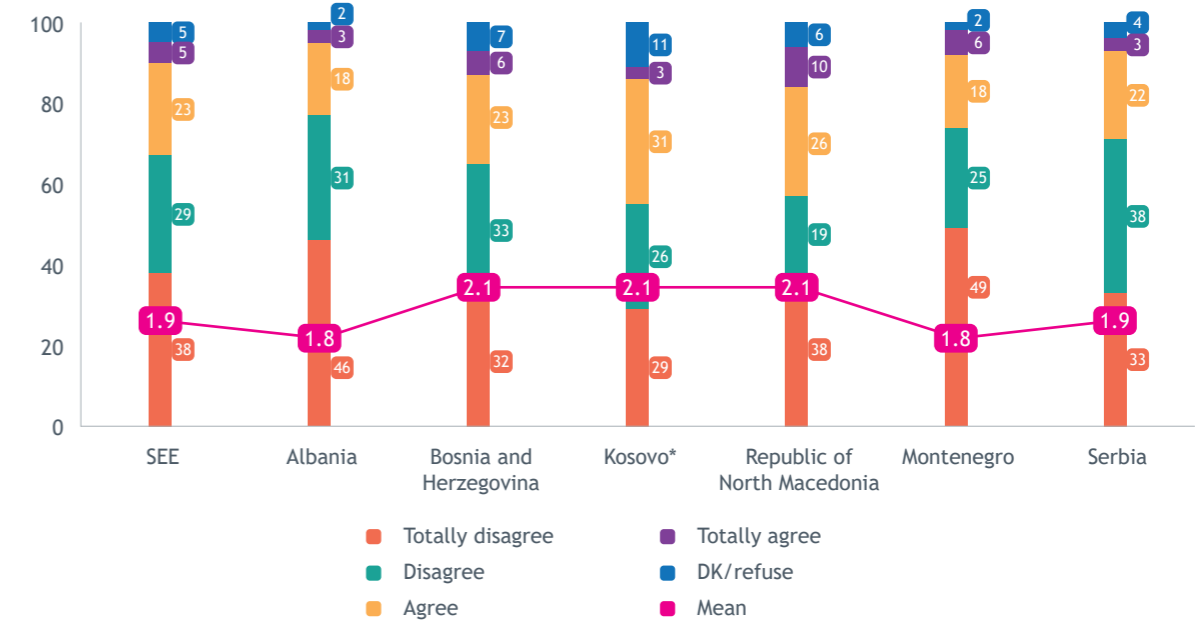
trade performance across SEE market. Unnecessary physical examinations or inspections are still cited as a frequent constraint in Albania (36%) and

Figure 83: To what extent do you agree that your company is threatened by global competition?<sup>67</sup> (All respondents - N=1271, scores are on a scale of 1 to 4 where 1 means totally disagree and 4 totally agree, %, mean)



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

Figure 84: To what extent do you agree that your company is threatened by competition from the SEE region?<sup>68</sup> (All respondents - N=1271, scores are on a scale of 1 to 4 where 1 means totally disagree and 4 totally agree, %, mean)



Serbia (29%), while Montenegro (33%) and Kosovo\* (27%) exporters are especially worried about VAT impact on their export. In addition, Albanian exporters to SEE region are not satisfied with slow customs procedures and frequent customs delays (23% of them). It seems that exporters are in general not worried about compliance rules and certainty of classifications, with only 7% and 4% of them, respectively, cited these as problematic. However, there seems to be an increasing trend in the number of companies considering these factors as issues.

SEE companies are very confident in their competitiveness on domestic market, as majority of them (64%) do not feel threatened by global competition. Regional score remained the same as in previous year, with even more of those strictly considering that global competition does not pose a threat to companies.

There are differences in the level of confidence among SEE economies, with Montenegro being the most confident and the Republic of North Macedonia being the least. Some changes have occurred, with Albanian business becoming more confident in their competitiveness, while faith of Bosnian businesses in their own strength on domestic market has fallen. Confidence of Serbian businesses is in line with regional average, while

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

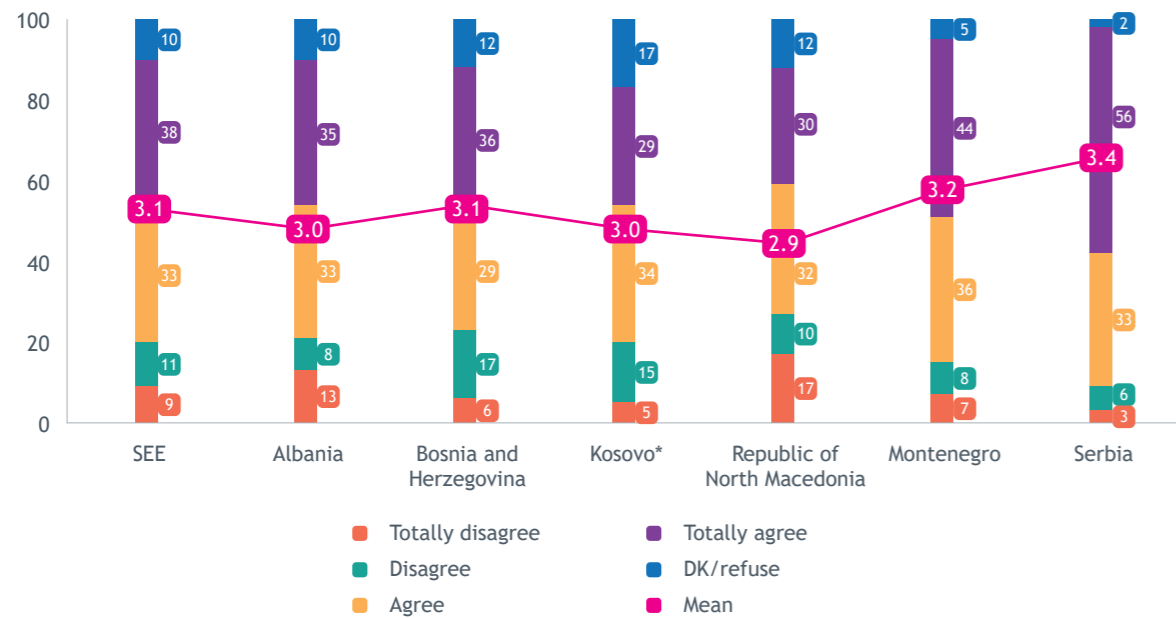
there is a significant number of companies in Kosovo\* that refused to answer.

It is interesting that large companies and exporters are more careful when it comes to global competition, compared to smaller firms and non-exporters. It could be that this lack of confidence is experience-based, as large firms and exporters already had a chance to fight for market share with global rivals on foreign markets, while smaller firms are usually tucked away on domestic market, filling needs of local customers or specific niche markets.

Same as in 2017, surveyed businesses are even less worried about market rivals from SEE region than those from wider global markets, with 67% of respondents feeling little or no threat from regional competitors. Again, Albanian and Montenegrin business leaders are more confident than respondents in all other economies. Managers from Bosnia and Herzegovina and the Republic of North Macedonia are somewhat less confident, but in general they believe in their own capabilities when benchmarked against regional companies.

Vast majority of business leaders still consider their products as competitive enough when compared to other SEE businesses' products. However, level of confidence, measured through

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?<sup>69</sup>  
(All respondents - N=1271, scores are on a scale of 1 to 4 where 1 means totally disagree and 4 totally agree, %, mean)

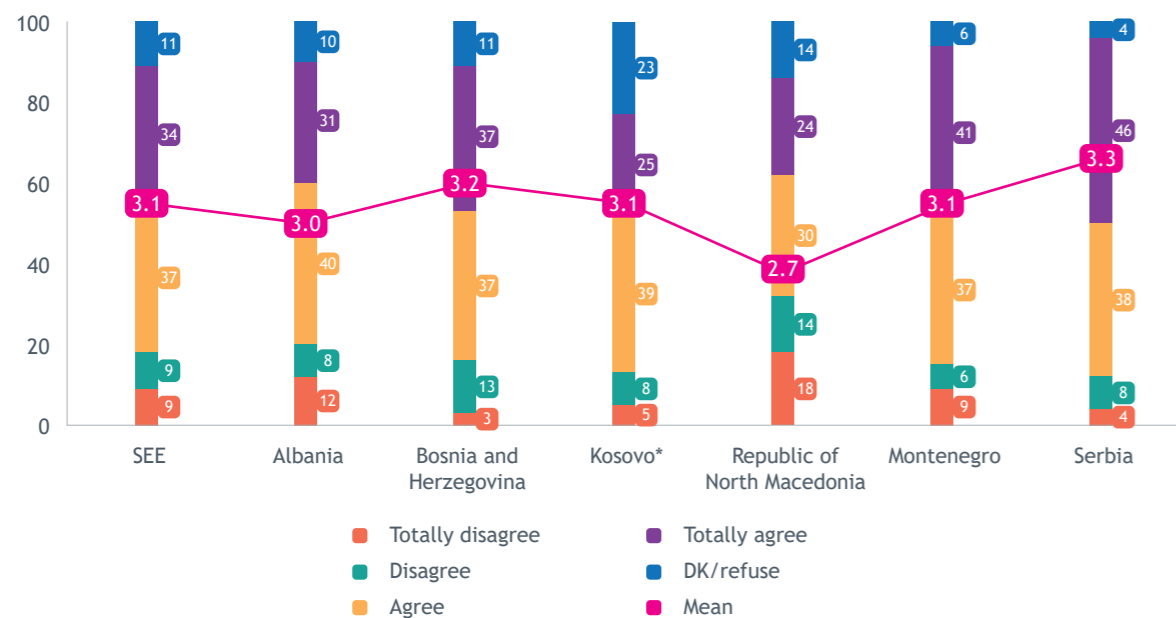


average score, has dropped for the region (from 3.3 to 3.1) compared to the last year.

Business leaders from Montenegro (3.2) and especially Serbia (3.4) express highest level of confidence. Almost 90% of Serbian executives be-

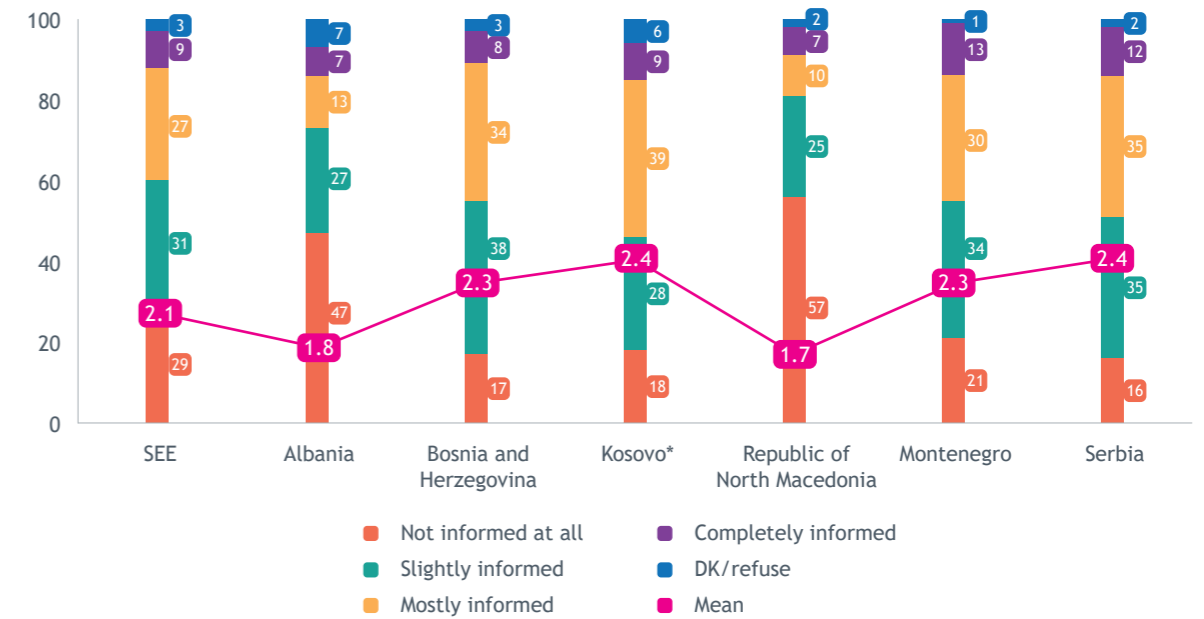
lieve in high competitiveness of their products. On the other hand, Republic of North Macedonia executives (2.9) are not as confident, since a quarter of them do not believe in their regional competitiveness.

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?<sup>70</sup>  
(All respondents - N=1271, scores are on a scale of 1 to 4 where 1 means totally disagree and 4 totally agree, %, mean)



69 The figures might not add to 100% due to rounding.  
70 The figures might not add to 100% due to rounding.

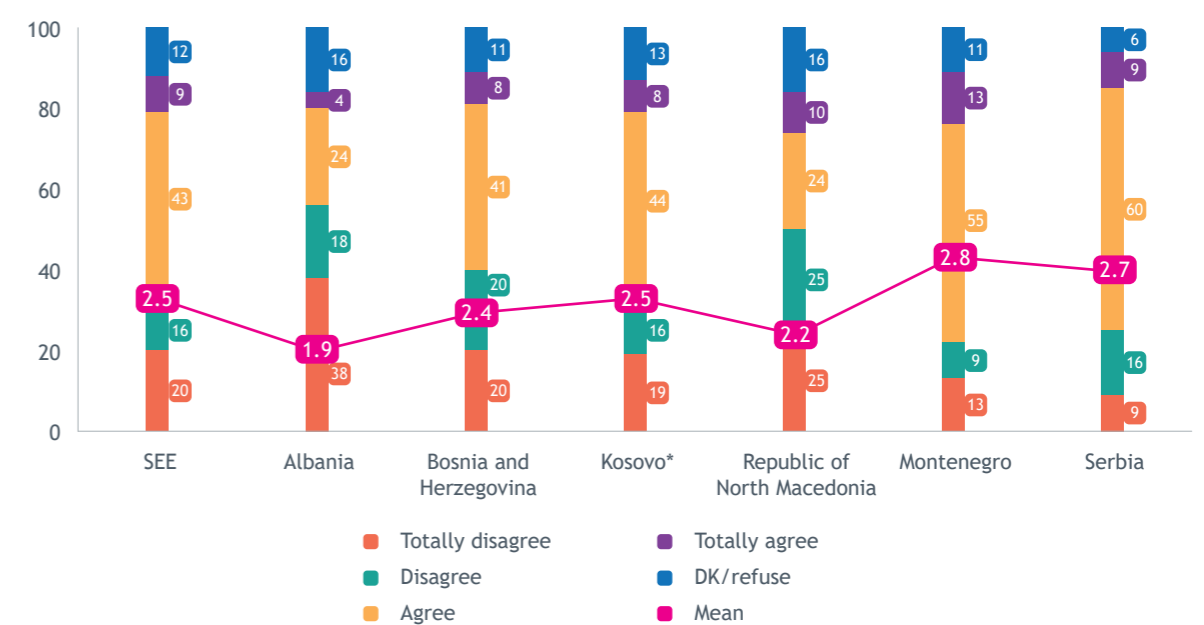
Figure 87: To what extent do you think that you are informed about the regional free trade agreement (CEFTA 2006)?<sup>71</sup>  
(All respondents - N=1271, scores are on a scale of 1 to 4 where 1 means totally disagree and 4 totally agree, %, mean)



Significant loss of confidence is recorded in Albania (from 3.3 to 3.0), the Republic of North Macedonia (from 3.2 to 2.9) and Kosovo\* (from 3.3 to 3.0) while Montenegro is the only economy with a considerable increase in trust in its own abilities (from 3.0 to 3.2)

SEE business leaders exhibit high level of confidence in their products, even when facing the EU competition (average score 3.1). Nevertheless, level of confidence, measured through average score, has slightly dropped (from 3.2 to 3.1).

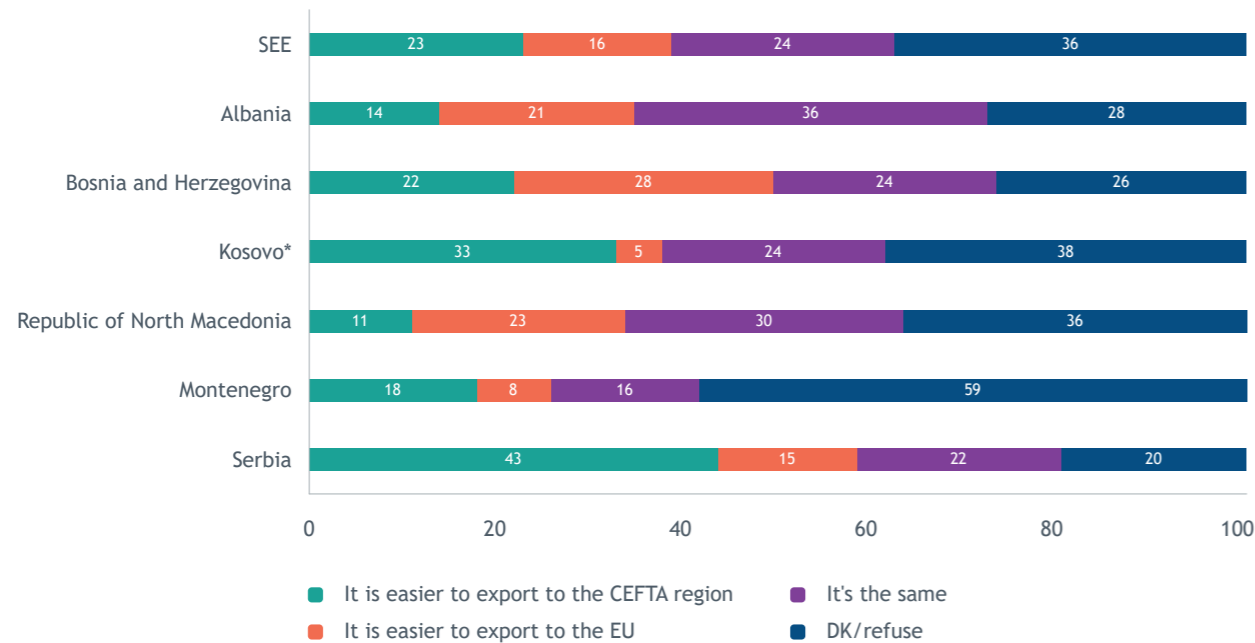
Figure 88: To what extent do you agree with the statement - My company has benefited from the regional free trade agreement (CEFTA 2006)?<sup>72</sup>  
(Respondents who export and import - N=778, scores are on a scale of 1 to 4 where 1 means totally disagree and 4 totally agree, %, mean)



71 The figures might not add to 100% due to rounding.  
72 The figures might not add to 100% due to rounding.



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?<sup>73</sup>  
(Respondents who export - N=778, %)



Level of confidence is similar across the region, with the only negative exception being the Republic of North Macedonia (2.7), where one third of businesses do not believe in its competitiveness. More than 80% of Serbian executives again express highest level of confidence in their own abilities (average score 3.3). Except for Serbia, Bosnia and Herzegovina is the only economy with above average score (3.2) and close to three quarters of confident executives.

**Drops in score occurred in all economies but Montenegro, but it was nevertheless only slight - uniformly 0.1.**

**SEE businesses are not well informed about CEFTA.** As much as 60% of businesses are not informed at all or are slightly informed, while only 9% consider that they are fully informed. Adequate information is least available in the Republic of North Macedonia and Albania, where 82% and 74% of businesses, respectively, do not have complete and high-quality information on procedures, benefits and possibilities granted by CEFTA agreement.

As expected, level of knowledge about CEFTA is increasing with company size, with exporters and foreign companies being solidly informed about this agreement.

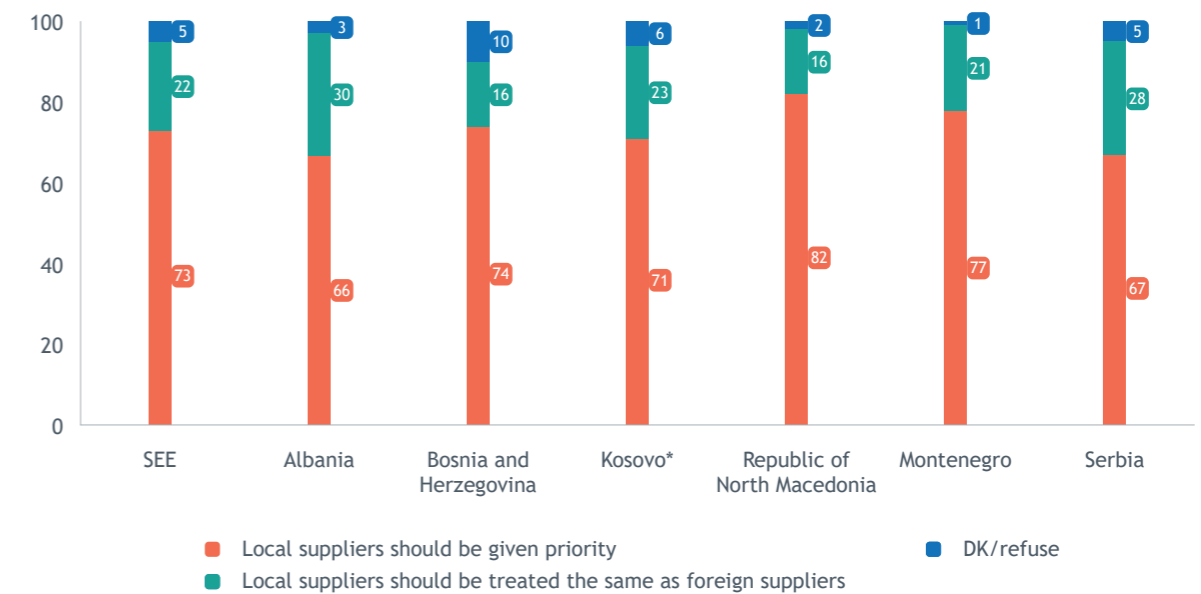
**More than half of all surveyed managers experienced at least some benefits from CEFTA (52% compared to 46% in 2017).** It seems that Montenegrin and Serbian businesses have benefited most from CEFTA, while the least informed ones - Albanian and Republic of North Macedonia businesses reported to have had the least benefits. It is interesting to note that foreign companies do not see clear interest from CEFTA, as 40% of them stated they had no benefit from this agreement, indicating their integration in other, mostly EU-based value chains.

**Most surveyed companies do not make a clear difference between ease of export to SEE and EU market, considering the level of easiness the same or not having a concrete answer.** Out of those that see some difference, there are more businesses that consider exporting to CEFTA region easier.

**There are significant differences across SEE economies.** Serbian, Montenegrin, and Kosovo\* companies are well aware that EU market is more demanding, while perspective of businesses from the Republic of North Macedonia, Albania, and Bosnia and Herzegovina is that exporting to SEE market is more difficult. It may be that it is up to perspective - competition is more intense on EU market and standards are higher, but on the oth-

<sup>73</sup> The figures might not add to 100% due to rounding.

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)?<sup>74</sup>  
(All respondents - N=1271, share of total, %)



er hand, procedures are also more clearly defined and predictable, with less non-tariff barriers.

**Representatives of SEE businesses agree that local suppliers should be given a priority in procurement.** Almost three out of four companies consider that local suppliers should have a preferential treatment when competing with foreign bidders. Albanian and Serbian economies could be considered as most open in the region, with the Republic of North Macedonia on the opposite end of spectrum. It is interesting to note that such an attitude is in contrast with confidence that SEE businesses have shown while considering the level of threat from global rivals and level of competitiveness of their products.

**Share of protection-oriented significantly grew compared to last year, across all economies, with an exception of Bosnia and Herzegovina.** Kosovo\* and the Republic of North Macedonia experienced the greatest change in opinion about treatment of local and foreign companies (from 51% to 71%, and from 68% to 82%, respectively). Bosnian market seems to become more open since fewer managers make the difference between status of local and foreign suppliers (from 83% in 2017 to 74% in 2018).

Serbian market seems to be the most open, as perceived by the SEE business leaders (2.7 aver-

<sup>74</sup> The figures might not add to 100% due to rounding.

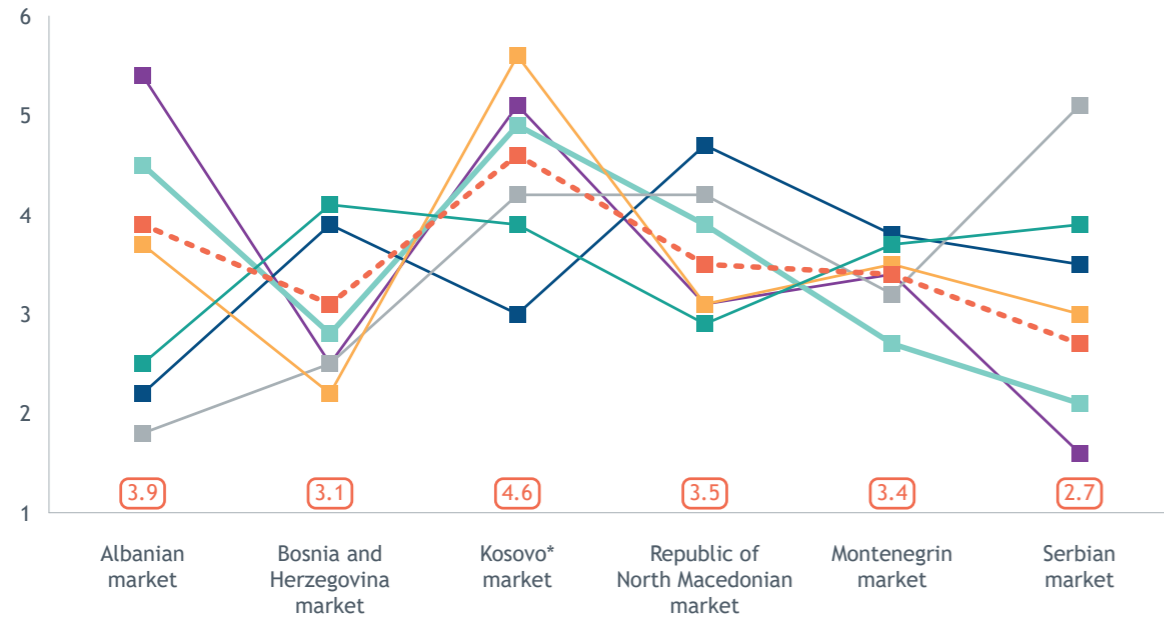
age rank out of 6). Bosnian market comes second most open with an average rank of 3.1. Moreover, perception about the market in Bosnia and Herzegovina improved from last year's average of 3.3. Kosovo\* market is perceived as most difficult to access in the SEE, with an average rank of 4.6. Expectedly, due to existing tariff barriers the perception about regional cooperation in Serbia and Bosnia and Herzegovina significantly deteriorated (average rank in 2017 was 3.7). Perception about openness of Montenegrin and Albanian markets improved the most - Montenegrin from 3.6 to 3.4 and Albanian from 4.2 to 3.9. The rank of the Republic of North Macedonia market has not seen any changes, standing firmly at regional average 3.5.

Serbian market is perceived the most open by Serbian managers themselves in the first place (1.6), and by Montenegrin (2.1) and Bosnian managers (3.0). Albania and Kosovo\* (although not representative because of insufficient sample size) skew Serbian rank in opposite direction.

Kosovo\* market is perceived as truly hard to access by Bosnian (5.6) and Serbian (5.1) executives. Even Albanian executives do not perceive it as prevalingly open (rank 3.9).



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 (1 - most open, 6 - least open)



		Respondent						
		SEE	Albania	Bosnia and Herzegovina	Kosovo*	Republic of North Macedonia	Montenegro	Serbia
Market	Albania	3.9	2.5	3.7	1.8	2.2	4.5	5.4
	Bosnia and Herzegovina	3.1	4.1	2.2	2.5	3.9	2.8	2.5
	Kosovo*	4.6	3.9	5.6	4.2	3.0	4.9	5.1
	Republic of North Macedonia	3.5	2.9	3.1	4.2	4.7	3.9	3.1
	Montenegro	3.4	3.7	3.5	3.2	3.8	2.7	3.4
	Serbia	2.7	3.9	3.0	5.1	3.5	2.1	1.6

# INNOVATION AND TECHNOLOGY

SEE businesses are still in the early phase of technology transfer, and adoption of products already present on global or domestic market is their key way of innovating. Rate of innovation among SEE companies is still relatively low (30-40% across 3 years), and among those that innovate - majority of new products were new for themselves, but not new to the market. Similar situation is with delivery processes. Companies are still struggling to follow global and regional trends and, in general, are not able to provide completely new product or service to the market.

One of the key possible reasons explaining this position could be a lack of cooperation. Vast majority of businesses are neither cooperating with universities nor with other firms or organisations. Large companies are more open to such joint effort - but not enough, while small ones are usually working completely on their own, upgrading or modifying products or processes of other organisations to fit their needs and customers' expectations.

Figure 92: Does your company use Internet for...?<sup>75</sup> (All respondents - N=1271, share of total, %)



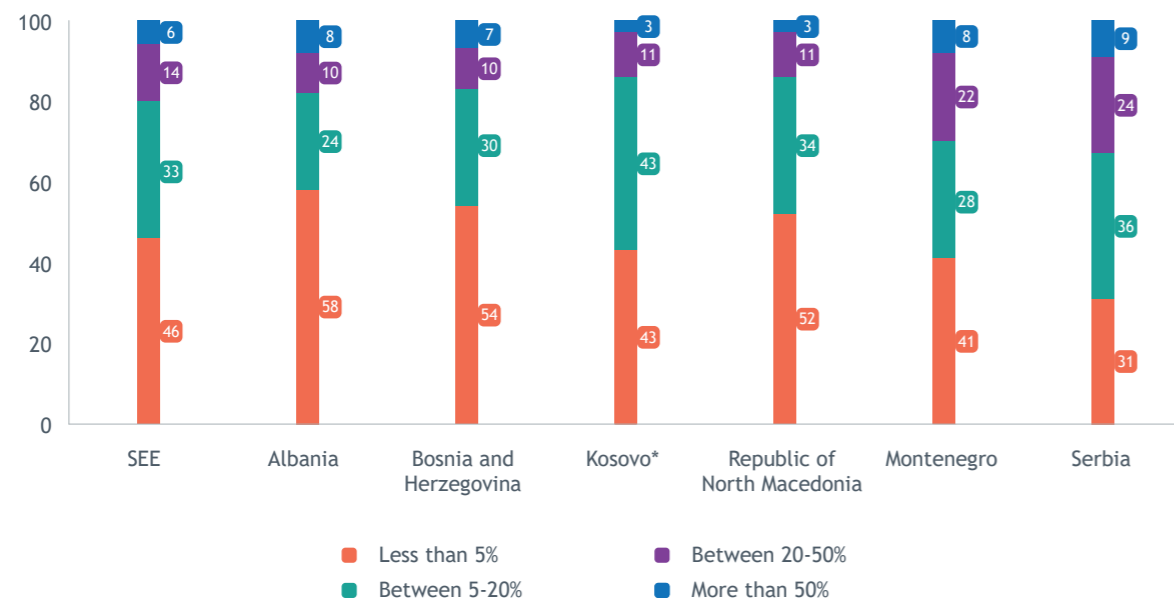
<sup>75</sup> The figures might not add to 100% due to rounding.

In addition, there is no clear evidence of digitalisation trend in the region. Although vast majority of companies have secure and reliable access to Internet, they use it more for traditional purposes (communication via e-mail, skype) or trying to modernise their advertising channels, while online sales refer to both small number of companies and small share of revenues of those selling online. On top of that, it is decreasing for the third year in a row. It is interesting that among companies that are selling online, this method is more important for small than large ones, owing to the increasing number of start-ups in the domain of online shops. Traditional store-selling is still the key selling channel for large companies.

In general, it is obvious that advertising and direct communication with customers through modern channels - such as Facebook, YouTube, or Instagram, is becoming increasingly important, while more traditional means of communication and marketing - through e-mails or website is gradually losing its position.

Use of Internet differs depending on company subgroup. For example, it is still important for medium and large companies to present themselves through a well-maintained website. On the other hand, only 30% of micro companies have their own website, while as much as 10% of them do not use Internet at all. Exporters are usually more engaged

Figure 93: What percentage of your total sales is currently generated through online sales?<sup>77</sup> (All respondents - N=1271, share of total, %)



As in the previous period, companies in SEE primarily use the Internet for communication via e-mail, Skype, and similar communication channels. In addition, 46% of firms use the Internet for advertising, a slightly larger share than last year (43% in 2017). Third most common reason for the use of the Internet is presenting companies through websites (from 51% in 2017 to 42% in 2018). About two fifths of respondents use the Internet for online banking, which is lower than in 2017 (45% in 2017). Compared to 2017, there has been a decline in proportion of firms that use the internet for online sales (32% in 2017).

on the Internet, across all categories, compared to companies exclusively focused on local market.

Vast majority of companies still use traditional store-selling, while importance of online selling is still marginal. Results from the previous question indicate that only 26% of companies sell their products or services through the Internet, while this is a significant source of income for only 20% of them (cca. 5% of total number of surveyed businesses). It seems that Albanian businesses are the ones most related to traditional selling channels, while Serbian and Montenegrin are more open and seek to modernise their marketing channels.

<sup>76</sup> The figures might not add to 100% due to rounding.  
<sup>77</sup> The figures might not add to 100% due to rounding.

It seems that the general trend of shifting from traditional to online selling is not present in SEE economies. Number of companies selling online has dropped (from 32% in 2017 to 26% in 2018), while among those that sell online - there is no upward trend in significance of online sales. Contrary, the number of those with online selling contributing to total sales with more than 20% decreased by 13 points (from 33% to 20%).

It is interesting that online sales tend to be a more important source of income for small rather than large companies. Nevertheless, this is somewhat expected. Large companies are operating with high numbers of employees and large assets, and it is not easy for them to significantly change their selling paradigm in short term. In addition, consumers still have more trust in traditional selling channels, while some large companies' selling points are well-recognisable for them. On the other hand, in order to open an online shop, you do not need many employees or much fixed assets, and that is why majority of start-ups operating and selling online are small companies.

Internet security problem is not a frequent issue for SEE businesses. Majority of them (79%) stated that they did not have any security problem. For

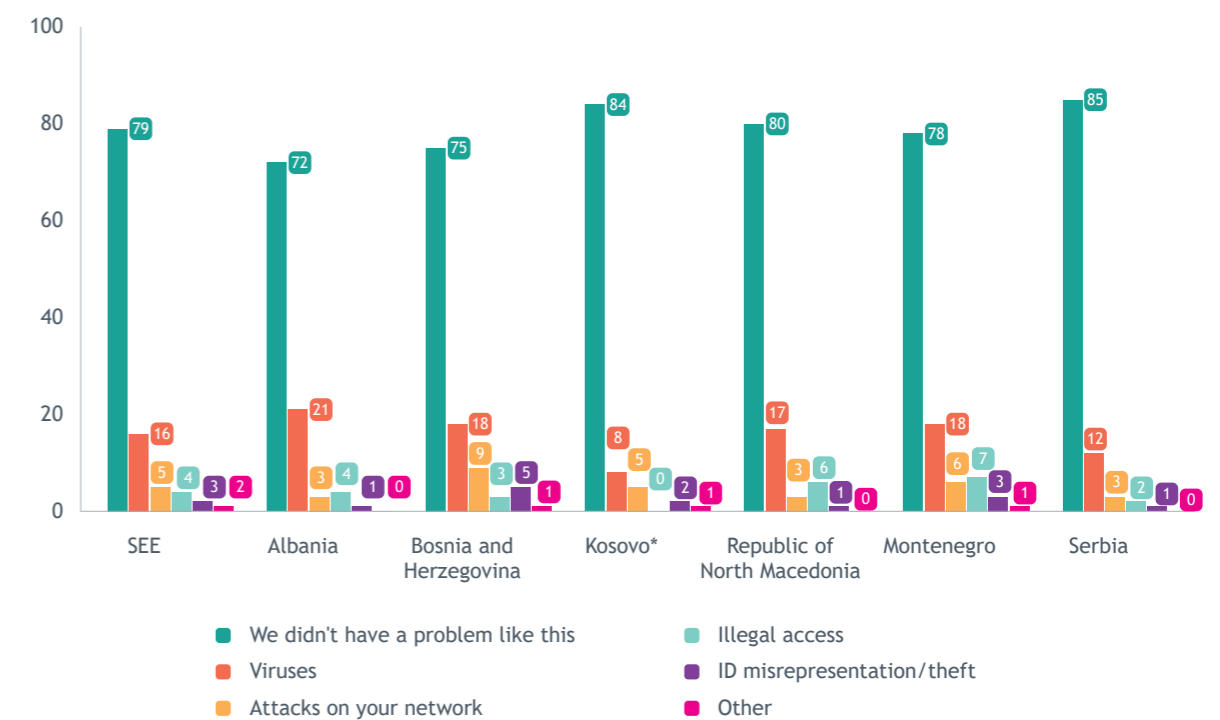
those who had some issues, they mostly referred to viruses. One in ten companies had a problem with an attack on their network or with illegal access. Distribution across economies is similar to region average, with Serbia and Kosovo\* being the safest economies in terms of Internet security.

Larger companies have more issues than smaller, as they use Internet more frequently and broadly. Every fourth large company experienced a problem with viruses, while every fifth had a problem with an attack on their network or with illegal access.

Internet connection in SEE economies is at a satisfying level. As much as 89% of businesses reported that they are well-satisfied with their Internet connection. The highest level of satisfaction is in Serbia, while the lowest is in Montenegro and the Republic of North Macedonia. Overall situation is slightly better than last year when 87% of firms were satisfied with their Internet connection.

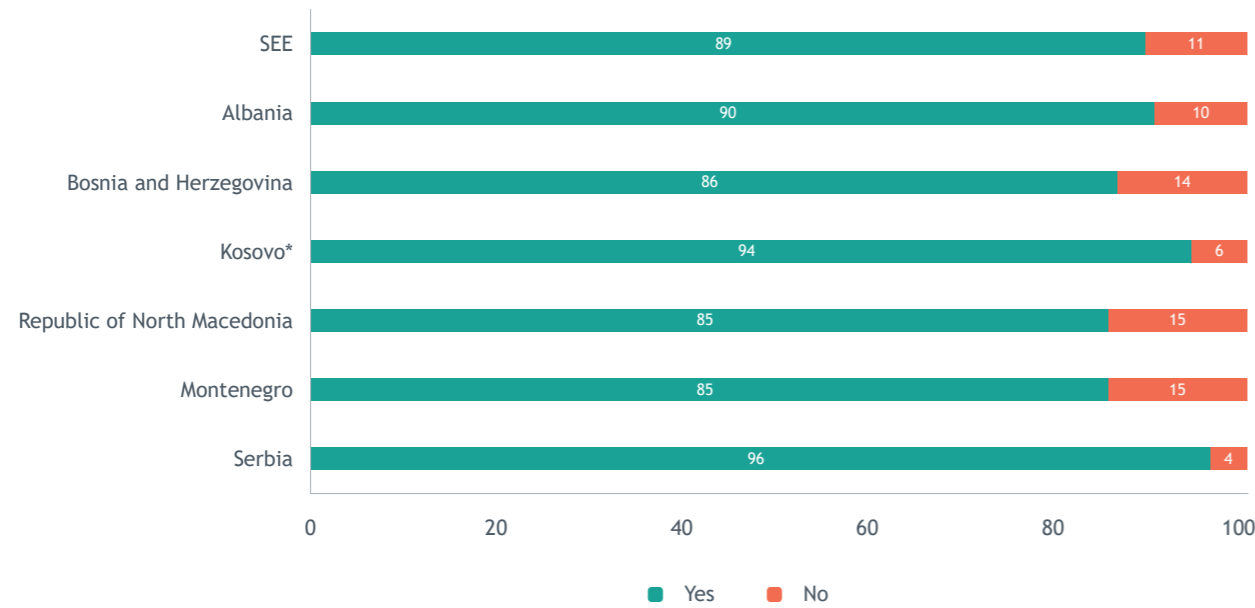
Internet speed became the most important aspect of internet access. It is closely followed by stability and reliability of connection, which was the most important factor in previous years. However, as stability and reliability levels are increasing and

Figure 94: In the last six months, have you experienced any of the following Internet security problems?<sup>78</sup> (All respondents - N=1271, share of total, %)



<sup>78</sup> The figures might not add to 100% due to rounding.

Figure 95: Are you satisfied with your Internet connection?<sup>79</sup>  
(All respondents - N=1271, share of total, %)



becoming gold standard for majority of operators, speed/bandwidth is making the difference. Price level is not so important, as prices are usually affordable and very similar across different operators.

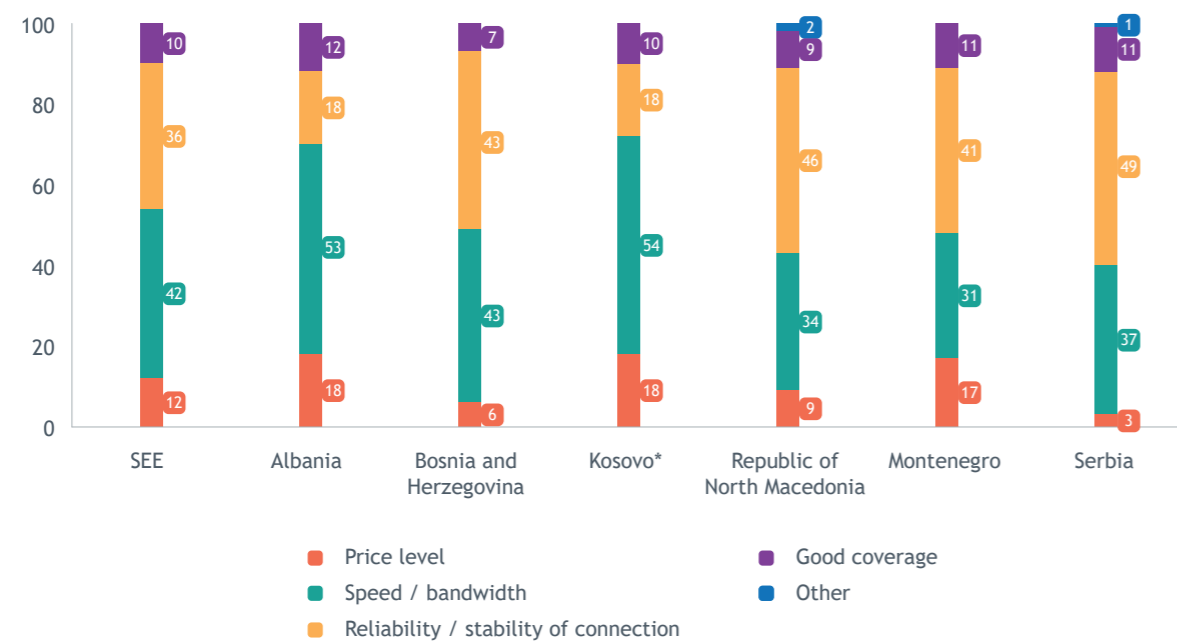
However, there are significant differences between economies. Price level is still an important factor in Albania and Kosovo\*, equally important as reliability and stability of connection. In

Serbia, price is a marginal factor for vast majority of companies.

Medium and large companies dominantly prefer stability of connection, while micro and small vote for speed/bandwidth.

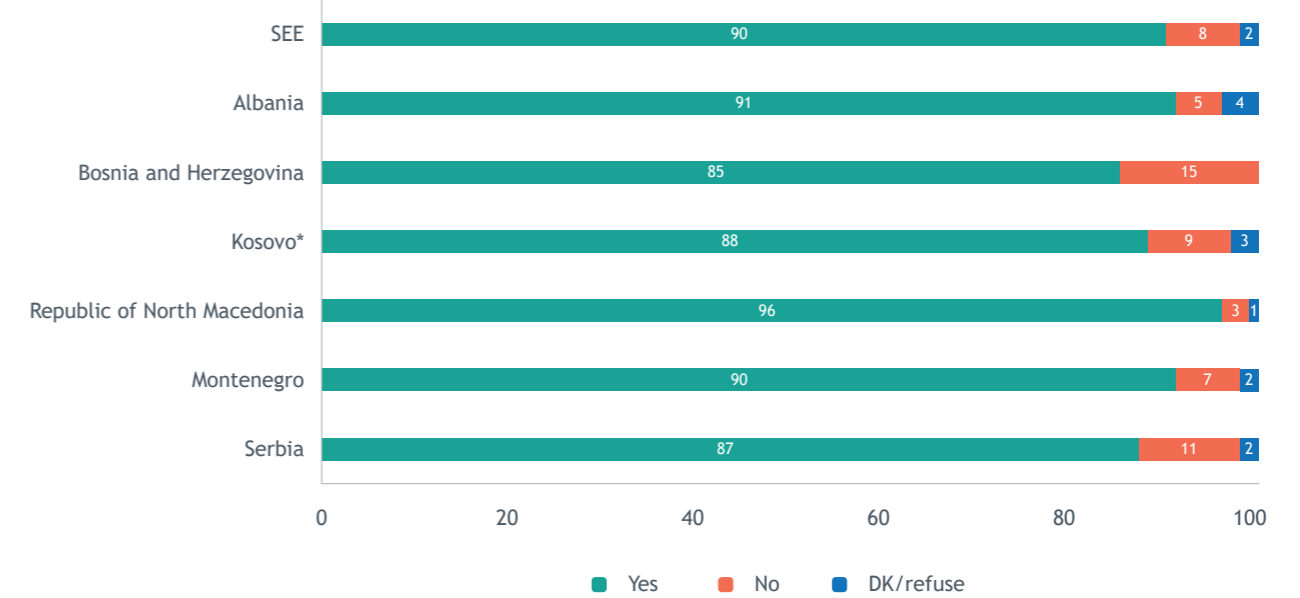
Vast majority of companies are on their own when it comes to research and development

Figure 96: Which feature is the most important aspect for you regarding your internet access?  
(All respondents - N=1271, share of total, %)



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

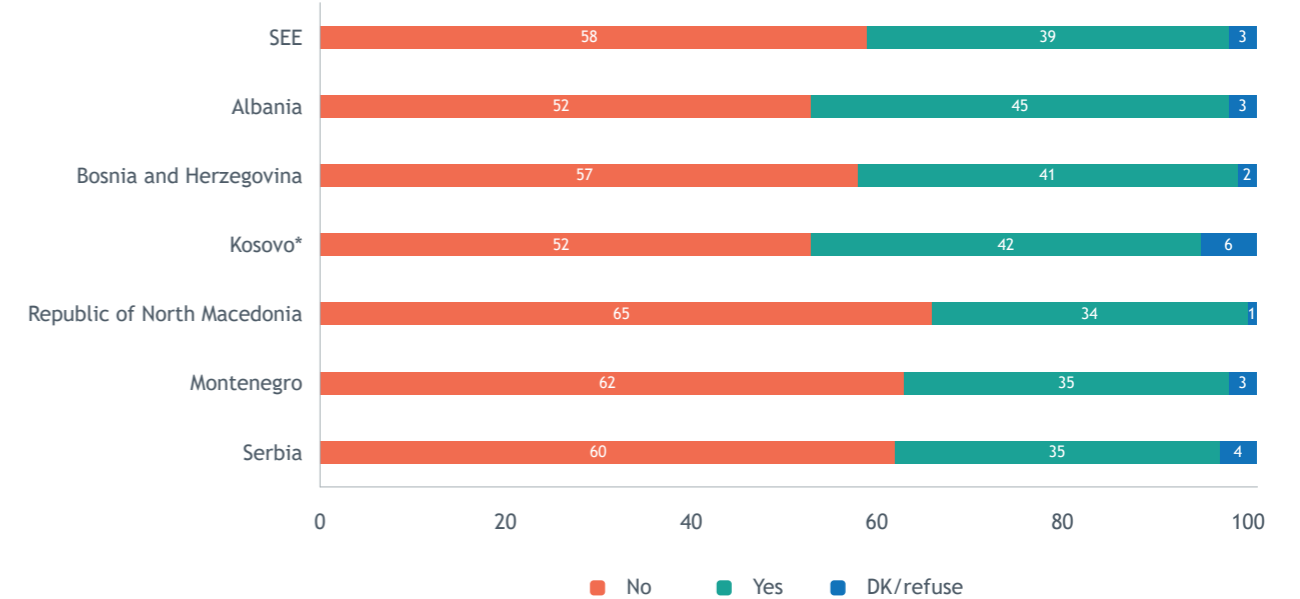
Figure 97: In the past 3 years, did you cooperate with any of the universities on research and development (R&D) or technology development projects to help develop new products or services?<sup>80</sup>  
(All respondents - N=1271, share of total, %)



activities. Only 8% have cooperated with universities on research and development or technology development projects with a goal to develop new products or services. It is worrisome to find that the level of cooperation is decreasing compared to 2017 (9%) and 2016 (14%). Results do not differ sig-

nificantly across economies, with Bosnia and Herzegovina being host to companies most inclined to cooperate (15%) and the Republic of North Macedonia hosting the companies least inclined to work with universities (3%) on R&D and/or technology development.

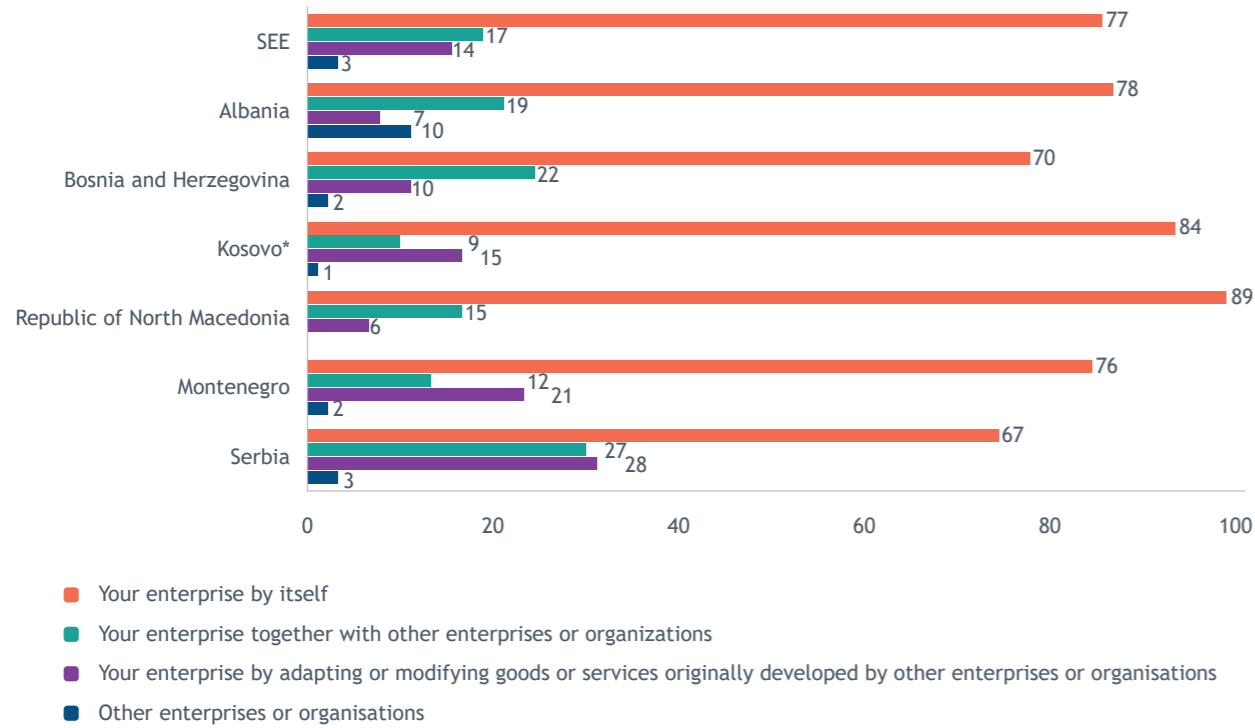
Figure 98: Have you introduced new or significantly improved products and/or services in the last 3 years (2016-18)?<sup>81</sup>  
(All respondents - N=1271, share of total, %)



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

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

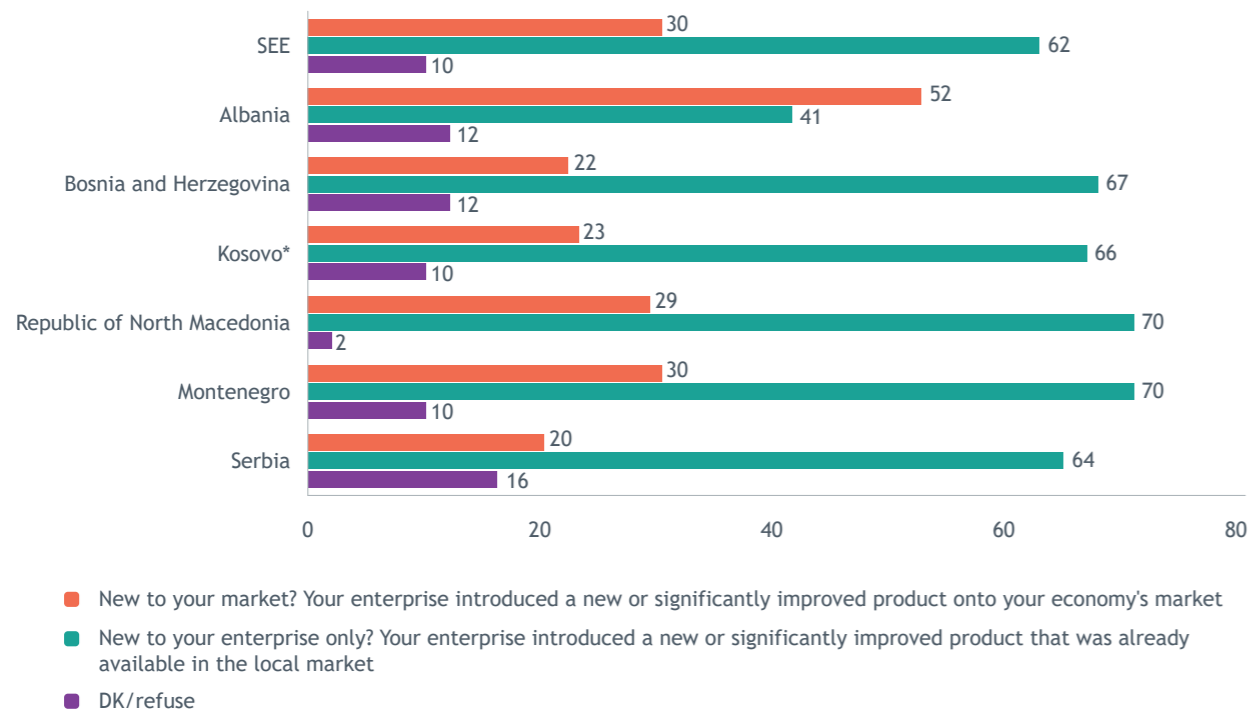
**Figure 99: Who developed these product innovations?**  
(Respondents who introduced new or significantly improved products and/or services - N=491, %)



Larger, export-oriented, and foreign companies are more open to cooperation with universities. Every fourth large company has cooperated with universities on research and development or tech-

nology development projects in the last three years. On the other side of spectrum, only one in twenty small companies establishes such cooperation.

**Figure 100: Were any of your product innovations?**<sup>82</sup>  
(Respondents who introduced new or significantly improved products and/or services - N=491, %)

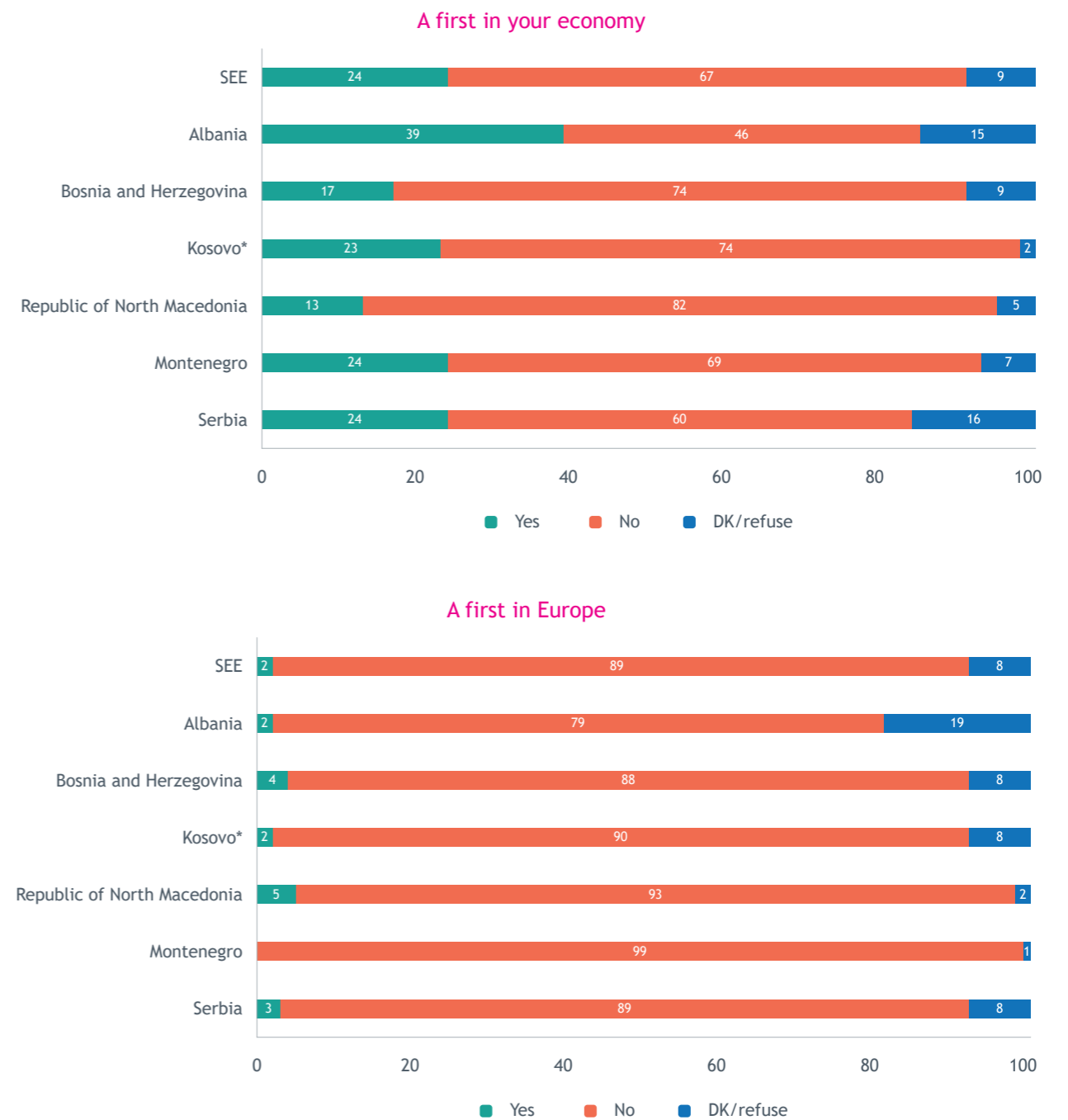


<sup>82</sup> The figures might not add to 100% due to rounding.

Four out of ten surveyed companies in SEE region introduced a new or significantly improved product or service in the last 3 years. The results are similar to those in the previous year as is the distribution across economies, with Albanian businesses reporting to be most innovative (45%) and those from the Republic of North Macedonia the least (34%). Larger companies (70% of them inno-

vated) are more eager to innovate while smaller ones are usually holding on to their well-established routine (31% innovated). As expected, there are some sectoral differences as well when it comes to innovation - ICT companies are much more open to innovation than, for example, companies operating in the agricultural sector.

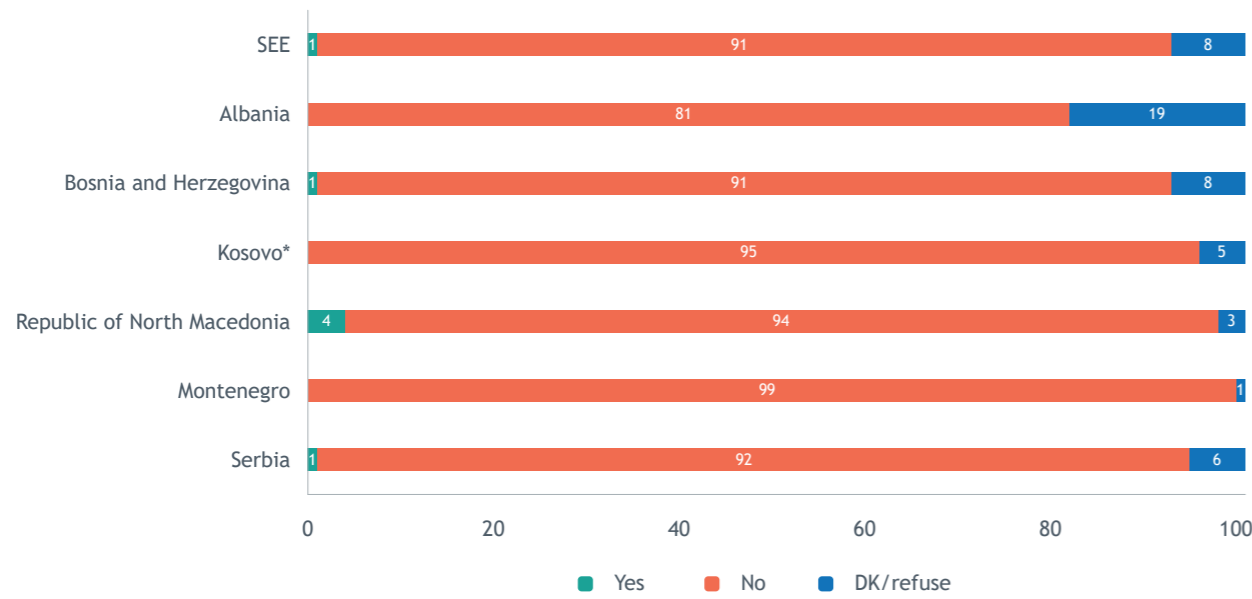
**Figure 101: To the best of your knowledge, were any of your product innovations during the three years 2016 to 2018...?**<sup>83</sup>  
(Respondents who introduced new or significantly improved products and/or services - N=491, %)



<sup>83</sup> The figures might not add to 100% due to rounding.



A world first



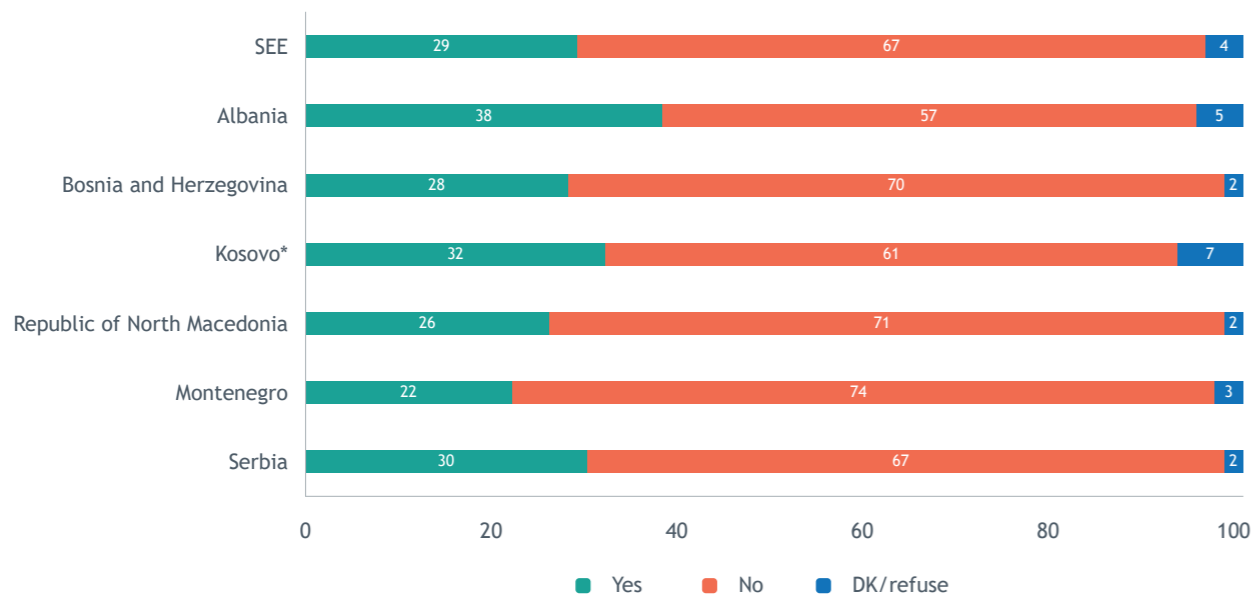
Companies are usually developing products by themselves (77%), while working with others to develop products (17%) or adapting products of other enterprises or organisations (14%) is less frequent. It seems that Serbia and Bosnia and Herzegovina are again most open to cooperation with others, while companies in Serbia and Montenegro were more ready to adapt or modify products made by other organisations. On the other hand, only 6% of companies from the Republic of North Macedonia and 7% of firms in Albania have

developed new products through cooperation with other enterprises or organisations.

In terms of company size, larger firms were much more prone to developing innovations in cooperation with others, while smaller companies more frequently reported adapting existing products in order to improve their business processes.

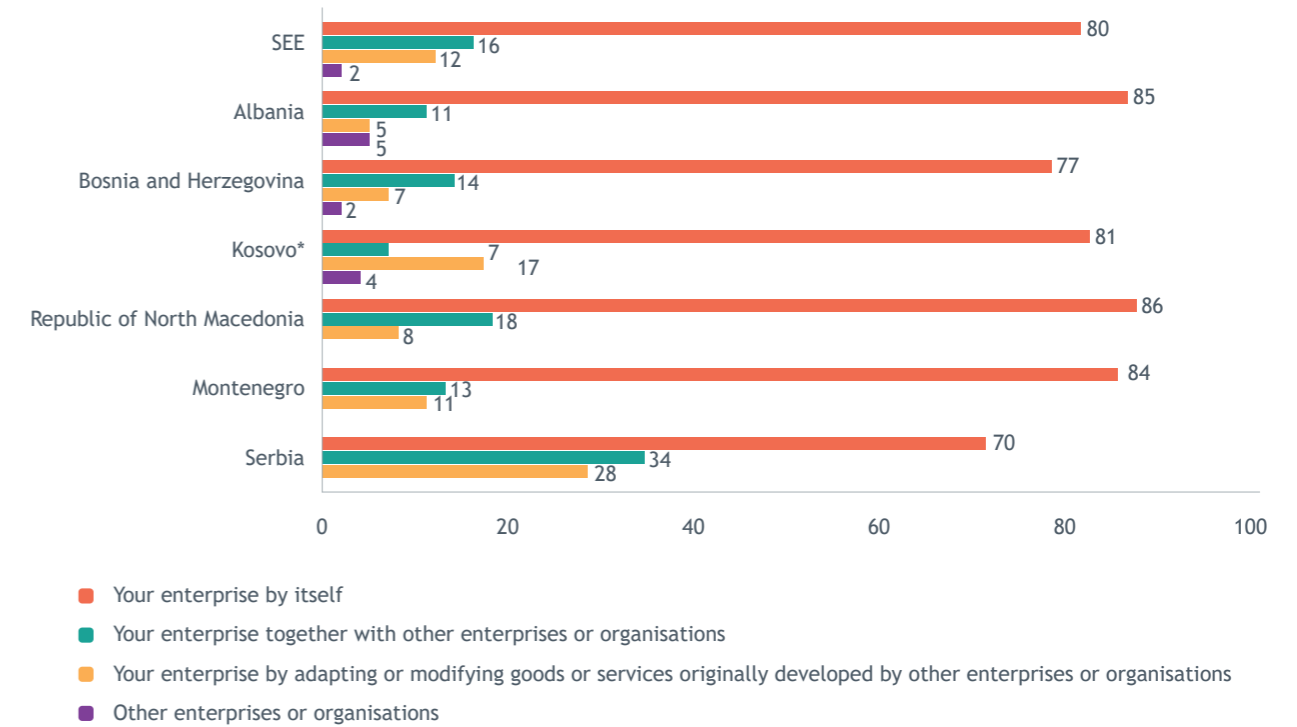
Small number of SEE businesses' innovative products could be considered an innovation

Figure 102: Have you introduced new or significantly improved production and/or service delivery processes in the last three years (2016-18)?<sup>84</sup> (All respondents - N=1271, share of total, %)



<sup>84</sup> The figures might not add to 100% due to rounding.

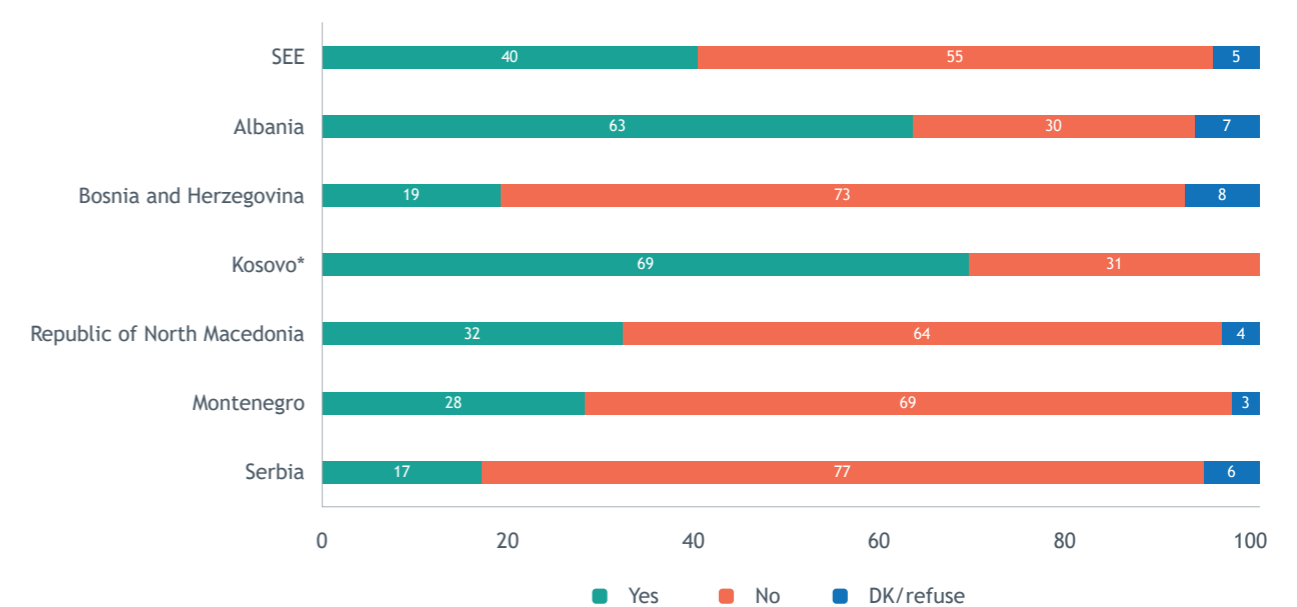
Figure 103: Who developed these process innovations? (Respondents who introduced new or significantly improved production and/or service delivery processes - N=374, multiple answers, %)



market-wide, they are rather innovation for the company itself. Three out of ten companies indicated that new products were an innovation for the entire market, while six consider that it was new only for their company, but not for the market. The remaining 10% refers to companies that have refrained from answering the question.

As expected, only a marginal share of new products could be considered as a first in Europe or the world. However, it is worth noting that almost 5% of innovative companies from the Republic of North Macedonia, coming from the ICT sector, consider their products as totally new to both European and global markets.

Figure 104: Were any of your process innovations introduced during the three years 2016 to 2018 new to your market? (Respondents who introduced new or significantly improved production and/or service delivery processes - N=374, %)



Results across economies are similar, with Albania being the outlier with the majority (52%) of companies reporting introducing new products as an innovation for the entire domestic market.

SEE businesses are usually innovative only at economy-level. Close to a quarter of SEE business executives have reported introducing innovation that was first in their respective economy. However, innovations on European or world level are only sporadic, reported by only 2% and 1% of executives, respectively.

Judging by the survey results, Albanian economy exhibits highest level of innovative dynamism, since 39% of their business leaders reported introducing an innovation new to their market. On the other hand, Republic of North Macedonia businesses seem to be least innovative at the local market level (13%) and most innovative on the European and global level among their SEE peers. While somewhat similar pattern can be seen for Bosnia and Herzegovina, remaining SEE economies, Serbia, Montenegro and Kosovo\* have similar shares of innovative businesses, around the regional average.

SEE companies were not particularly engaged in introducing new or significantly improved production and/or service delivery processes in the last three years. Only 3 out of 10 companies did

so (29%), with percentage being stable across SEE economies. Albanian companies are again reporting introduction of most new process innovations, with 38% of companies investing in delivery processes, while Montenegro is at the bottom of this category (22%).

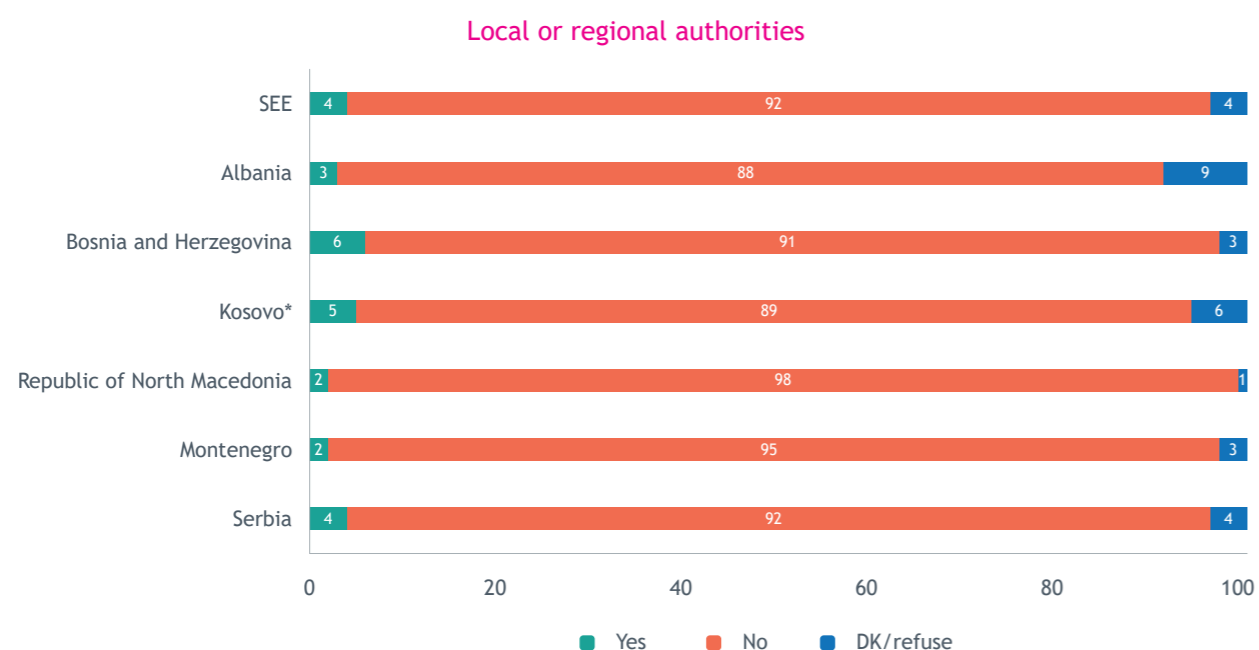
As expected, larger companies, as well as those from smart services sector, were more open to investments in delivery processes.

Same as with developing of new products, companies are also usually developing process innovations by themselves (80%), while working with others on process innovations (16%) or adapting processes of other enterprises or organisations (12%) is less frequent. It seems that Serbia is again most open to cooperation with others, while only small number of businesses from Albania and Kosovo\* that have developed innovations worked on them with other organisations.

In terms of company size, larger firms were developing innovations in cooperation with others, while smaller companies were adapting existing products in order to improve their business processes.

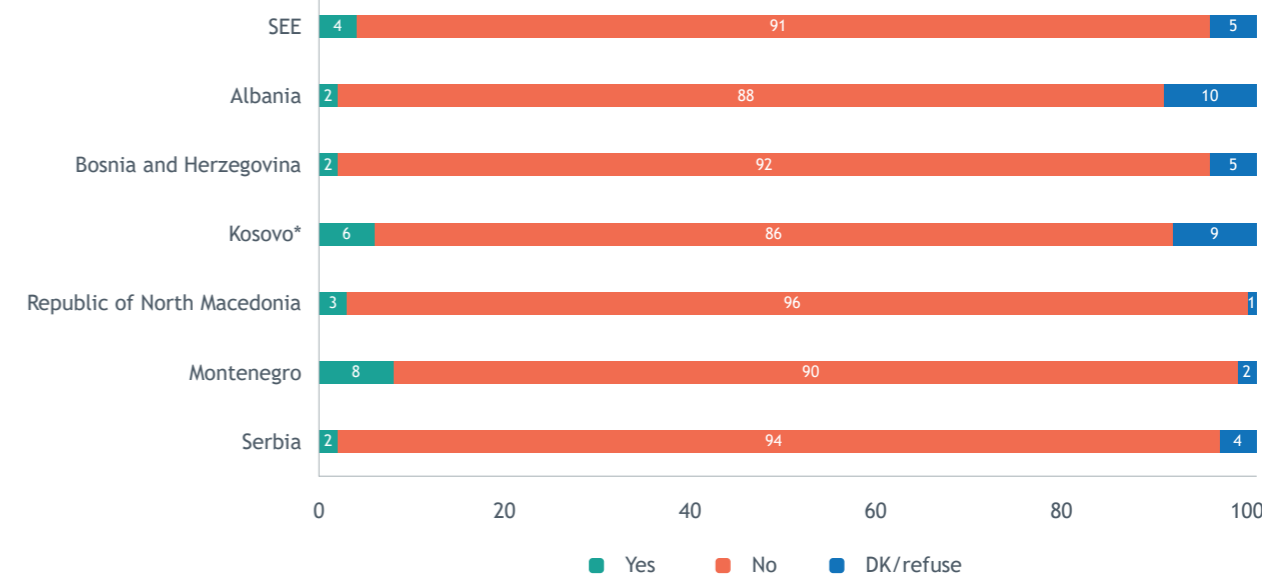
On average, 4 out of 10 process innovations in SEE economies were new to the market. However, the average largely differs from results across

Figure 105: During the past three years (2016 to 2018), 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, subsidised loans, and loan guarantees. Exclude R&D and other innovation activities conducted entirely for the public sector under contract.<sup>85</sup> (All respondents - N=1271, share of total, %)

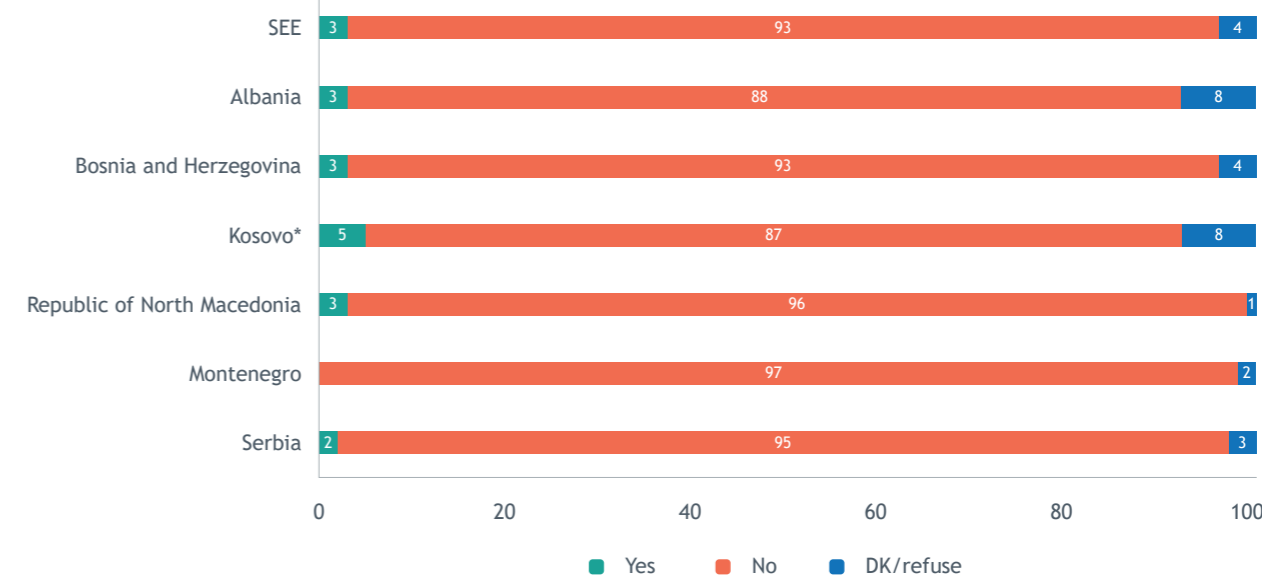


<sup>85</sup> The figures might not add to 100% due to rounding.

Central government (including central government agencies or ministries)



The European Union (EU) or other donors



economies. Majority of businesses from Albania and Kosovo\* believe that their process innovations were new to the entire market, while businesses in Serbia and Bosnia and Herzegovina consider the opposite - although their innovations were new for themselves, they were not new to the market. Considering that Serbia and Bosnia and Herzegovina are more export-oriented economies than Kosovo\* and Albania, it is possible that some processes that are new to markets of Kosovo\* and Albania have already occurred on markets of Serbia and Bosnia and Herzegovina.

is any support, it usually comes from local or central governments and authorities, while support of the EU or other donors is lower. Results are similar across SEE economies, with local authorities' support being more important in Kosovo\* and Bosnia and Herzegovina, and central government support being more important in Montenegro and Kosovo\*. EU or support from other donors is usually granted to up to 3% of businesses in SEE region.

Great majority of SEE businesses rely on their own abilities to finance their R&D activities.

Innovation is generally implemented without public - central or local - or donor funding support. If there

# SKILLS NEEDS

Availability of adequate workforce is becoming an obvious constraint for SEE businesses. Given strong emigrational trends and declining unemployment rates, such outcome was largely expected. This is a particularly big problem for larger enterprises and foreign companies, as they usually require larger pools of workforce in order to function properly. Given the current trends in better-off part of the EU, adapting new laws to attract increasing workforce, it is hard to believe that the situation in SEE region will easily change for the better. Improving regional mobility of workforce could be one of the answers.

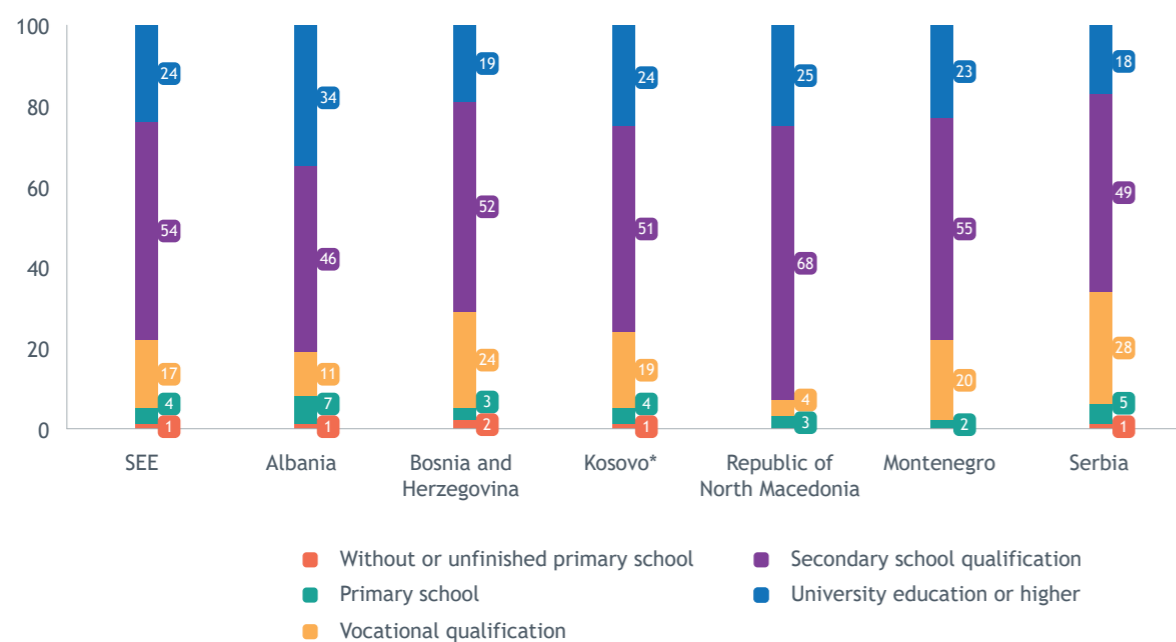
While SEE executives find educational systems only moderately satisfactory (only half exerts satisfaction), they are generally willing to give a chance to an inexperienced young person with an appropriate set of skills. Structure of the employed has not changed much since last year, but noticeable is the trend of higher-qualified workforce shares slightly shrinking, so more significant productivity hikes can hardly be expected.

Digital skills are evidently recognised as important, especially in the case of exporters and large companies.

Secondary education is dominant among SEE workforce, and university education also has a significant share (24%). Workers with only primary education are particularly rare (4%). It seems that the workforce structure has changed slightly since 2016, as the share of workers with higher education shrunk a bit (28% in 2016), while the share of those with secondary education increased (47% in 2016). This may imply that recent trends of increasing employment target lower education workforce more often.

Albanian businesses seemingly rely on the workforce with highest education level in the region, since third of their employees have a university degree. On the other hand, in Serbia (18%) and Bosnia and Herzegovina (19%), university graduates are less common among the employed. The Republic of North Macedonia, apart from significantly relying on highly educated workforce (25%), is the economy with the highest share of workers with

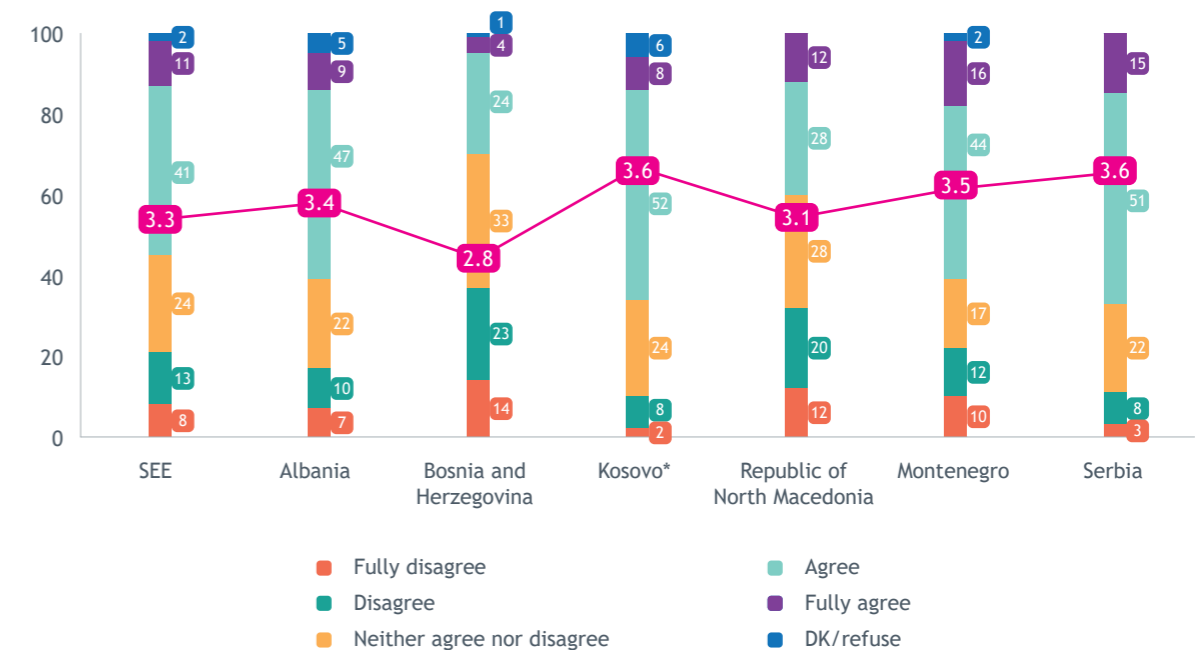
Figure 106: What percentage of your company's workforce has the following education levels?<sup>86</sup>  
(Respondents who did not mark DK/refuse - N=1094, %)



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

Figure 107: Would you agree that the skills taught in the education system of your economy meet the needs of your company?<sup>87</sup>

(All respondents - N=1271, scores are on a scale of 1 to 5 where 1 means totally disagree and 5 totally agree, %, mean)

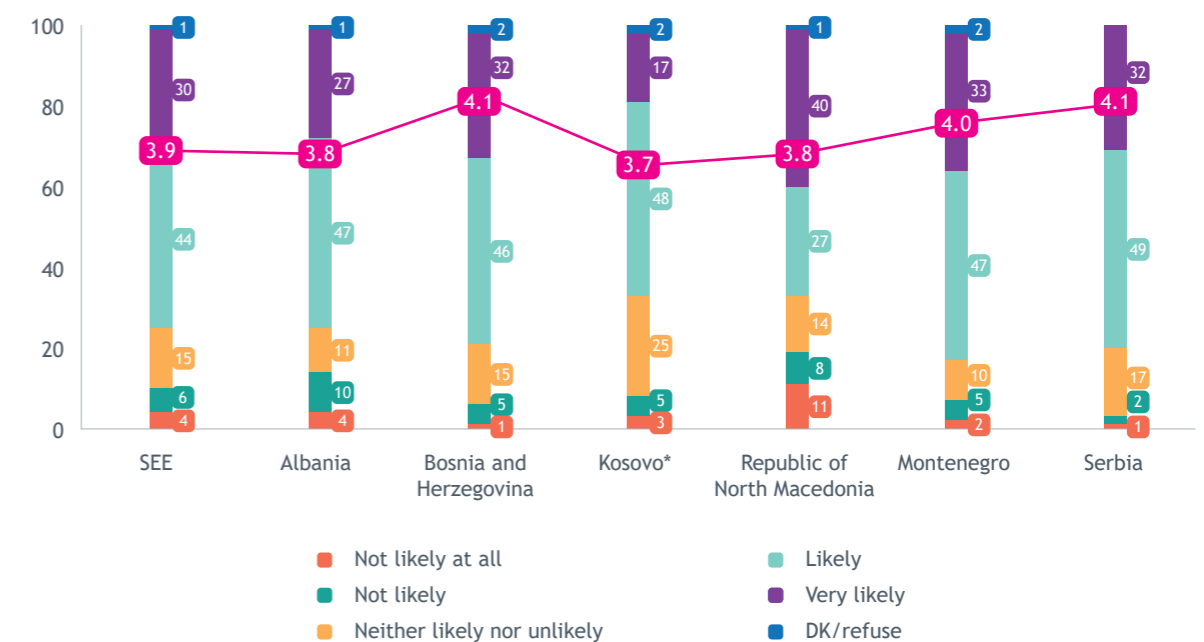


secondary education (68%). Workers having only primary education are present only in Albania and Serbia with some significance.

In Bosnia and Herzegovina, proportion of employees with secondary school qualifications sharply fell (from 63% in 2017 to 52% in 2018). This drop could be caused by temporary jobs in Croatia, be-

Figure 108: How likely would you hire young person whose educational profile completely meets the needs of your business, but without work experience?<sup>88</sup>

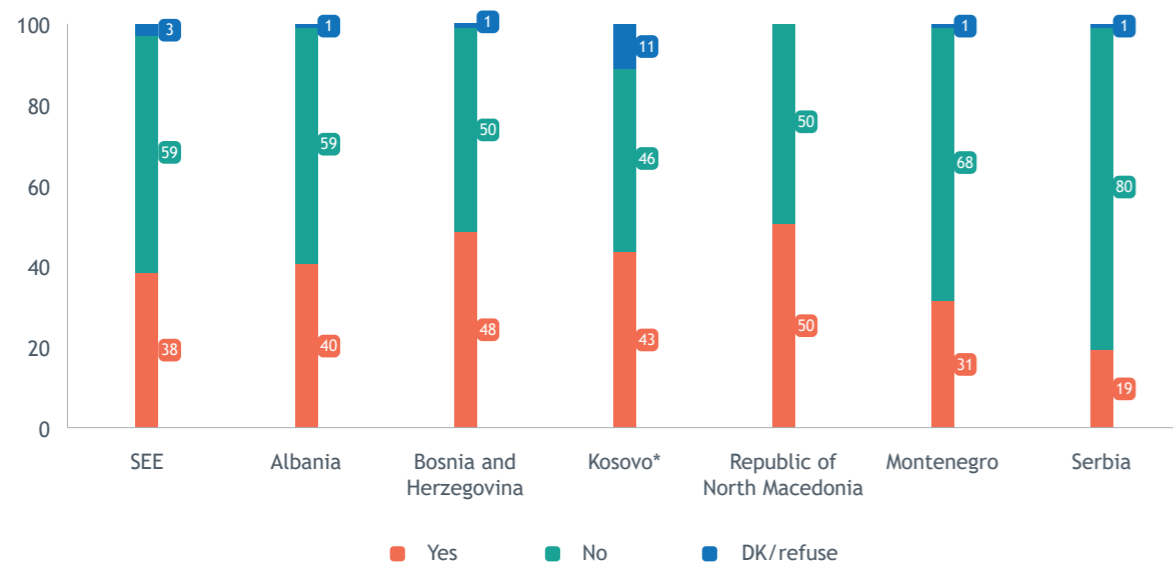
(All respondents - N=1271, scores are on a scale of 1 to 5 where 1 means totally disagree and 5 totally agree, %, mean)



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

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

Figure 109: Did you have vacancies over the past 12 months that have proved hard to fill?<sup>89</sup>  
(All respondents - N=1271, share of total, %)



cause its workforce moves to other EU economies. A completely opposite trend is noticeable in the Republic of North Macedonia and Kosovo\*, where this proportion climbed up, from 51% and 35% to 68% and 51%, respectively.

SEE business leaders exert moderate satisfaction with education systems of their economies (average score 3.3). Slightly more than half of the regional leaders are fond of skills acquired through education system, while 21% have reported dissatisfaction. Compared to 2017, this represents a significant deterioration (score 3.6), as the share of the satisfied shrunk from 63% to 52%. Moreover, it is concerning that the decline happened across the board in almost all SEE economies.

Serbian business leaders are the most content with skills that workforce acquires through education (3.6), with regional highest two thirds exhibiting satisfaction. Serbia is closely followed by Kosovo\* (3.6) and Montenegro (3.5), with 60% of satisfied executives. While Albania is slightly above regional average, situation is not as nearly as good in the Republic of North Macedonia (3.1) and especially Bosnia and Herzegovina (2.8). Moreover, Bosnia and Herzegovina is the only economy in the region where dissatisfied outnumber the satisfied.

On a slightly more positive note, Bosnia and Herzegovina is the only economy, except for Kosovo\*, that has not seen its situation deteriorate. Among others, situation deteriorated slightly more in the

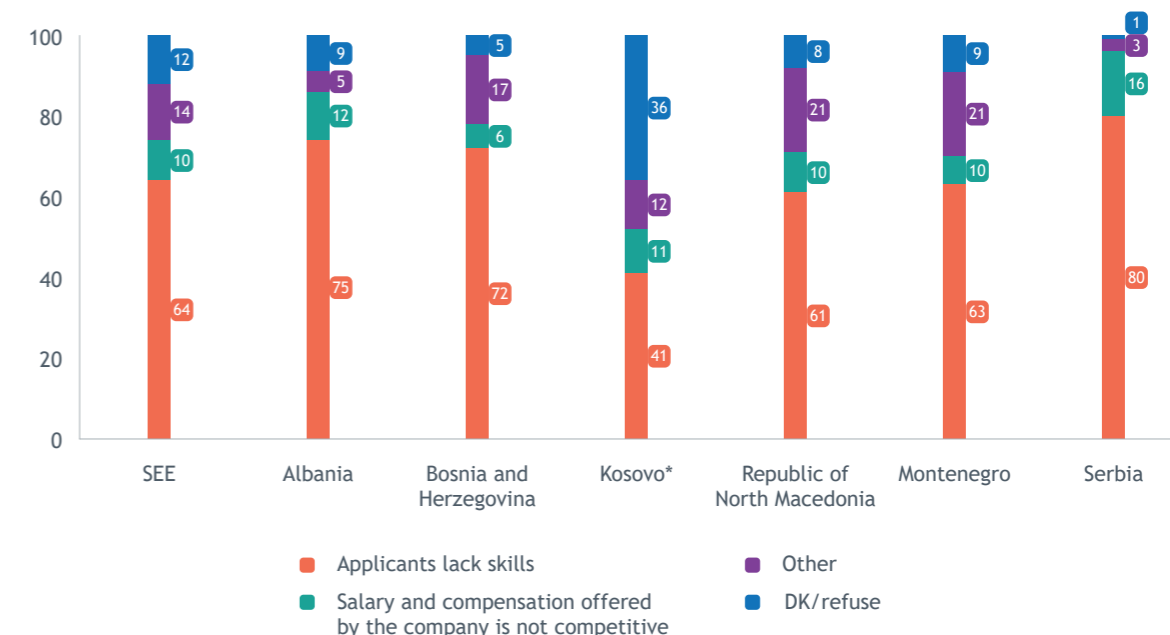
Republic of North Macedonia (-0.4) and last year's runner-up Albania (-0.4) than in Serbia and Montenegro (-0.3 each).

While not generally content with education systems, SEE managers would be glad to employ an inexperienced young person, should their educational profile completely fit their needs (3.9). It is encouraging that three quarters of regional executives would employ an inexperienced young person, while only 10% have reported that would rather not. Nevertheless, small dip in the regional score is present (-0.1).

Serbia remains the most supportive economy for adequately educated youth (4.1) and 81% of the executives willing to hire. It comes interesting that Bosnia and Herzegovina, the most dissatisfied with education system, exhibits almost the same confidence in young workers as Serbia (4.1). It could be the case that it is generally hard for executives in Bosnia and Herzegovina to come across a skilled young person, but if they do, they are generally more than willing to hire them. Of the remaining economies, Kosovo\* seems to be the least supportive (3.7), but nevertheless two thirds of its executives would in fact give a chance to educated youth.

Significant change of attitude has taken place only in Albania, where the situation seems to be more encouraging for youth in 2018 than it was in 2017 (+0.3).

Figure 110: Why do you think this is the case?<sup>90</sup>  
(Respondents who had difficulty in filling vacancies - N=488, %)



Almost 40% of SEE executives reported having difficulties successfully closing job vacancies. It seems that workers are much harder to come by in 2018, considering that in 2017 only 21% of SEE managers reported difficulties finding new employees. These results are in line with emigrational trends and convergence of the unemployment rates to their natural levels.

It seems that qualification and availability of Serbian workforce match employers' needs to the extent greater than anywhere else in SEE, with only 19% of hard-to-fill vacancies. The only economy coming close in this parameter is Montenegro (31%). In the remaining economies more than 40% could not fill vacant job positions, in the Republic of North Macedonia most so, with half of executives reporting these difficulties.<sup>90</sup>

Availability of adequate workforce narrowed in the Republic of North Macedonia, Albania and Kosovo\* the most, by around 30 points. It seems also that the situation slightly changed for the better in Montenegro and Serbia, where the share of executives who reported hard-to-fill job positions declined by 9 and 6 points respectively.

Job vacancies are much harder to fill in medium and large companies (around 50%) than in small ones (40%) and micro enterprises (32%). This could be explained by higher needs in large companies

facing depleting basins of thinly spread workforce across the territory.

Two thirds of business leaders in SEE perceive the applicants' lack of skills as a dominant reason why the vacancies are hard to fill. Still, only 10% of them perceive uncompetitive salaries as the reason behind the hard-to-fill vacancies. Business leaders were more reluctant to specify the reasons or provide an answer this year, so the results are not fully comparable to 2017. Nevertheless, the situation seemingly has not changed dramatically.

Even though managers from Kosovo\* cite the lack of skills the least often, they have been the most reluctant to provide an answer. Therefore, Kosovo\* can hardly be comparable to other SEE economies. Serbian executives were the most open to talk about reasons behind vacancies, with regional highest 80% of them reporting the lack of skills, and 16% uncompetitive salaries. Bosnian and Herzegovinian, along with Montenegrin executives, cite the uncompetitive salaries the least often (6% and 7% respectively).

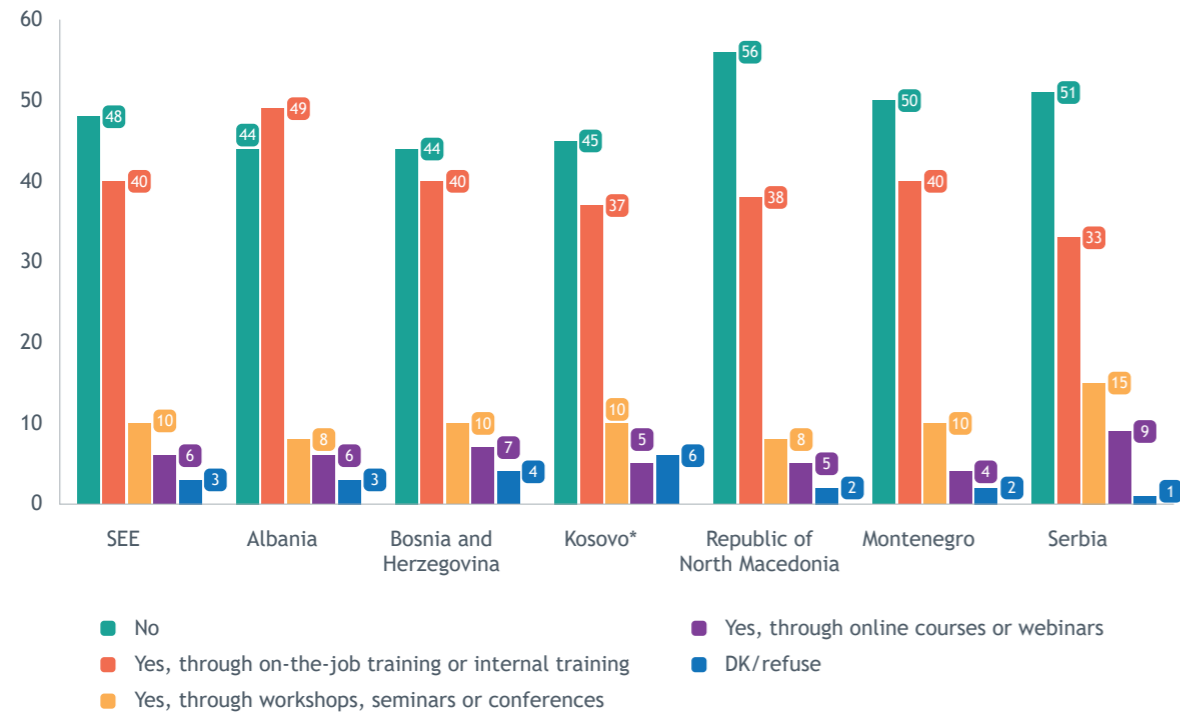
Importance of digital skills and digitalisation is widely recognised by SEE managers. This is reflected in almost 50% of businesses providing some form of education and training to their workforce.

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

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



Figure 111: Do you take concrete measures to improve the digital skills of your employees? (New Question)<sup>91</sup>  
(All respondents - N=1271, share of total, % - Multiple answers allowed)



Usually training is organised through on-the-job training or internal learning (40%), while workshops, seminars and online courses are less common. The differences among economies are relatively small, except that in the Republic of North Macedonia, where managers decide to provide training slightly more seldom than their SEE peers. Also, workshops and seminars are slightly more present among Serbian business community (15%).

Exporters find digital skills more important relative to non-exporters, since almost 60% of them have provided some form of training to their employees, while only 42% of exporters have done so. This implies that exporters are more interested in online sales, probably on both domestic and foreign markets. Dichotomy is even bigger between large (76%) and all other smaller companies.

## EMPLOYMENT PRACTICES

Job vacancies are still most often resolved through personal contacts, but advertising (especially online) is becoming increasingly popular. However, almost two thirds of SEE leaders would leave the number of employees unchanged, yet those who would increase the number of employees vastly outnumber those who would decrease.

Higher regional mobility of workforce could positively impact business environment. Even though SEE business leaders would hire workers from abroad more often than not, they would prefer the ones coming from the region. However, there are some notable differences in the preference of companies towards workers coming from different SEE economies. It seems that workers from Serbia, Bosnia and Herzegovina and the Re-

public of North Macedonia are more valued than the rest.

Prejudice towards Roma population still persists, especially in Albania and Montenegro, while executives from Serbia and Bosnia and Herzegovina seem to be more welcoming. It seems that those executives who would not hire a Roma feel that those workers would negatively impact sales or company's working environment. Apart from Roma prejudices, 40% of SEE business leaders have some gender preferences - and among those who do so, twice as much would hire a man. Moreover, members of vulnerable groups are extremely rare among employees, especially in Albania, while again executives from Bosnia and Herzegovina are more likely to hire them.

Figure 112: How often do you use the following when hiring new employees?<sup>91</sup>  
(All respondents - N=1271, share of total, %)



<sup>91</sup> The figures might not add to 100% due to rounding.

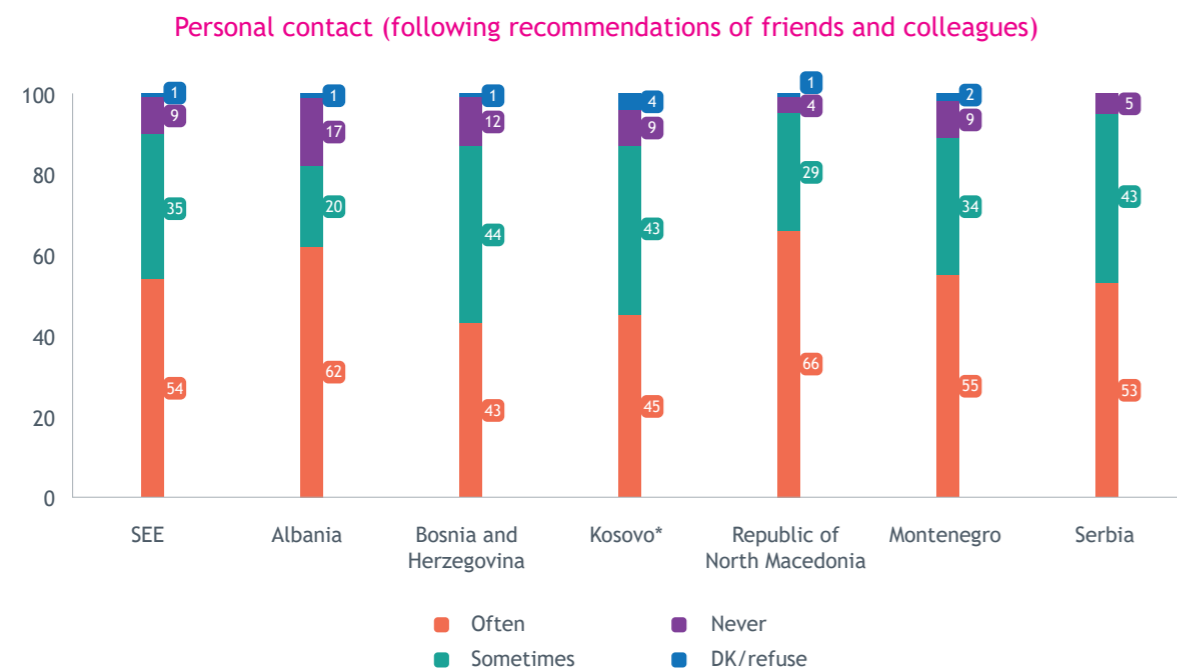
**Personal contact is still the most frequent channel for finding right candidate for the job.** As much as 89% of surveyed SEE businesses are relying on recommendation received from friends or colleagues. Placing job vacancy ads in the papers or online is also a usual and popular way of finding appropriate candidates, as two-thirds of companies use this method when hiring new employees. It should be noted here that there is a downward trend of using personal contacts and an upward trend of placing advertisements, as compared to 2017. More than half of surveyed businesses also tend to look for candidates through official employment agencies and use their services for intermediation.

Looking at SEE economies, it seems that the Republic of North Macedonia businesses are most engaged when it comes to new hiring, as their use of all abovementioned channels is higher than regional average. On the other hand, businesses from Albania and Kosovo\* seem to be the least active, with considerable lack of trust in official employment agencies. Only 5% of Kosovo's\* businesses often use services of the official employment agency when looking for new employees.

Smaller companies will more frequently rely on personal contacts, while larger companies opt for more competitive process of obtaining candidates through advertising channels and employment agencies.

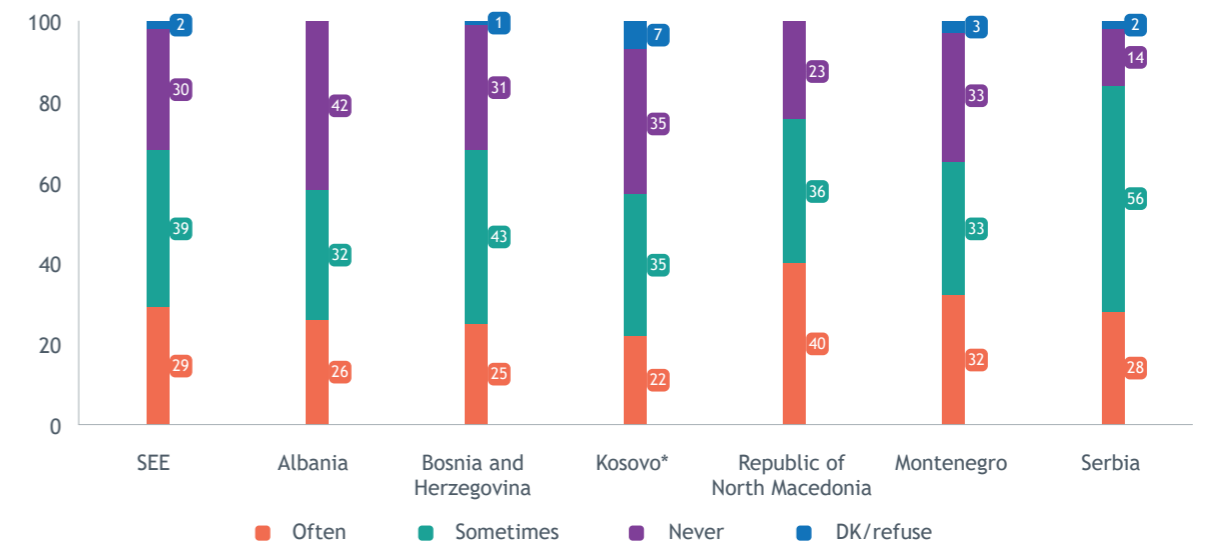
**On the other side, cooperation with education institutions and private employment agencies is still underused.** Businesses stick to traditional hiring channels - personal contacts, advertisements, and official institutions, while only between 20 and 30% of companies use services of education institutes and private agencies. Still, there is the question to which extent are education institutes market-oriented and ready for effective cooperation with businesses, as well as to which extent are private employment agencies affordable, representative and/or developed on SEE market. Poaching employees from competitors is not a usual practice in SEE economies.

Figure 113: How often do you use the following when hiring new employees? (By economies)<sup>92</sup>  
(All respondents - N=1271, share of total, %)

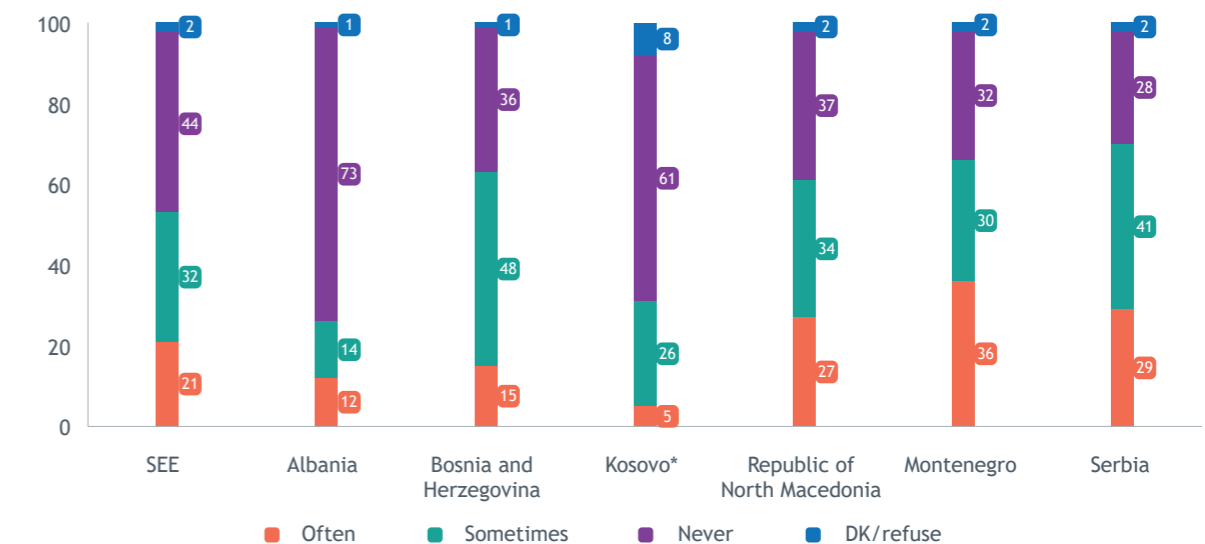


<sup>92</sup> The figures might not add to 100% due to rounding.

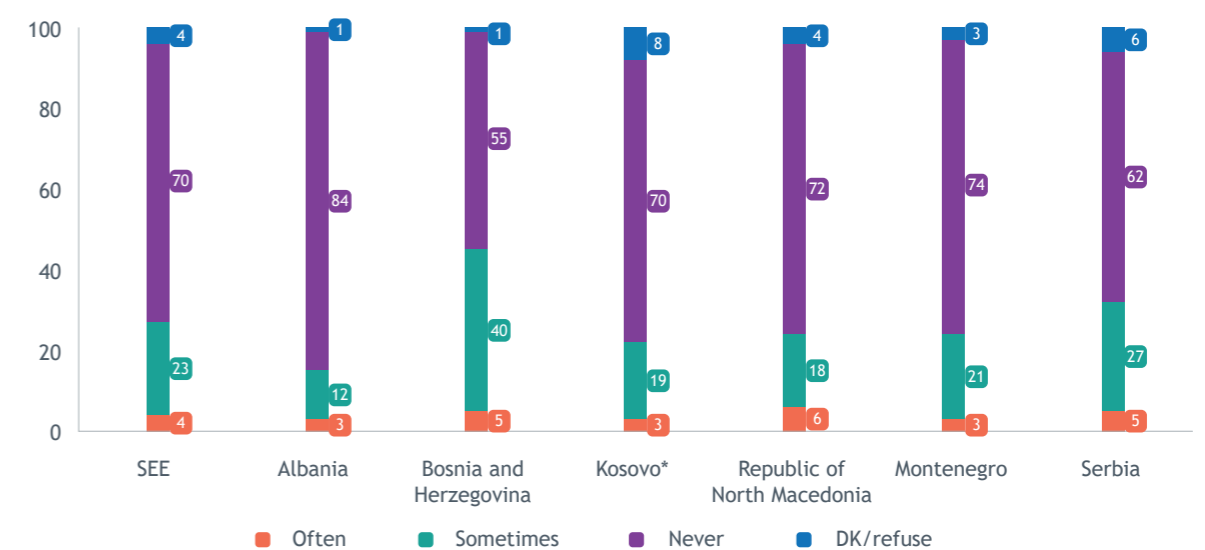
**Placing advertisements in the papers and/or online**



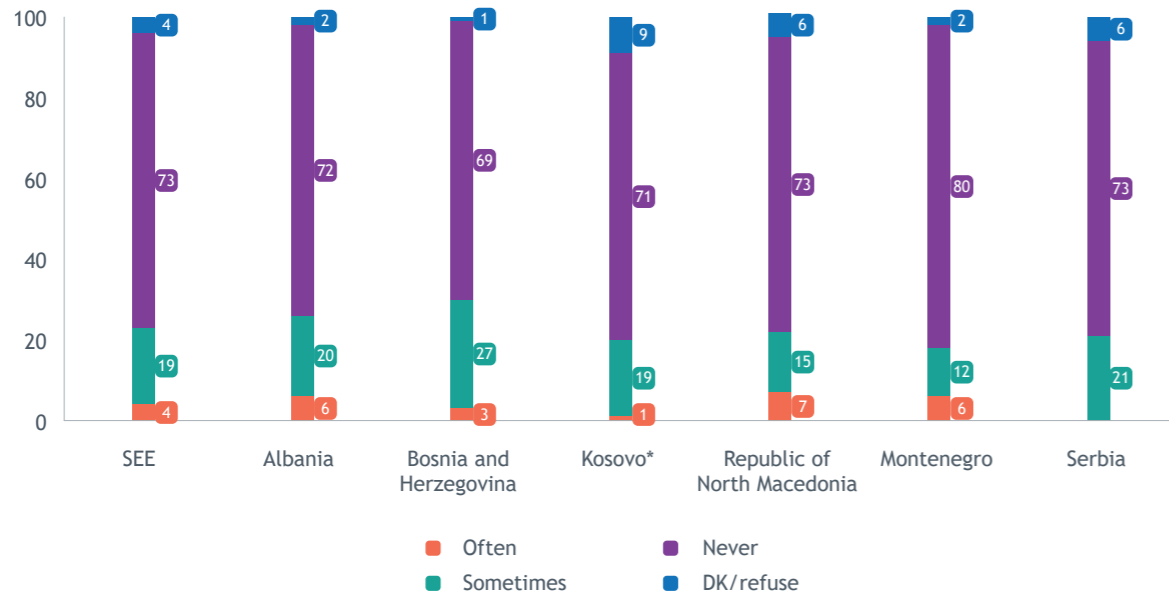
**Intermediation of the official employment agency Cooperating directly with education institutions**



**Cooperating directly with education institutions**



Intermediation of private employment agencies and/or head hunters



Poaching employees from competitors

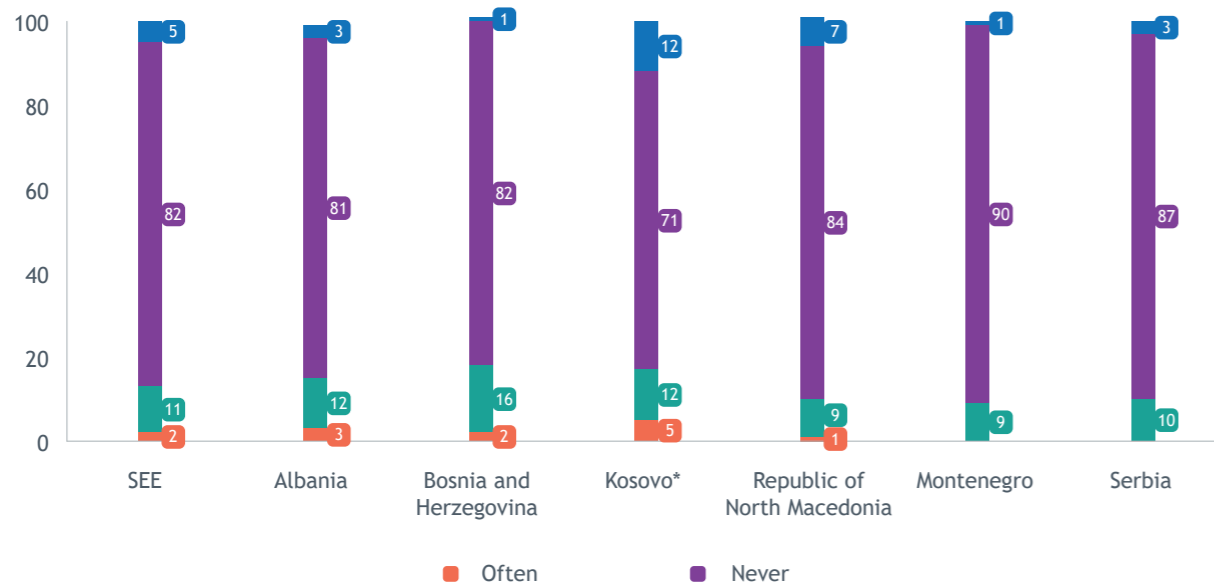
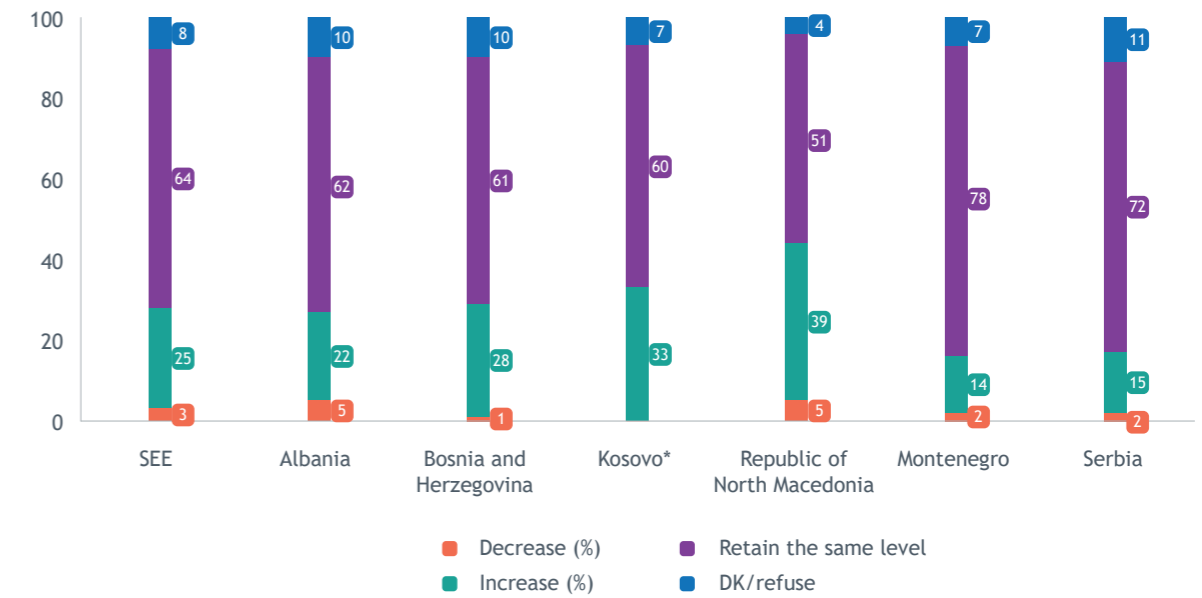


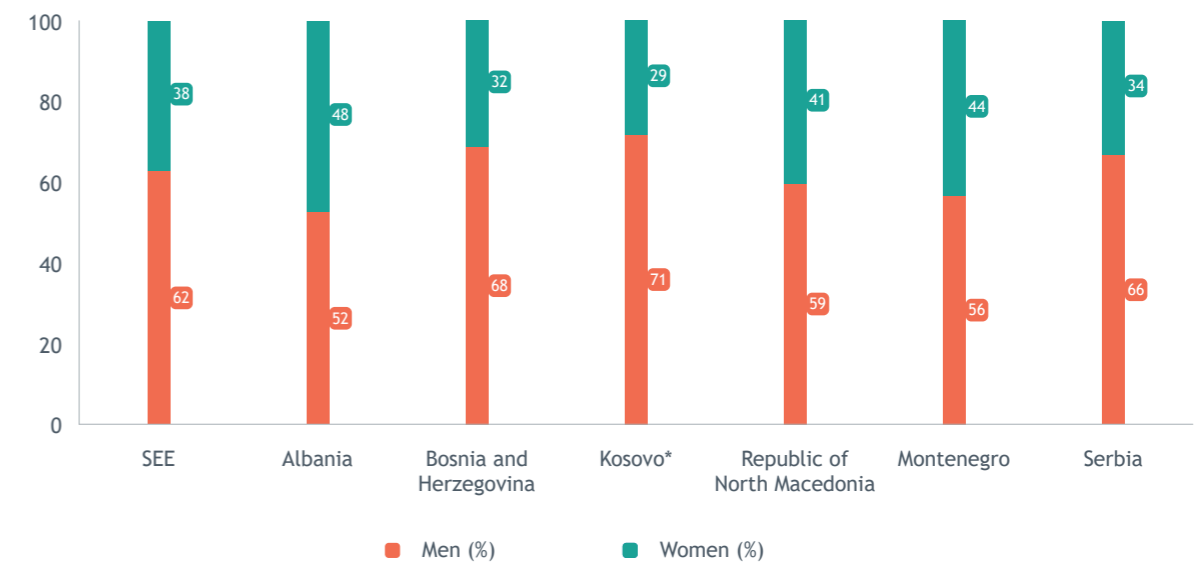
Figure 114: If you could change the number of full-time workers your company currently employs without any restrictions (for example, without seeking permission, paying severance pay, etc.), what would be your optimal level of employment as a percent of your existing workforce?<sup>93</sup> (All respondents - N=1271, share of total, %)



In an optimal scenario, most SEE managers (64%) would retain the same number of full-time employees. Additionally, the number of those who would increase their employment level (25%) is significantly higher than those who would decrease it (3%). Situation across economies is relatively in line with the average, with businesses in the Republic of North Macedonia being more understaffed, and Serbian and Montenegrin being more decisive to keep the *status quo in employment level*.

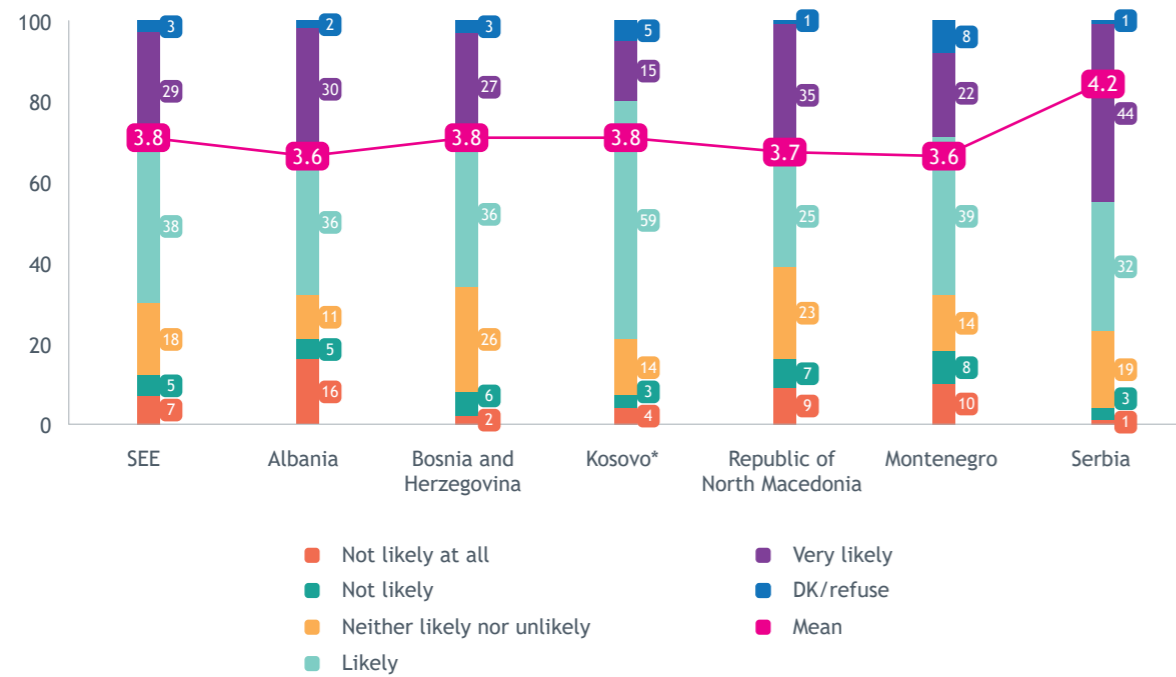
Compared to last year, it seems that staffing needs in SEE region are higher as 25% of businesses would like to add employees, compared to only 17% in 2017. Higher staffing needs add more full-time employees, in line with increased demand, as reported by SEE businesses. Companies from all economies have seen an increase in staffing needs compared to 2017, except Serbia whose businesses report roughly the same needs as last year, and Montenegro where the number of companies with

Figure 115: Out of the total number, how many of your employees are men and how many women? (All respondents - N=1271, share of total, %)



<sup>93</sup> The figures might not add to 100% due to rounding.

Figure 116: How likely would you hire a Roma person whose educational profile and experience completely meet the needs of your business?<sup>94</sup>  
(All respondents - N=1271, share of total, %)



demand for additional staff has halved (from 28% in 2017 to 14% in 2018).

It also seems that demand for employment does not depend on subgroups of businesses, as there are no significant differences when it comes to size, ownership, or export status.

**Gender gap in structure of employment still exists and is very expressed.** More than 60% of employees are men, with the same distribution as last year. Equal distribution is present in Albania (52-48), while the largest discrepancy is present in Kosovo\*, with only 29% of women in total employment of surveyed businesses. Disproportionately higher shares of men are also observed in Serbia and Bosnia and Herzegovina.

**Prejudice towards Roma population is still present in SEE region.** There are 12% of businesses that would not hire Roma person with appropriate qualification and experience, as well as 18% of those that are not sure if they would hire a Roma person. The highest share of those who certainly or probably would not hire a Roma person could be found in Albania (21%) and Montenegro (18%), while the most of undecided businesses are located in Bosnia and Herzegovina (26%) and the Republic of North Macedonia (23%). On the other hand, more

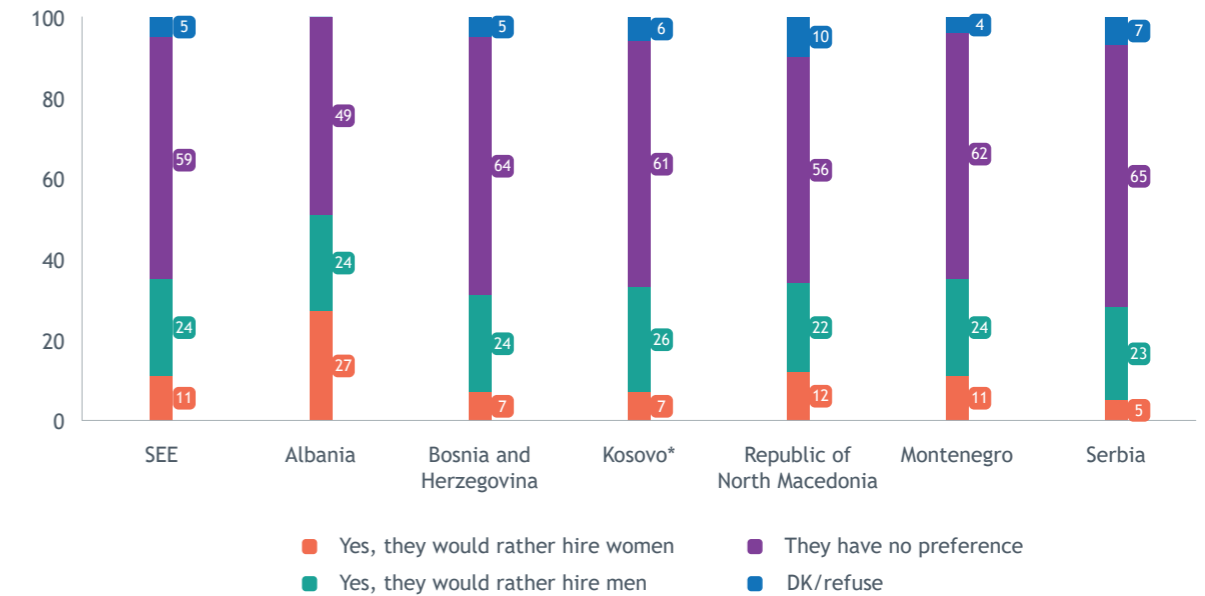
than 75% of Serbian businesses would likely employ Roma person, followed by 74% that would do so in Kosovo\*.

Larger firms, foreign companies, and exporters are readier to hire appropriate persons, regardless of their ethnicity.

According to survey respondents, most companies (59%) do not have gender preferences, but among those that do - twice as many would rather hire a man (24%) than a woman (11%). It is interesting that more than half of companies in Albania would have a preference when choosing between man and woman, but there are more who would rather hire a woman (27%) than a man (24%). Such an answer is completely in line with observed gender distribution in employment structure in Albania, which is almost equally distributed. On the other hand, out of those that have preferences in Serbia, great majority would rather select a man (23% vs 5%). Again, this is also somewhat in line with employment structure in surveyed Serbian businesses, where men outnumber women in a ratio 2:1.

Although the percentage of those having no preferences has not changed, there are more of those who would rather hire a woman, com-

Figure 117: In your opinion, do companies like yours have a gender preference in terms of hiring?<sup>95</sup>  
(All respondents - N=1271, share of total, %)

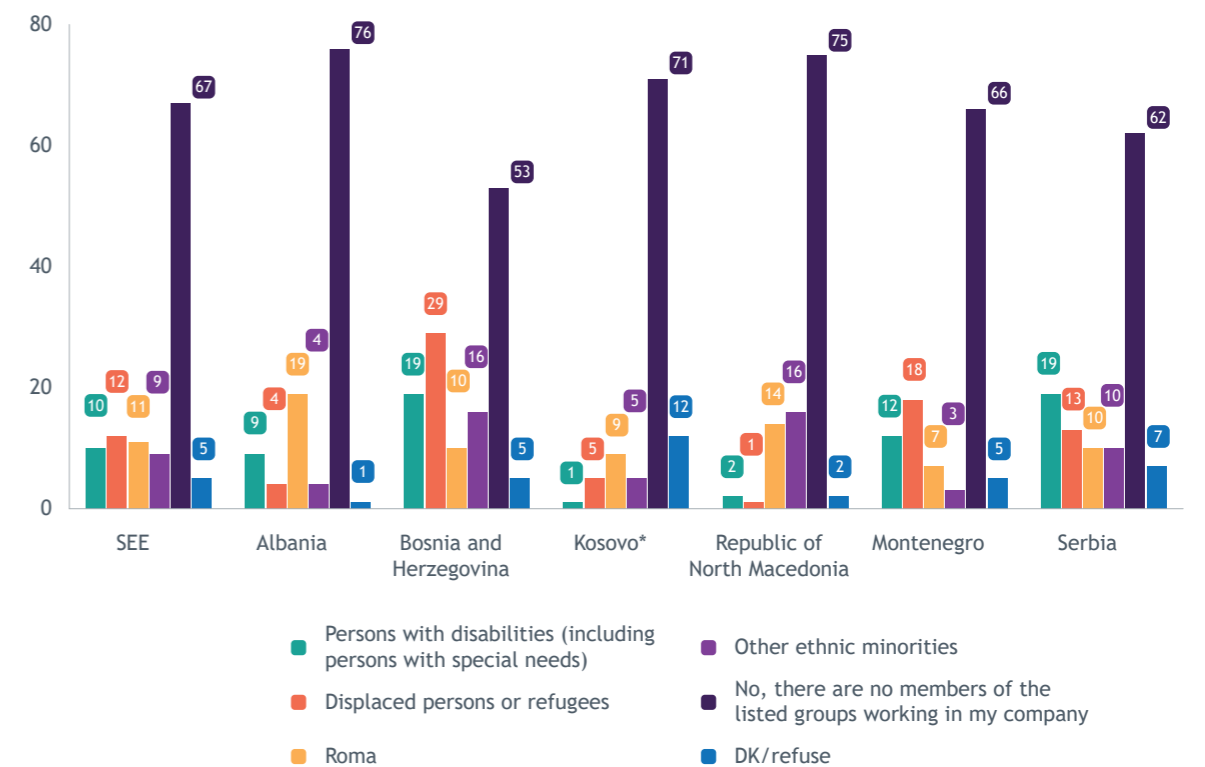


pared to last year. This is especially the case with already mentioned Albania.

**Medium and large companies do not express discriminatory behaviour in their attitude towards**

**new employment, as majority of businesses are neutral - and those that are not are equally distributed across both genders.** It is interesting that out of foreign companies that have preferences, more would rather employ female workers.

Figure 118: Do you have somebody from the below mentioned vulnerable groups working in your company?  
(All respondents - N=1271, multiple answers, share of total, %)

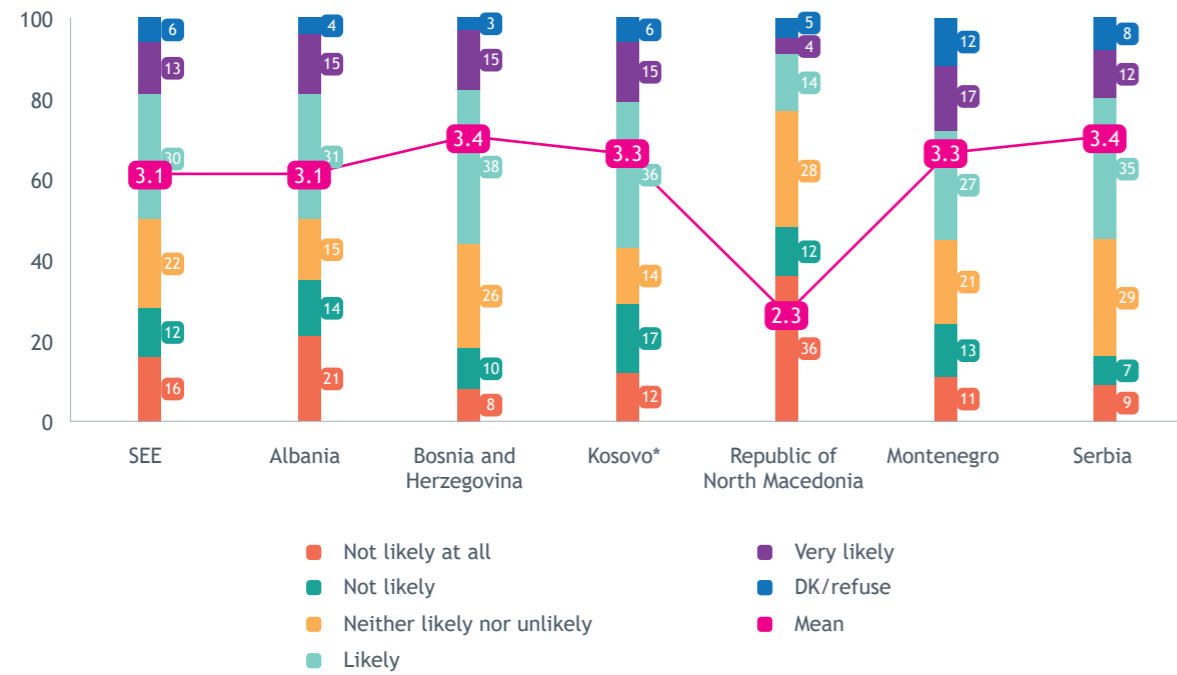


<sup>95</sup> The figures might not add to 100% due to rounding.

<sup>94</sup> The figures might not add to 100% due to rounding.



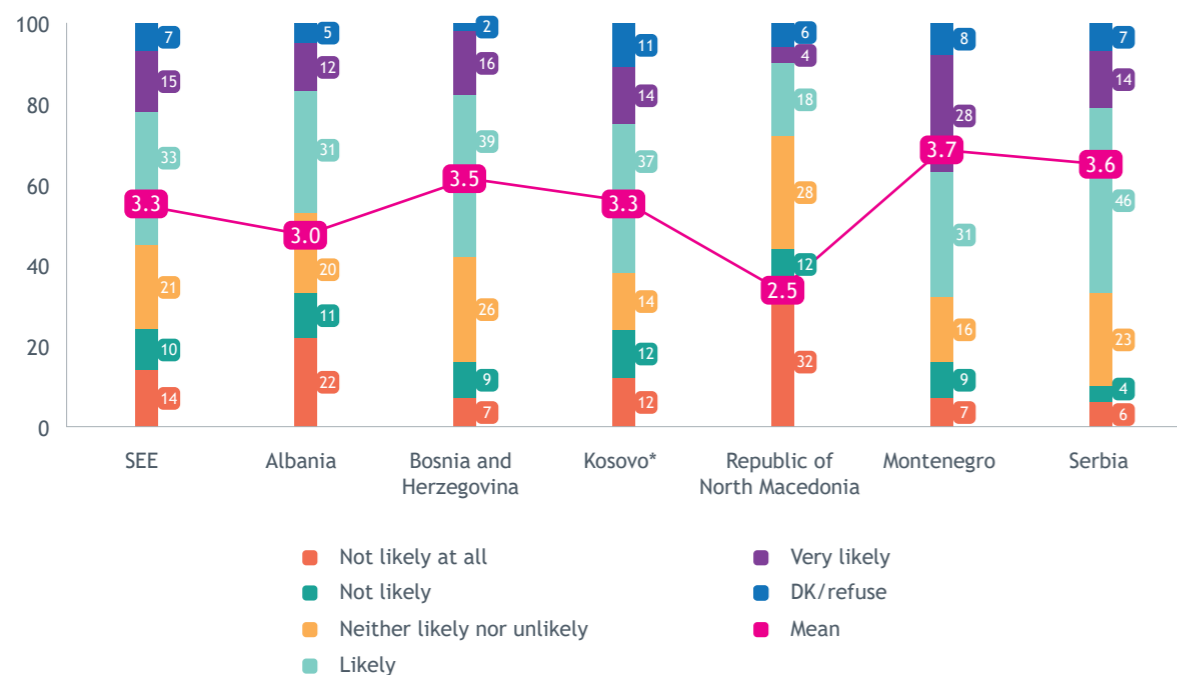
Figure 119: How likely would you employ workers from abroad in your company?<sup>96</sup>  
(All respondents - N=1271, share of total, %)



Almost two thirds of surveyed SEE businesses do not employ members of socially vulnerable groups. In Albania, only every fourth company has an employee that is a member of socially vulnerable group, while such employees are more common in Bosnia and Herzegovina.

Persons with disabilities, displaced persons or refugees, Roma persons, and ethnic minorities are on average employed in every tenth company. Bosnia and Herzegovina has the largest share of socially vulnerable employees, while the lowest share is present in Kosovo\*. Due to conflicts in

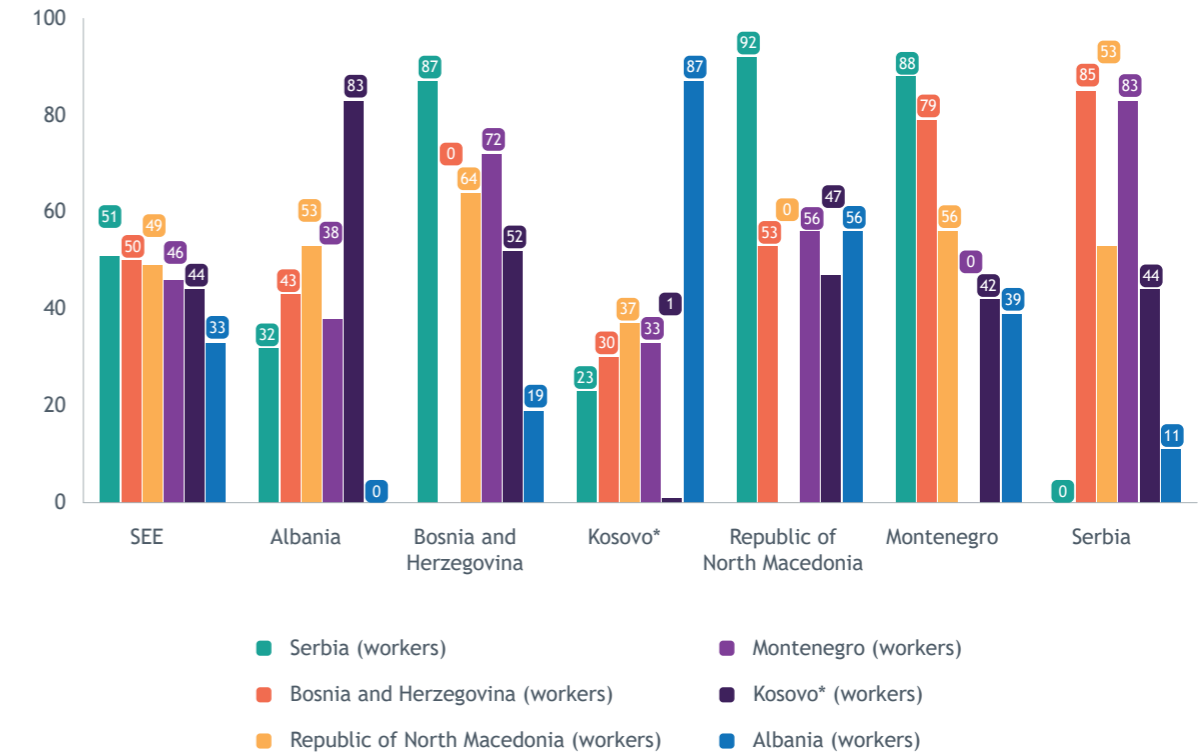
Figure 120: How likely would you employ workers from the SEE region in your company?<sup>97</sup>  
(All respondents - N=1271, share of total, %)



<sup>96</sup> The figures might not add to 100% due to rounding.

<sup>97</sup> The figures might not add to 100% due to rounding.

Figure 121: From which economy exactly would you hire?  
(Respondents who would likely employ workers from the region - N=615, %)



1990s, most persons with disabilities and displaced persons could be found in businesses situated in Serbia and Bosnia and Herzegovina. Roma population is most present in businesses from Albania and the Republic of North Macedonia. Businesses from the Republic of North Macedonia are also relatively frequent employer of other ethnic minorities.

Surveyed business executives are more likely to employ workers from the region than those coming from third countries (average score 3.3 compared to 3.1). Almost half of surveyed managers would likely employ a qualified worker from another SEE economy. Serbia and Montenegro are most open to such employment (around 60%), while Albania is the most conservative (43%). Again, larger firms and exporters are more likely to hire people from other SEE economies.

Small companies usually do not employ vulnerable groups, while almost half of large companies employ at least one socially vulnerable person.

There are more SEE businesses that are ready to employ workers from abroad (43%) than those who are not (28%). Compared to previous survey instalment, SEE economies are bit less keen to employ workers from abroad (3.2 in 2017 compared to 3.1 in 2018).

Almost half of SEE enterprises would employ a worker from Serbia, Bosnia and Herzegovina, or the Republic of North Macedonia, while only every third company would employ workers from Albania. However, results are very economy-specific. As in the previous year, Serbia and Bosnia and Herzegovina would prefer to trade workers with each other (85% of Serbian companies would hire Bosnian and Herzegovinian workers and 87% of Bosnian and Herzegovinian companies would hire Serbian workers). Serbian workers are also highly preferred by the Republic of North Macedonia and Montenegrin companies (92% and 88% respectively). Traditionally good relation between Kosovo\* and Albania remained, while Albanian workers are still the least desired in Serbia.

More than half of businesses from Kosovo\* and Bosnia and Herzegovina are ready to employ workers from abroad, while the Republic of North Macedonia is the most conservative, with only 18% of businesses willing to find workers abroad.

As expected, larger companies and exporters are more likely to hire people from abroad.

Figure 122: Do you think that employing Roma persons would affect company sales or the working environment in a positive or a negative way?<sup>98</sup>  
(All respondents - N=1271, share of total, %)



Majority (70%) of SEE executives feel that hiring Roma would not have an effect on company sales or working environment. Out of the remaining 30%, opinions are divided equally. It should be mentioned that the number of managers who think that hiring Roma would have negative impact declined (from 15% to 11% in 2018), especially in Kosovo\* (from 23% to 5%) and Serbia (from 15% to 4%).

<sup>98</sup> The figures might not add to 100% due to rounding.

## INVESTMENT IN EMPLOYEES

In spite of adequate workforce being reported scarce more often, it seems that the SEE executives make only a partial effort to make it more competitive through additional training. Moreover, it is somewhat worrying that significant share of SEE executives perceive their workers as largely uninterested in acquiring new skills.

Problem of depleting workforce could be solved through increased participation of women in the labour market. SEE business leaders perceive resolving a gender pay gap and making childcare more accessible as the most effective solutions to this problem.

Less than one in three SEE companies provided additional training for their employees during 2018. Thus, the negative trend of decreasing provision of additional development opportunities for employees continues (from 37% in 2017 to 31% in 2018).

Except for the Republic of North Macedonia (25%) and Albania (22%), providing supplementary edu-

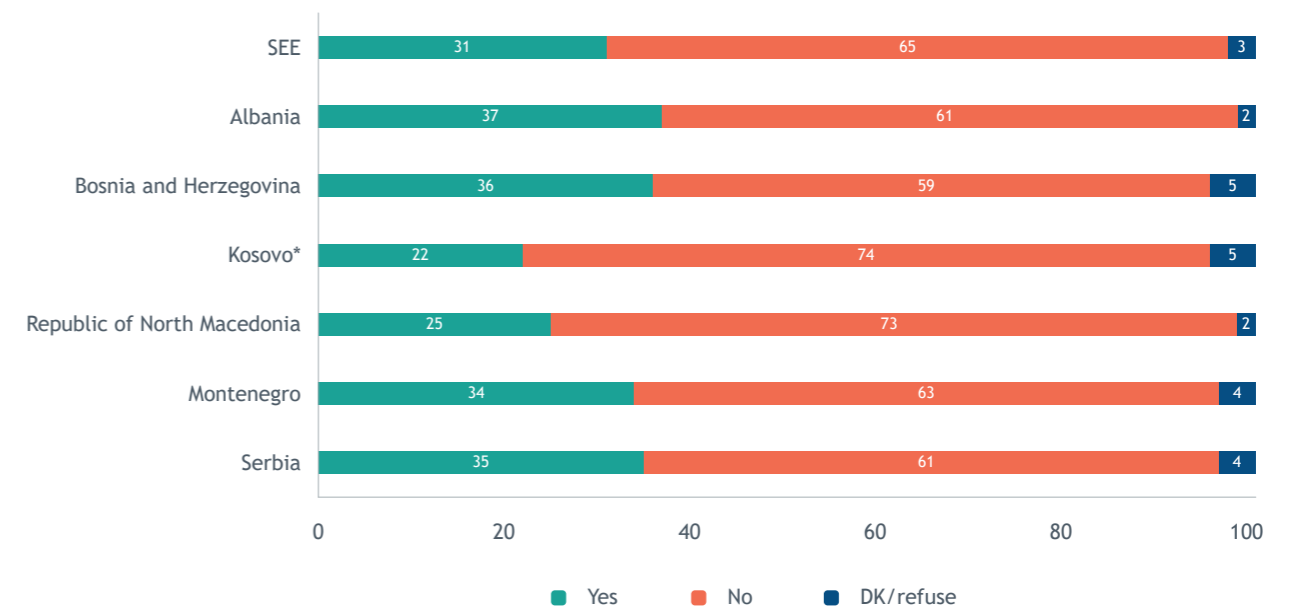
cation is roughly similar in the rest of the region, as just a little over one third of business leaders reported providing training in all economies.

Looking at this over time, while the positive changes in Serbia and Albania were only slight, negative ones were much easier to notice. Companies from Bosnia and Herzegovina and Montenegro organise significantly fewer training opportunities. In Bosnia and Herzegovina the number of companies organising training for their staff decreased from 56% in 2017 to 36% in 2018, while in Montenegro it went from 47% in 2017 to 34% in 2018.

Foreign firms are reportedly much more prone to organising additional training (58%) than domestic ones (30%). Probability for a worker to obtain training increases progressively with the increase in her/his employer's size - from 23% in micro to 66% in a large company.

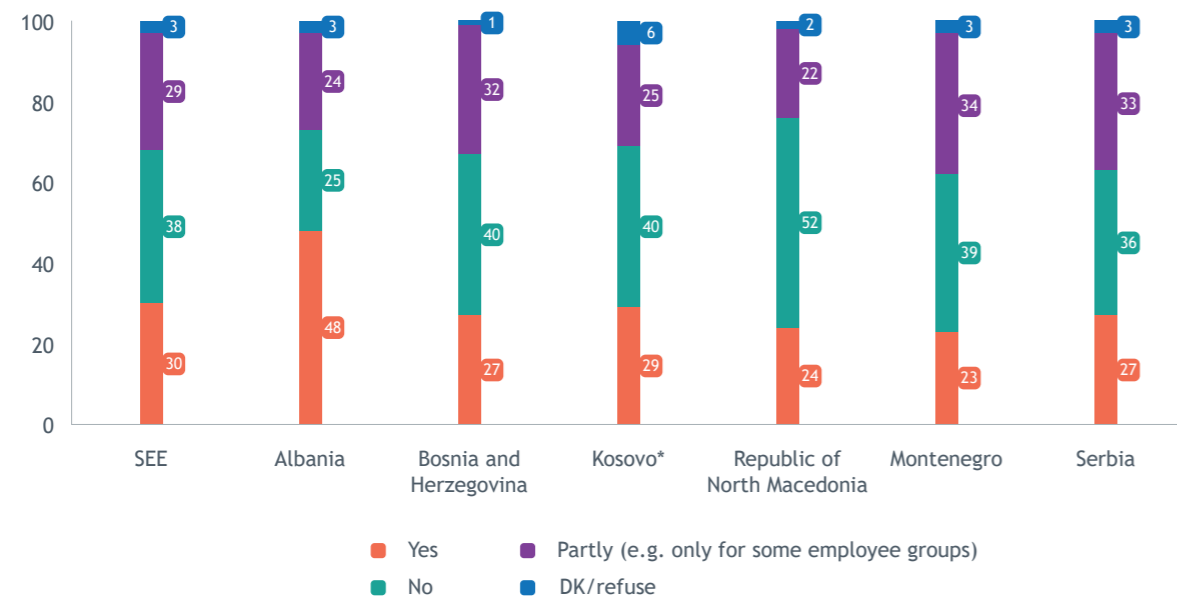
In keeping with the sporadic provision of training, only 30% of SEE companies regularly review the skills of their employees. Yet, additional 29%

Figure 123: Over the past 12 months, has your business funded or arranged any training and development for staff in the organisation, including any informal on-the-job training, except training required by the law?<sup>99</sup>  
(All respondents - N=1271, share of total, %)



<sup>99</sup> The figures might not add to 100% due to rounding.

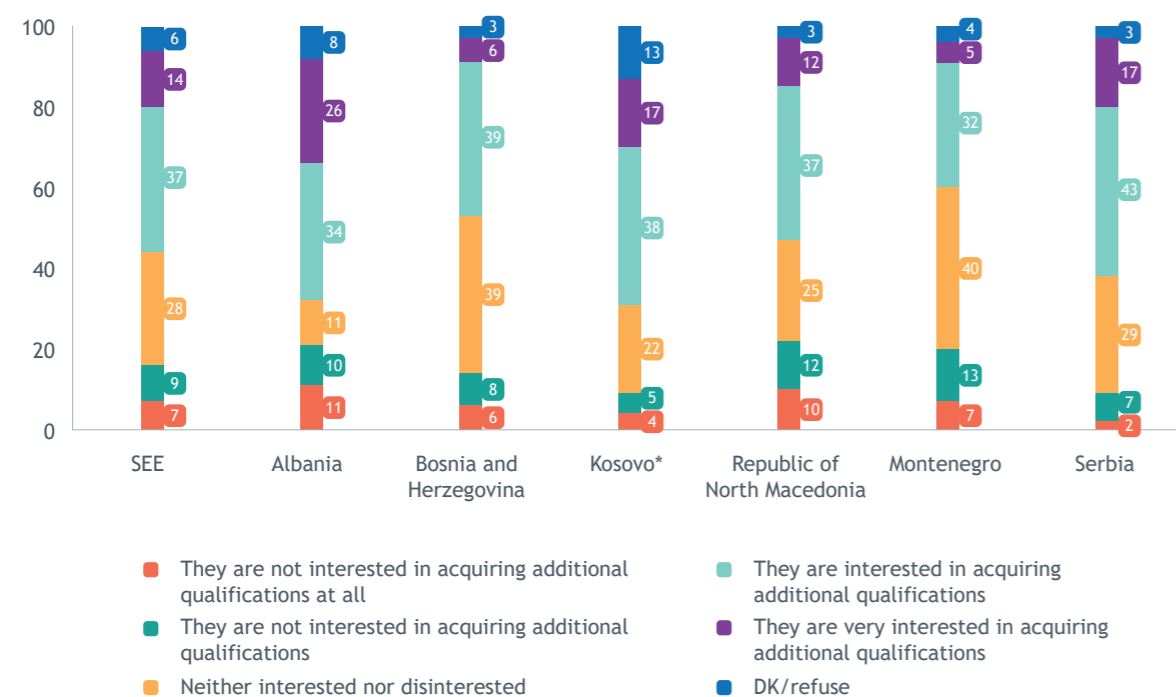
Figure 124: Thinking about skills requirements, does your company regularly review the skills and training needs of individual employees?<sup>100</sup>  
(All respondents - N=1271, share of total, %)



of companies review the skills only partially - for some employment groups. Compared to last year, no significant change occurred.

The overall score is largely skewed by responses from Albanian companies, as 48% of them reported regular review of employees' skills. Companies from other SEE economies have reported regular

Figure 125: How would you assess the readiness of employees in your company to acquire additional qualifications in order to advance and get promoted?<sup>101</sup>  
(All respondents - N=1271, share of total, %)



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

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

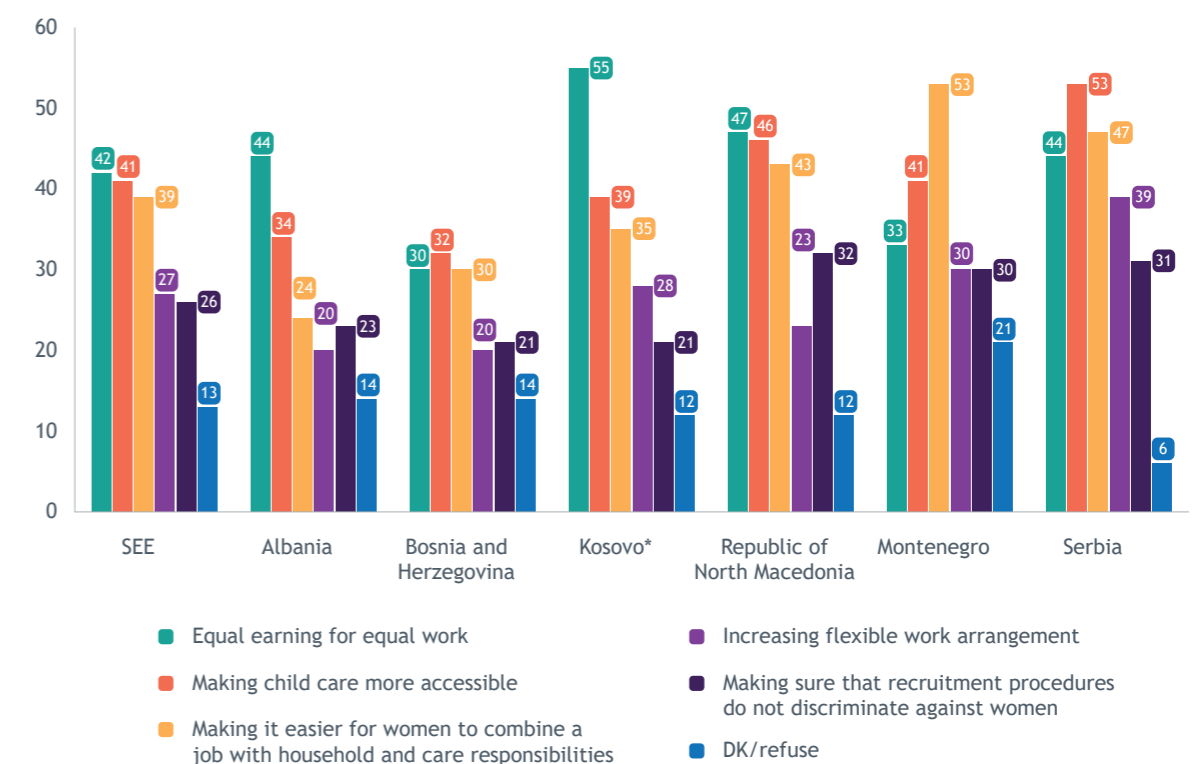
Figure 126: In your opinion, what are the most effective ways to increase the number of women in the labour market? (SEE)  
(All respondents - N=1271, share of total, %)



check-ups in only quarter of cases. However, the Republic of North Macedonia is the economy where skills of the workforce are most seldom reviewed.

Foreign-owned companies tend to check the skills of their employees more often (44%) than domestic ones (29%).

Figure 127: In your opinion, what are the most effective ways to increase the number of women in the labour market?  
(All respondents - N=1271, share of total, %)



Little over half of SEE managers perceive their workers as interested in acquiring new skills. While 28% the managers believe that their employees are largely indifferent, a sizable 16% finds them relatively uninterested. Share of SEE executives who reported employee's interest in acquiring new qualifications actually shrunk compared to 2017 when almost 60% of executives reported employee's interest.

According to the survey, workers from Serbia and Albania (60%) are the most knowledge-thirsty, with those from Kosovo\* relatively close (55%). Workers from Montenegro are perceived as the most apathetic (37%), while those from Bosnia and Herzegovina and the Republic of North Macedonia are positioned at the regional average.

Perception of employees' interest changed for the better only in Serbia and Kosovo\*, albeit only slightly. Negative changes though were much easier to notice. In Montenegro, the share of managers reporting workers interested in new qualifications almost halved. The numbers also declined in Bosnia and Herzegovina and Albania.

It is interesting that managers of foreign-owned companies perceive the workforce as much more willing to learn (64%) than domestic-owned companies (50%).

Resolving a gender pay gap issue is perceived as the most effective way to increase the number of women in the labour market (as reported by 42% of the executives). Just slightly behind is making child care more accessible (41%), while significant 39% of SEE managers consider that bringing together job and household responsibilities in an appropriate fashion would be helpful.

Interestingly, only one in five SEE managers believes that changes in taxation for women would bring about positive results. They also feel informed, since only 16% believe that making employers aware of the benefits for employing and promoting women would provide tangible result. They also believe that improving access for women to traditionally "male jobs" would also not yield significant results.

Compared to 2017, the attitude SEE business leaders have towards this question remains largely unchanged. Nevertheless, share of managers either not knowing the answer or refusing to answer increased to 13%, compared to 6% in 2017.

The highest share of executives from Kosovo\* believe that gender pay gap is the biggest problem (55%), while Bosnia and Herzegovina (30%) and Montenegro (33%) demonstrate a complete opposite.

According to business leaders from Serbia, lack of accessible child care is the key obstacle preventing higher participation of women in the labour market. On the other hand, only a third of executives from Albania and Bosnia and Herzegovina believe that more accessible kindergartens would solve the problem.

For Montenegrin business leaders, finding the right balance between household responsibilities and job would make the highest impact (53%). Serbian managers also prioritise this problem highly (47%). Only one in four Albanian executives believes that establishing this balance would be beneficial for women workforce to increase.

Increasing availability of flexible work arrangements and regulation on recruitment procedures that should ensure no discrimination against women are almost equally weighed on average. However, their importance is recognised slightly more in Serbia and Montenegro than in the rest of SEE.

Managers from Serbia were most open to recognise solutions to this problem (only 6% refused or did not know the answer), while Montenegrin managers are at the other end of the spectrum (22%). All other SEE economies are more or less positioned at the average.

# FOCUS ON LARGE COMPANIES

For the purpose of this report any enterprise that has more than 250 employees is referred to as a large enterprise (large company).

Importance of large companies reflects in the fact that they employ a significant portion of an economy's workforce and account for sizable share of economic activity. Properly integrated within the economy, large companies could help other, smaller ones, interconnect and develop, acting as catalysts.

Large companies usually emerge as a consequence of economy of scale - reduction of per unit costs as total output increases. To fully harness the economy of scale, they usually specialise in production of less customised (more standardised) products. Needless to say, greater production capacity, apart from workforce, comes from higher amounts of capital (assets).<sup>102</sup>

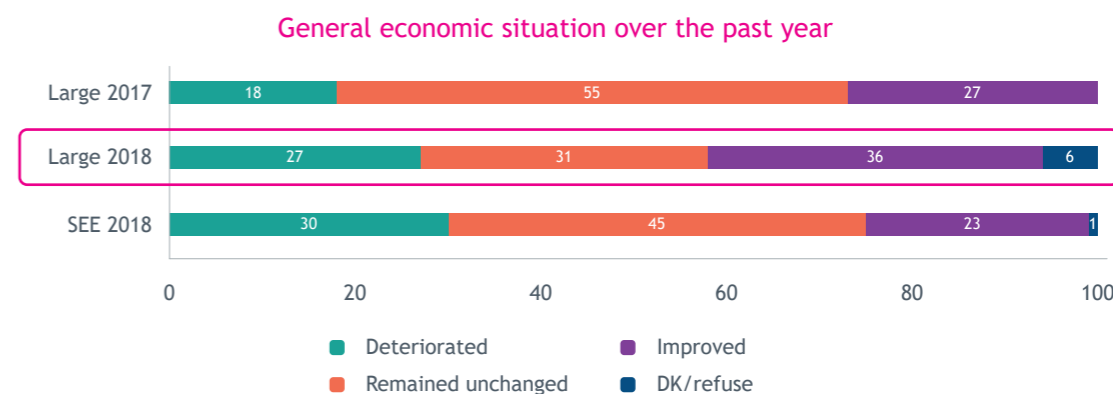
Because of their size, large companies have several advantages, especially cheaper and easier financing, capacity for research and development and export capacities. Nevertheless, they are much less flexible than smaller companies and

sometimes find it harder to fill in job vacancies, especially in economies with depleting workforce basins.

## Perception of the General Business Environment and Economic Trends

The executives of large companies are much more likely to assess general economic situation as favourable compared to their SME peers. While slightly more than half of them believe that the general economic situation will remain largely unchanged, more than a third is optimistic. In line with positive expectations, more than half of large companies' executives foresee increase in their workforce over the next 12 months. As it has been custom so far, majority of them recognise potential and opportunities coming from regional cooperation and EU accession.

Figure 128: How has the general economic situation in your place of living changed over the past 12 months? Has it deteriorated, remained unchanged or improved?<sup>103</sup>

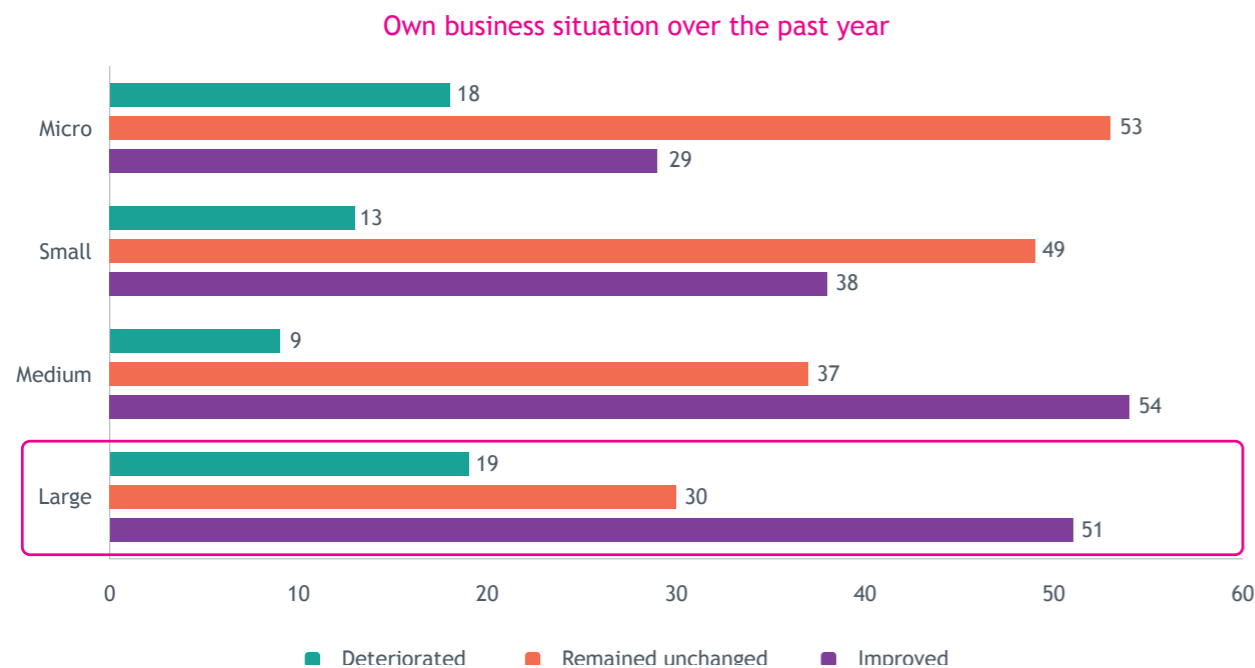


	Deteriorated	Remained unchanged	Improved	DK/refuse
General economic situation in next 12 months	8	52	37	4

<sup>102</sup> The figures might not add to 100% due to rounding.



Figure 129: How has your business situation developed over the past 12 months? Has it deteriorated, remained unchanged or improved?<sup>103</sup>

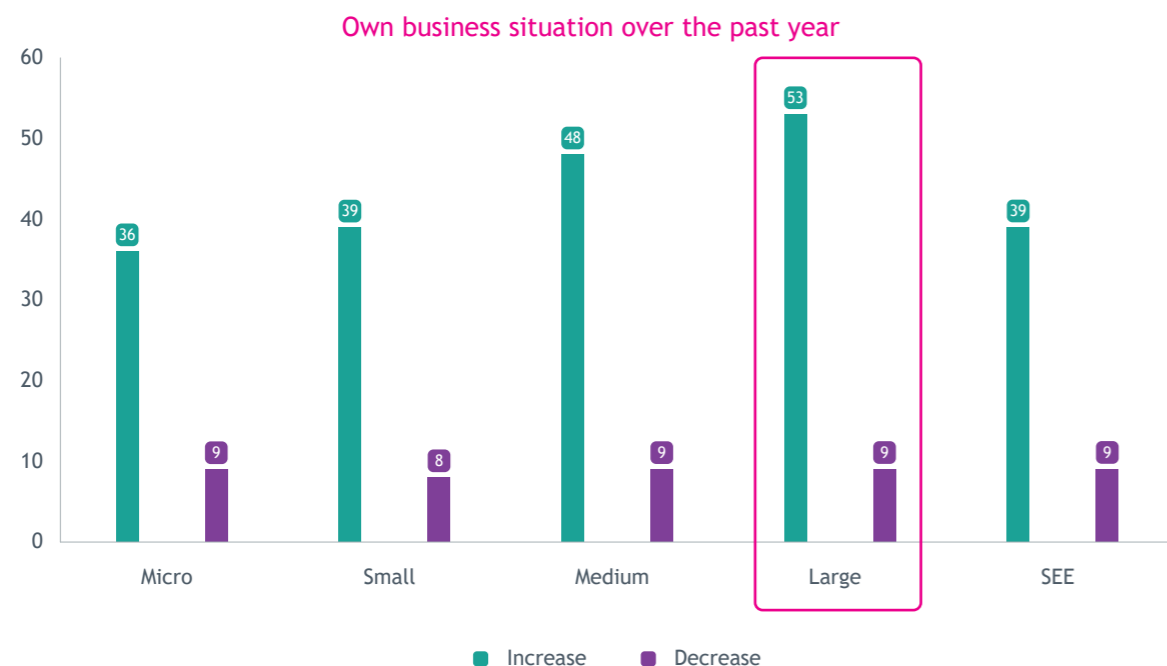


Business executives of large companies perceive the economic situation over the past year as generally improved. In fact, they are the only group that has higher share of those who perceive improved situation over deterioration, compared to the SEE and among all business-size groups.

Nevertheless, it seems that the assessment of the current situation highly impacts future expectations, as the gap between the two is closing.

Compared to last year, much stronger polarisation between answers can be spotted. That is,

Figure 130: 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?



<sup>103</sup> The figures might not add to 100% due to rounding.

in 2018 executives were more likely to assess the situation as either positive or negative. However, it is hard to determine whether the situation is perceived as better or worse in 2018 than in 2017, as the positive and negative changes cancel out.

Moreover, it seems that the assessment of current situation turns more positive with the increase in company size. The ratio of those who perceive improvement to those who have seen deterioration breaks even at the medium-sized company level and turns overwhelmingly positive for larger companies.

Last year has been a good business year in SEE, especially for medium and large companies. More than half of executives reported improved business situation. Moreover, it seems that business leaders of all company sizes generally assess the situation of their businesses as better than the situation in their respective economies. Again, this is especially true for large and medium companies.

Employment expectations grow with company size. Large companies are again frontrunners, as more than half of their executives expect to increase the number of employees. Regional cooperation and importance of EU membership is recognised by executives of all company sizes, but especially in medium and large companies. Broad regional cooperation is recognised by three quarters of large companies' managers, while EU accession would be a good thing for almost 70% of them. Positive trend is especially present with the EU accession.

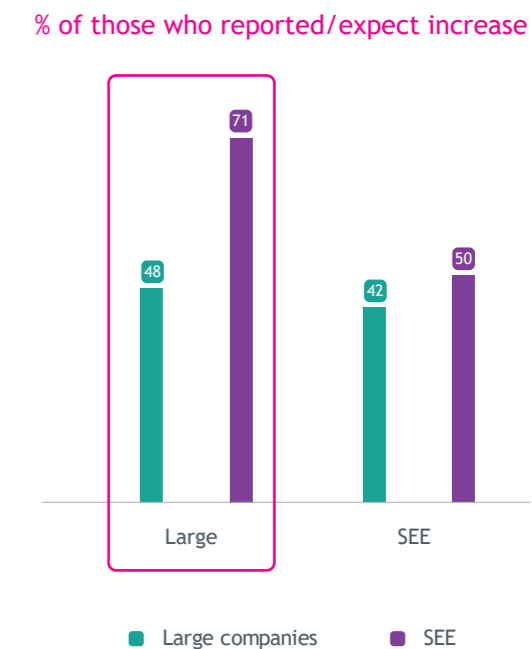
### Business Trends in SEE

*Riding on a good wave of increasing demand for their products, large companies employ more workforce, invest higher share in fixed assets. Nevertheless, they are making more effort to reduce ecological footprint than all other smaller companies.*

Almost half of SEE large companies' executives reported increased demand for their products and services over the past year. Encouraged by the good results, they are markedly more confident about the future demand than their SEE peers from smaller companies.

To cope with higher demand, more than half of large companies' managers increased number of employees (as seen in Figure 130: How do you expect the number of people employed in your com-

Figure 131: Changes in demand for products or services - over the past 12 months and expected in the next 12 months



pany to change over the next 12 months? Will it decrease, remain unchanged or increase?), and approximately the same share plans to do the same over the next year, again driven by positive expectations.

Increasing capacities through investing in equipment and plants has been the investing priority in large companies, as they directed more than 60% of their investments in fixed assets. For comparison, small and micro companies invested less than 50% in fixed assets.

Large companies have made more strides to reduce their ecological footprint than all other smaller-sized companies. Almost 80% of large companies' executives reported to have made some effort, but especially encouraging is the fact that over half of them have reported to have made considerable effort.

### Business Environment in SEE

*Large companies of the SEE mostly share concerns with smaller ones. Nevertheless, they are especially concerned about macroeconomic instability and adequate workforce availability. However, their size proves advantageous in terms of financing. When assessing public authorities' performance or changes in business environment, they tend to be somewhat more generous and optimistic.*

Although large and other SEE companies mostly share the same concerns, large companies have some specificity. Macroeconomic instability is the key obstacle recognised by both, SEE and large companies' executives alike, the only difference being intensity (score 2.3 for large and 2.5 for the rest.) More than half of large businesses' heads consider it an obstacle; moreover, two thirds of them as a major one. Anti-competitive practices of other competitors come as a second key obstacle for both, the large and the rest of SEE, but again with slightly higher intensity for large (2.5 vs. 2.6). Apart from being large, these companies are all exporters as well. Therefore, it does not come as a surprise that they are troubled by customs and trade regulations more than others (2.7 vs 3.0). Having more assets at risk, they are also concerned by the violent conflicts and terrorism more than others (3.1 vs 3.4).

Large companies are especially concerned about the availability of adequate workforce. Therefore, heads of large companies are much more troubled by availability of workers (2.5 vs. 2.7) and their skills (2.6 vs. 2.9) than their SEE peers. Also, labour regulations concern them more than others (2.8 vs. 3.1). It could be inferred that since the worker basins are depleting, higher quantities of workers needed by the larger companies are much harder to come by.

Being large has its advantages, since it seems that they are less likely to be obstructed by corruption (2.9 vs 2.7) or organised crime (3.2 vs 3.0). Also, it is easier for them to finance their businesses (3.1 vs 2.9).

Executives of large companies usually assess the government performance somewhat better than the rest. They tend to attribute more integrity, predictability and transparency, so as less corruption to public authorities. Nevertheless, coordination and communication between regulatory authorities is found much less satisfactory for large companies' executives than for the rest.

Apart from labour and skills, large companies' heads tend to perceive the changes in business environment over the past 12 months usually better than the rest of SEE. Almost half of them reported the market size and potential as generally improved, compared to just around a quarter of other SEE executives. Also, they reported much higher improvement in the availability of financial capital or land and real estate.

Although they are more satisfied with road (3.2 vs 3.0) and energy (3.5 vs 3.3) infrastructure than executives of smaller companies, large firms' executives would welcome further improvements as much as they would.

### Legal and Regulatory Framework

Large companies' leaders believe that they should be much more involved in policy making relevant to their businesses. They decide to withdraw from public procurements more rarely than the rest, even though the trend is slightly deteriorating. Still, vast majority of them (86%) feels burdened by regulations, especially tax, minimum wage and trading.

More than 60% of executives of SEE large companies are not satisfied with how governments take into account their concerns. However, smaller businesses' leaders are even less content, since more than three quarters of them feel neglected by the government. Moreover, when it comes to involvement in policy making, it is interesting that micro (2.5) and large companies (2.4) are much less satisfied than small and medium sized ones (2.7). Along the same lines, leaders of large companies are much less satisfied with laws and regulations, especially with their predictability. Yet, they exert only somewhat higher level of satisfaction with public services for businesses than the smaller ones (3.2 vs. 3.1).

Only one in five large companies decides to withdraw from participating in public tender or procurement, although they could have offered the goods or services solicited. That is a slight deterioration compared to 2017 (13% reported to have withdrawn). Still, large companies are much

less likely to withdraw than medium (31%) or small (26%).

When it comes to bureaucracy obstacles, there are no significant variances among different sized companies. Even though the situation improved slightly over the past year, great majority of SEE large businesses' executives have reported running into legal barriers (86% compared to 97% in 2017). Moreover, the situation is mostly similar for all company sizes. Among all obstacles, large companies reported taxation-related ones as most burdensome (35%). Minimum wages (17%) and trading standards (15%) come in next, while large companies seem to be least obstructed by health and safety (4%) and environmental regulations (3%).

Large companies seem to be less obstructed by the aforementioned health and safety and environmental regulations than the rest of SEE (12% and 8% respectively), but seem to have more trouble with pensions (13% in large, 6% in the SEE).

Large companies are much more prone to have a case in arbitration courts (41% has had a case over the last 36 months) than the rest of SEE (17% has had a case over the last 36 months).

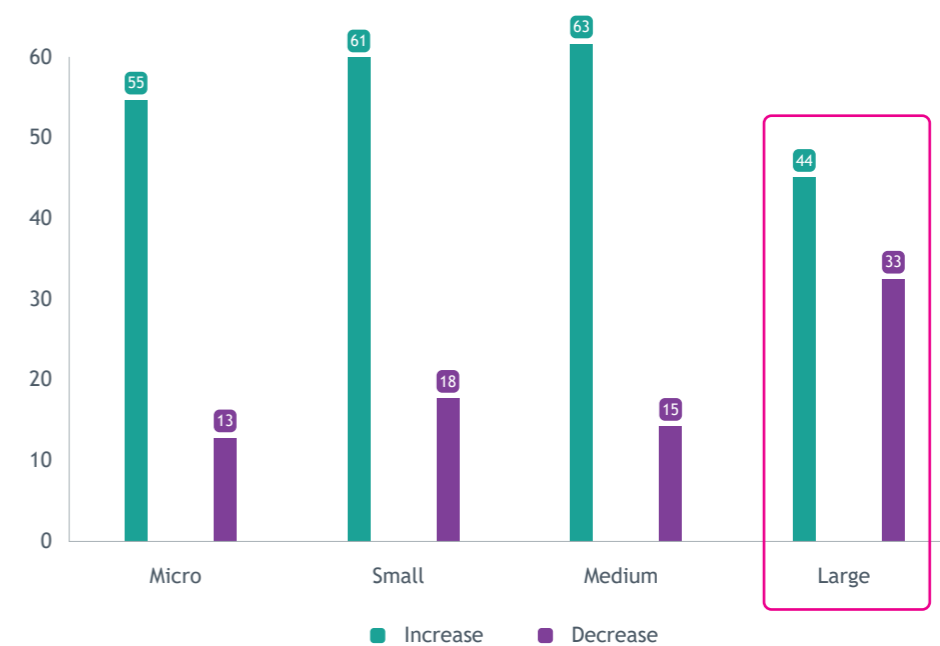
### Accessibility of Loans

Although large SEE companies predominantly finance their businesses from retained earnings (46% of all investment in fixed assets and working

Figure 132: Mean score - Workforce concerns in SEE



Figure 133: Proportion of company's working capital and new fixed assets financed from internal funds and loans from commercial banks



capital came from retained earnings), they rely on commercial banking sector as well (33% of all investment in fixed assets and working capital was financed by bank loans). Differences in financing structure are expected, but they are unexpectedly significant between large and medium-sized companies. Moreover, equity financing is equally rare among all company sizes, funding only 4% of businesses.

In line with the previous results, large companies are much more likely to apply for a loan (51%) than the rest of SEE (27%), and especially micro companies (21%).

**Corruption**

While corruption is a sensitive topic for all SEE business leaders, those of large companies were much more reluctant to talk about it than those from other company sizes. The share of those not knowing or refusing to answer in large companies is typically more than twice as big as the regional average (10-20%). Those who do answer, tend to claim that the corruption is less present than what is claimed by smaller companies. However, they agree with their SEE peers that digitalisation would be impactful (75%), while “only” 9% did not answer.

**Trade and Investment**

*Large companies are also regions’ most significant exporters and regional investors. Majority of them is not afraid of foreign competition, both*

*regional and global. Due to their export orientation, they tend to value CEFTA agreement more than smaller companies.*

Expectedly, large companies invest (or plan to do so) the most in the region. However, the share of companies stands at only 31%, nevertheless surpassing the regional average - regionally, only one in ten firms invested or plans to do so within the next 12 months.

Although the sample may not be representative, it seems that vast majority of large companies plan to invest only regionally and dominantly to access new markets or integrate into the company’s value chain.

Large companies are regional export leaders. Almost 40% of large companies’ sales come from exports. Quarter of which is exported to the region, whilst the rest goes to the EU. It is interesting that no large company from the sample exports to the third countries, and such exports are extremely rare among all other company sizes. As expected, as the size of the company increases, so does its ability to export.

When exporting, more than 70% of large companies clear through customs within two days, while such a procedure takes a bit longer for smaller companies.

Figure 134: Market orientation of SEE companies (% of sales)<sup>104</sup>



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

Figure 135: To what extent do you agree that your company is threatened...?<sup>105</sup>

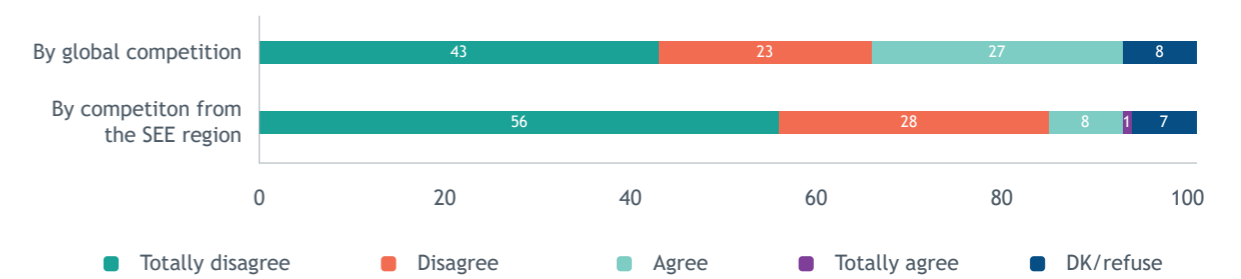


Figure 136: My company's products, goods and services can compete well with products, goods and services from SEE region<sup>106</sup>

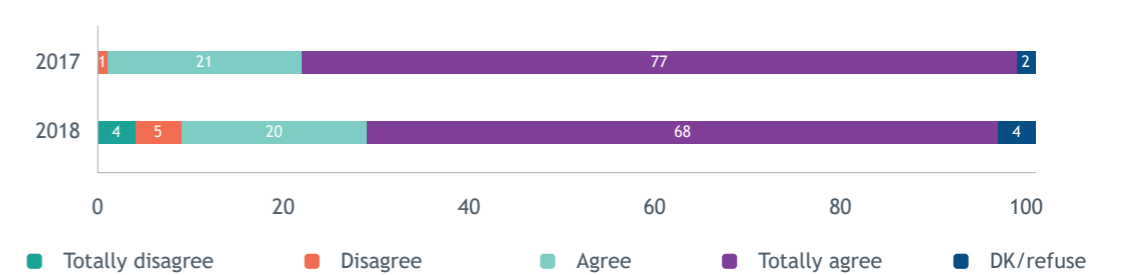


Figure 137: My company's products, goods and services can compete well with products, goods and services from the EU<sup>107</sup>

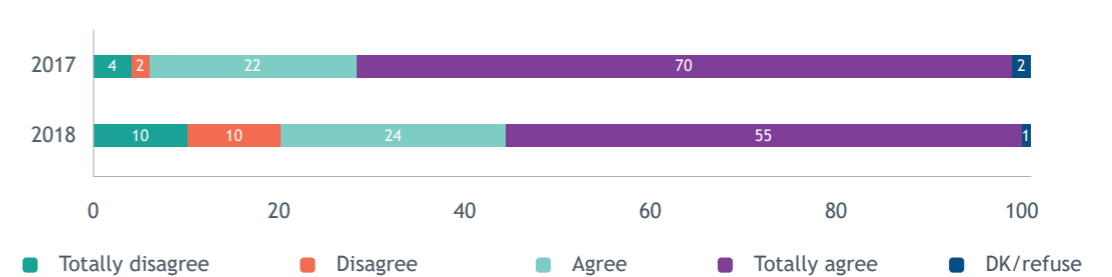
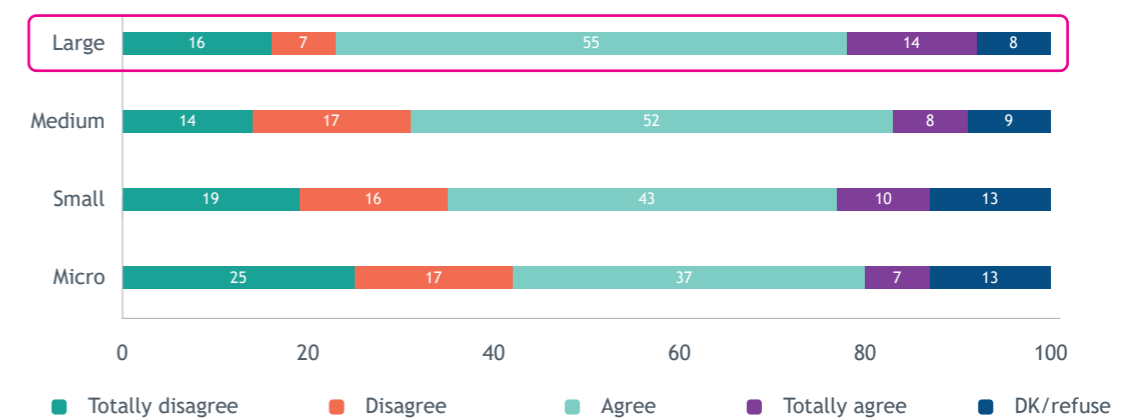


Figure 138: To what extent do you agree with the statement: My company has benefited from the regional free trade agreement (CEFTA 2006)?<sup>108</sup>



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

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

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

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



Large SEE company leaders are confident in their products. More than 80% of them are not afraid of competition from SEE, with less than one in ten thinking that the company can be threatened. They are only a bit less confident when it comes to global competition, as two thirds are not afraid of it. Compared to last year, the executives seem more confident now.

SEE managers are largely confident in quality of their products and services, although there is negative trend present. It is a bit peculiar that they are at the same time less afraid of the competition (both global and regional).

The SEE businesses of all sizes easily see the benefits from CEFTA agreement, especially large, export-oriented ones. Compared to last year, satisfaction with CEFTA picked up from 53% to almost 70% in 2018.

Although consensus that governments should prioritise purchases from local suppliers exists within the region (73% believes so), it is much weaker in large companies (53%).

### Innovation and Technology

*Large companies are more open to internet and digital technologies than smaller companies. They use them for various activities, and with higher intensity than the rest. Also, large companies have higher capacity to innovate. When they are not doing it on their own, they rely on cooperation with universities or other firms.*

Among SEE businesses, only 5% do not use Internet, almost all of them being micro. Expectedly, all large companies do. Also, it seems that internet usage becomes more intensive, as the company size grows.

Majority of large companies use Internet as means of communication, alike the other companies. Nevertheless, while three out of four large companies have their websites, only 30% of micro, and less than half of small ones does. Large companies also use Internet for both purchases and sales of their inputs and goods more intensively than smaller sized firms. Customer support through online services is also much more common for the large.

Executives of large companies are highly satisfied with Internet connection (93%) and stress the importance of reliability of the connection (57%) more than anything else.

Figure 139: Does your company use Internet for...?

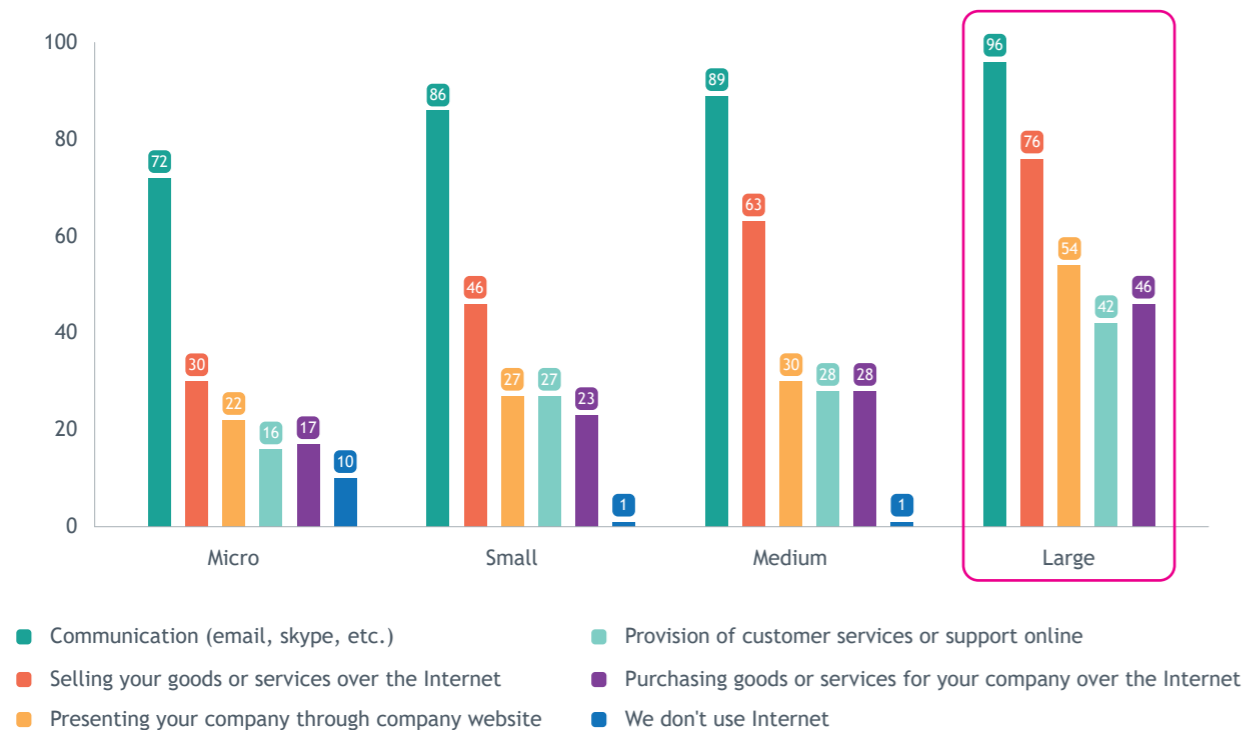
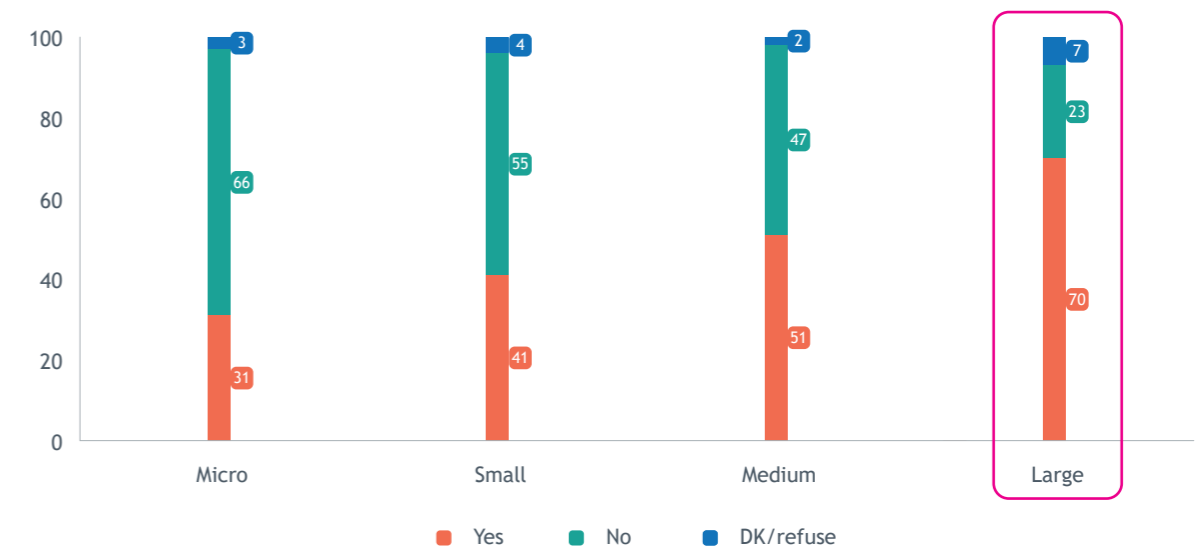


Figure 140: Have you introduced new or significantly improved products and/or services in the last 3 years (2016-18)?



Larger companies have more room to introduce a new or significantly improved products or services. Sizable 70% of large companies have reported to have introduced a new or significantly improved product over the past 3 years. Obviously, the capacity to innovate increases with the increase of firm size.

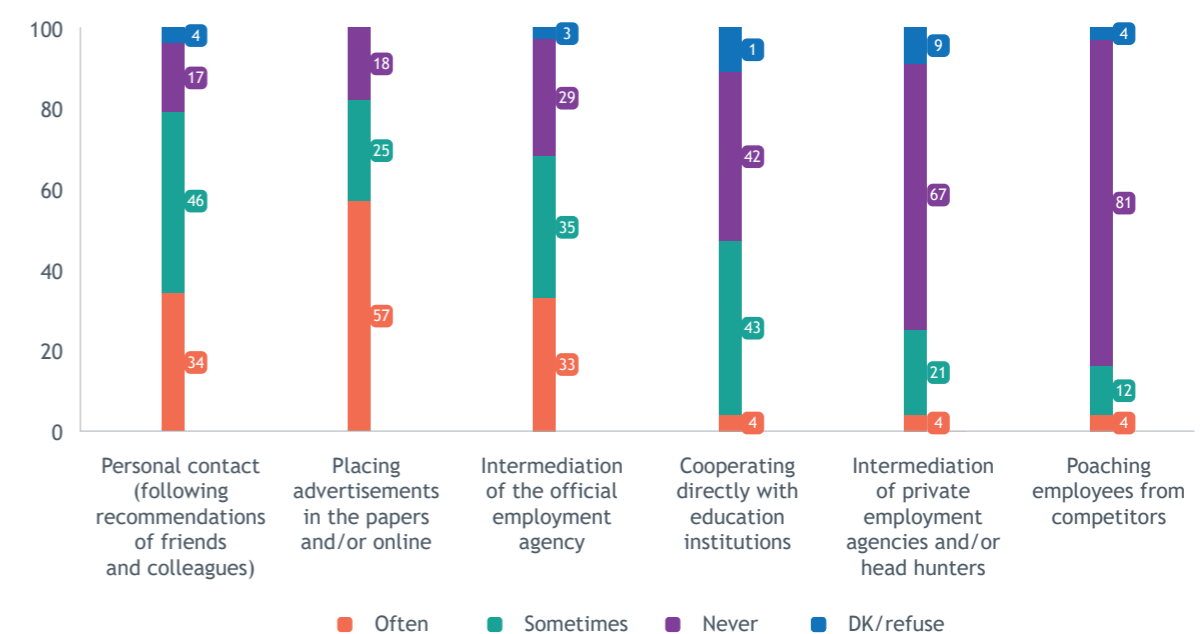
Great majority of these improvements (around 80%) were developed by the company itself. Nevertheless, large companies tend to rely much more on joint ventures (25%) with other companies. Also,

large companies cooperate much more frequently with universities (23%) when developing/improving a product than small (9%) and even medium (12%) companies.

### Skills Needs

Since their reliance on Internet is higher, large SEE companies are making the greatest effort to develop digital skills of their workers. Around 80% of them have reported organising various training, workshops or seminars to improve their employees' digital skills. On the other end of the spec-

Figure 141: How often do you use the following when hiring new employees?<sup>109</sup>



<sup>109</sup> The figures might not add to 100% due to rounding.



trum, workers of micro and small enterprises have had that opportunity much less often (50%).

More than half of SEE large companies have reported hard-to-fill job vacancies. Those who have experienced problems with staffing their companies, although the sample is not highly representative, most usually cite applicants' lack of skills.

**Employment Practices**

Large companies' sizable needs for workforce make them less choosy when employing. Also, it dictates the channels through which they employ, usually opting for obtaining candidates through advertising channels and employment agencies, which is more competitive, efficient and probably cheaper. They would employ additional workforce more often than not, if no obstacles were present. Moreover, they would very likely employ a Roma person, or a worker from abroad, especially SEE.

When searching for new employees, large companies usually do it through placing an advertisement, personal contact and direct intermediation with official employment agencies. Due to higher workforce needs they find placing advertisements and intermediation with official agencies more convenient than smaller companies, as they can provide more workforce, probably at lower search costs. Also, acquiring new employees in cooperation with educational institutions is a lot more common for large and medium-sized companies.

If large companies were not faced with additional costs or restrictions, 28% of them would increase the number of employees. Still, almost half would retain the same employment level, while 7% would

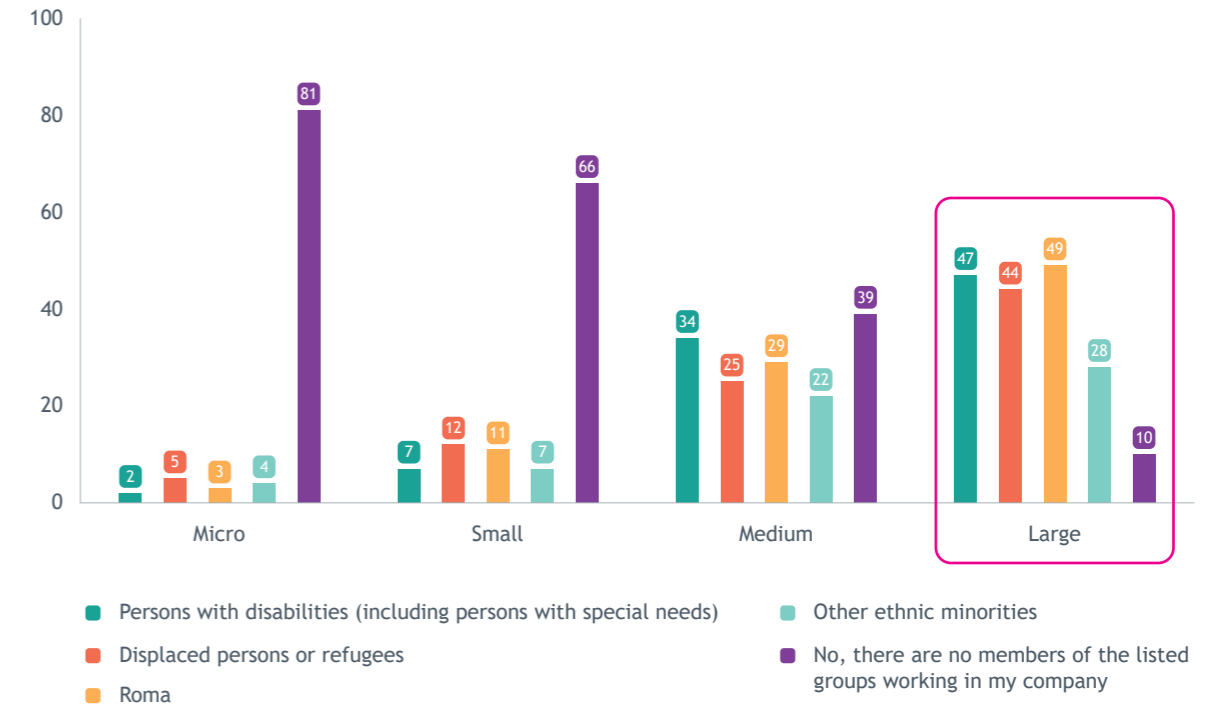
lay workers off. However, as a significantly higher share has not answered, comparing results over different company sizes is not advised.

Large companies are rarely subject to prejudice, since 90% of their executives reported that would likely employ a Roma person with appropriate education and experience. For comparison, micro enterprises would do the same in only 58% of the cases, while small and medium in between 70-80%. Also, even though a third of large companies' leaders admit to have some gender preference, on average they would equally likely employ men and women.

In accordance with findings so far, large companies are more likely to employ persons from vulnerable groups of society. Approximately one in two large companies has workers with disabilities, refugees or Roma. Needless to say, managers of large firms do not expect any negative consequence from employing a Roma worker. Compared to last year, shares of companies employing above mentioned groups declined slightly, but they are still much higher than regional average.

Furthermore, workers from abroad, and especially SEE are more welcome in large companies than any other. In terms of national preference, those from Serbia, Kosovo\* and Montenegro are slightly more preferred than the rest, while Albanian workers seem to be the least preferred.

Figure 143: Do you have somebody from the below mentioned vulnerable groups working in your company? (Multiple answers)



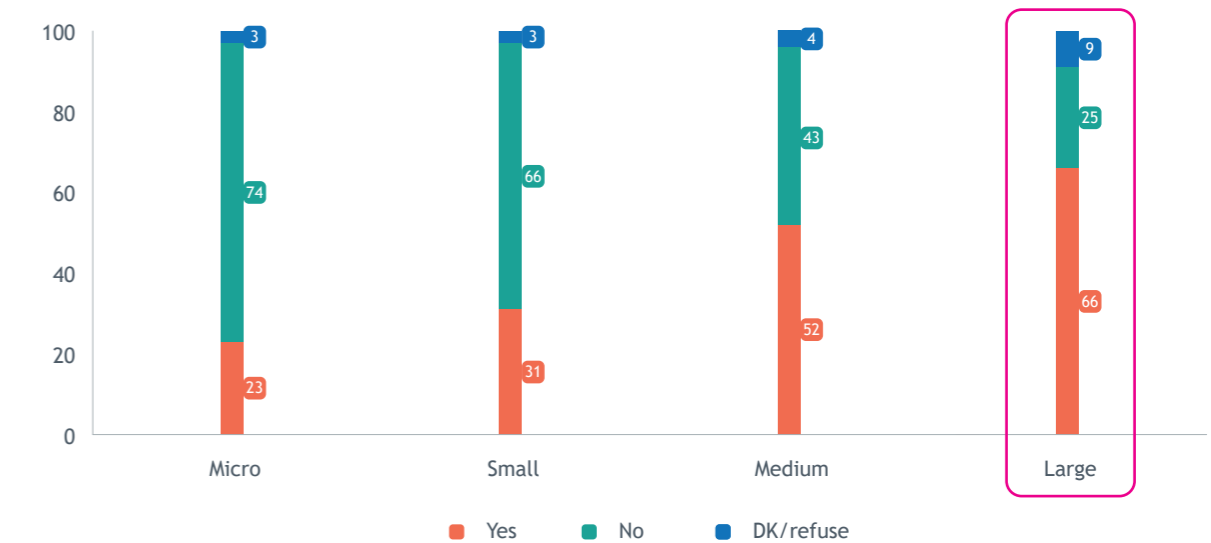
**Investment in Employees**

Capacity to provide additional training for employees increases with the increase in company size. Two thirds of large SEE companies have provided supplementary education for their workforce, surpassing micro companies by almost three times. Nevertheless, negative trend is seemingly pres-

ent, as 74% of large companies reported providing training in 2017.

Along the lines of providing more training for their workforce, executives of large companies assess readiness and thirst for knowledge a lot better than executives from smaller ones.

Figure 144: Over the past 12 months, has your business funded or arranged any training and development for staff in the organisation, including any informal on-the-job training, except training required by the law?<sup>110</sup>



<sup>110</sup> The figures might not add to 100% due to rounding.

Figure 142: If you could change the number of full-time workers your company currently employs without any restrictions (for example, without seeking permission, paying severance pay, etc.), how would you change the level of employment in your company?

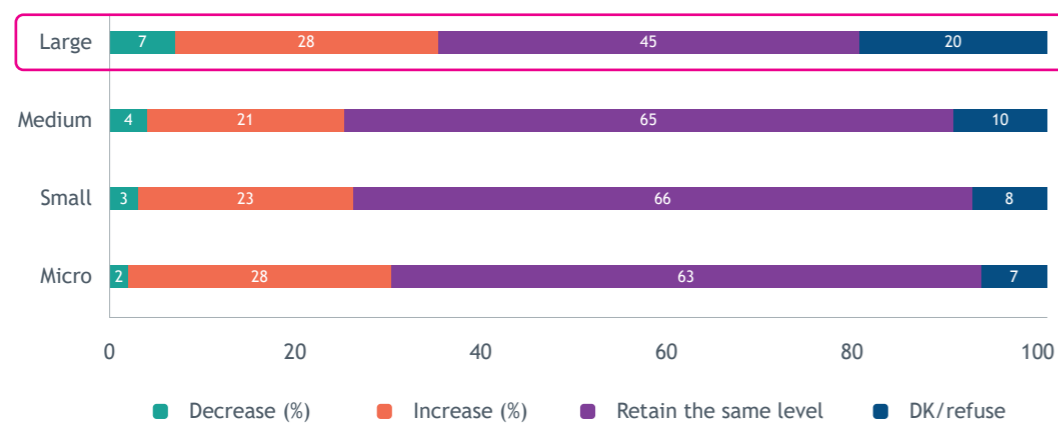
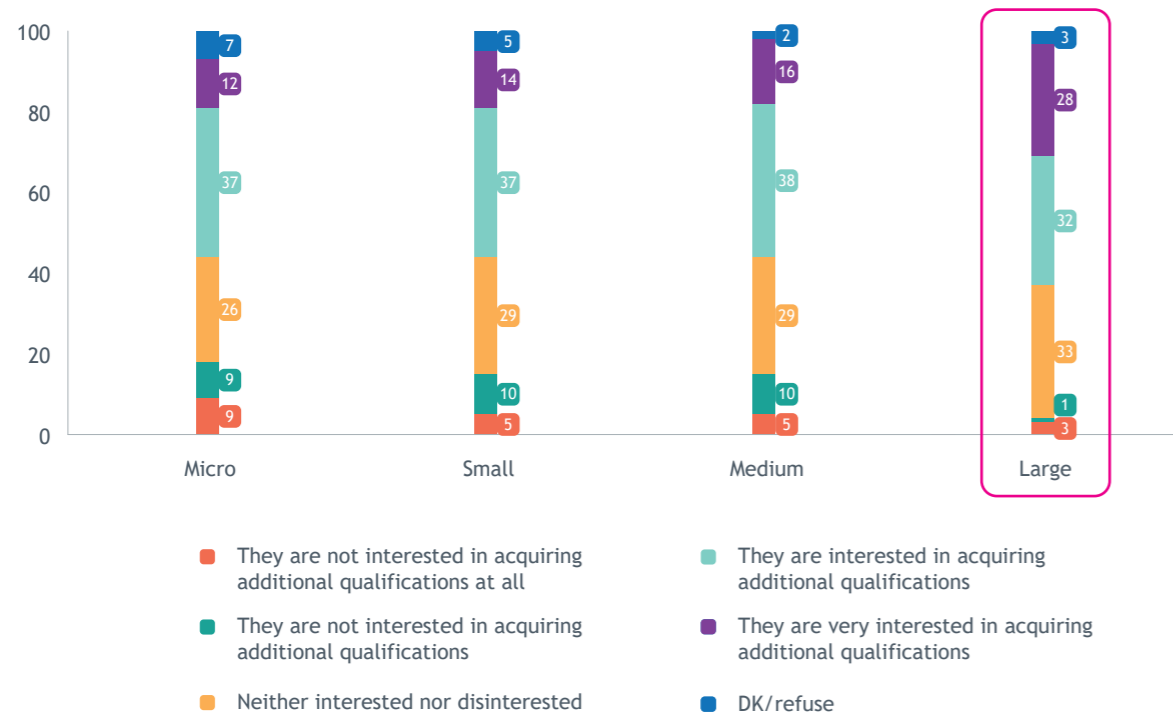


Figure 145: How would you assess the readiness of employees in your company to acquire additional qualifications in order to advance and get promoted?



## FOCUS ON EXPORTERS

**Export companies are companies that sell their goods and services abroad, on foreign markets.**

Importance of exporters for an economy cannot be overstated, since they are not only a source of international currency, but the way that an economy faces foreign competition, and by doing so, learns and develops further. Therefore, exporters are expected to be more competitive, as well as more open to change and more innovative. Also, they usually put more value to regional cooperation and trade agreements.

### Perception of the General Business Environment and Economic Trends

**Exporters, alike non-exporters, perceive current and future general economic situation predominantly unchanged, but nevertheless exhibit higher satisfaction and optimism.**

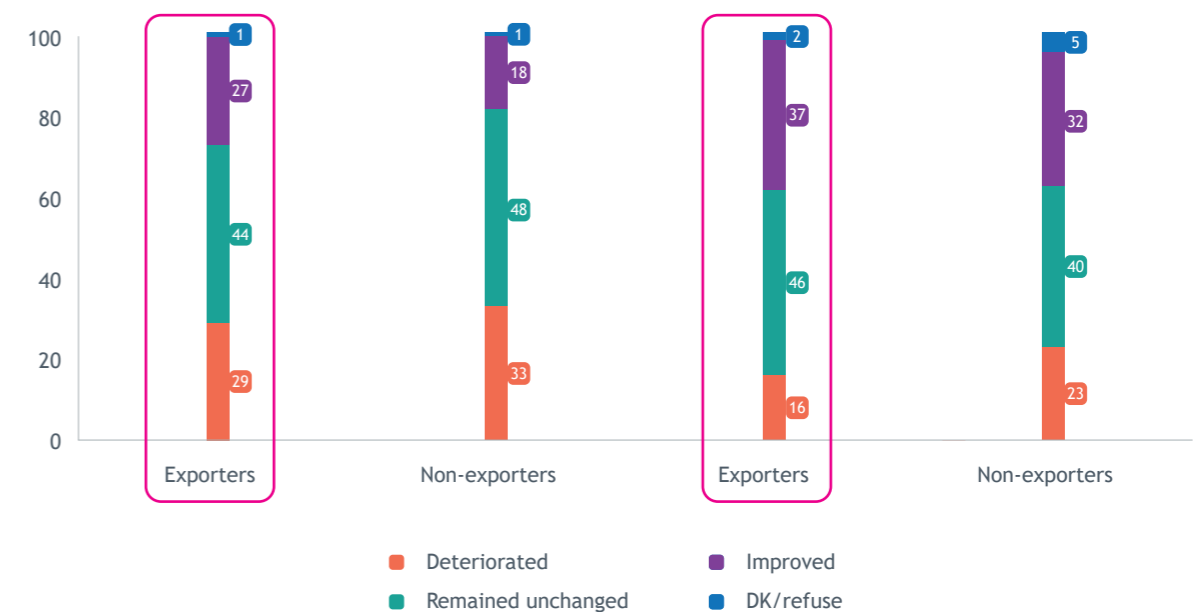
While there is a considerable negative gap between those who perceive deterioration and improvement of the current economic situation in the region among non-exporters, this gap is almost closed for exporters.

Both exporters and non-exporters are more optimistic about the future, but again, exporters have a much higher ratio of those who expect the situation to improve rather than deteriorate.

Last year was particularly positive for export-oriented businesses. Almost half of them reported an unchanged situation, yet 41% of them reported improvement. Although surveyed non-exporters had a solid business year as well, dichotomy can be easily spotted nonetheless.

Exporters are much more favourable of regional cooperation (75%) than non-exporters (52%). Also, majority of them (68%) perceive EU accession as a good opportunity to foster their businesses.

Figure 146: What is the general economic situation in the region and how do you expect it to change over the next 12 months?<sup>111</sup>



<sup>111</sup> The figures might not add to 100% due to rounding.

Figure 147: How has your business situation developed over the past 12 months? Has it deteriorated, remained unchanged or improved?

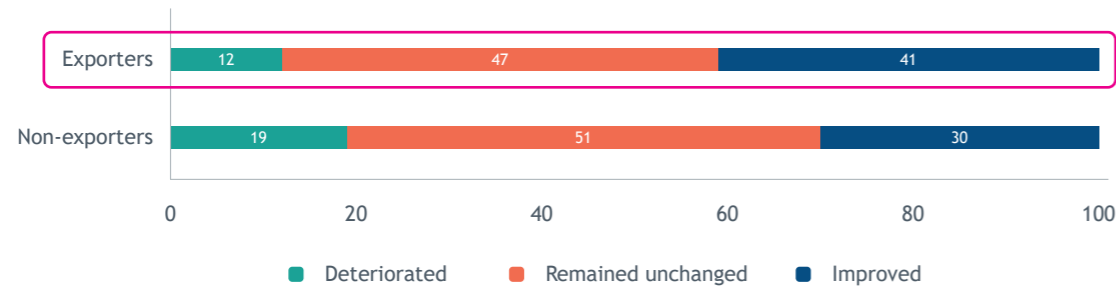
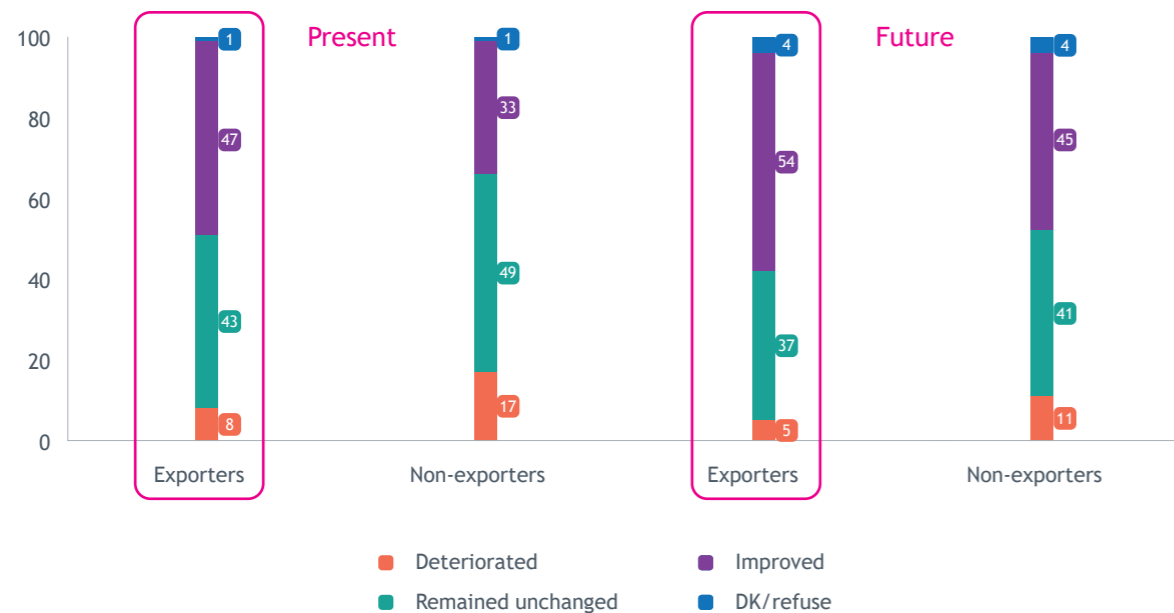


Figure 148: How has the demand for your company's products/services changed over the past 12 months and how do you expect it to change over the next 12 months?<sup>112</sup>



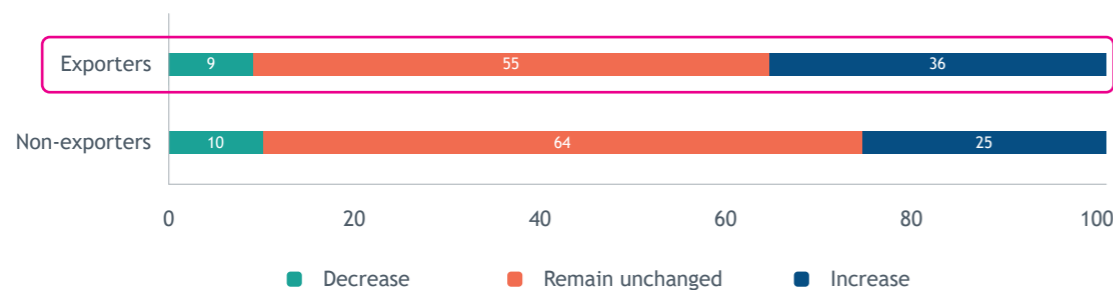
**Business Trends in SEE**

Almost half of the SEE exporters have faced increasing demand over the past year. Moreover, the same trend is largely expected to continue in the future. Less than one in ten SEE exporters has seen demand for its products or services dete-

riorate, while that share in non-exporting companies is twice as big.

To cope with higher demand, exporters were more likely to employ additional workforce (36%) than non-exporters (25%). Compared to 2017, exporters' employment decisions seem to have remained

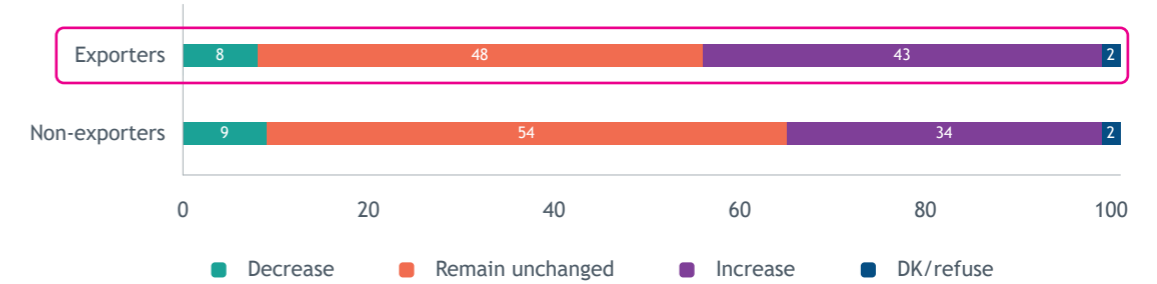
Figure 149: How has your company's total employment changed over the past 12 months?<sup>113</sup>



<sup>112</sup> The figures might not add to 100% due to rounding.

<sup>113</sup> The figures might not add to 100% due to rounding.

Figure 150: How do you expect the number of people employed in your company to change over the next 12 months?<sup>114</sup>



largely the same, while non-exporters have been slightly more cautious with staffing their companies.

Encouraged by the good business year, significant share of exporters expects to further increase the number of employees. Only a small share of both groups expects to dismiss a number of workers, but exporters are more likely to employ than non-exporters (43% vs. 34%).

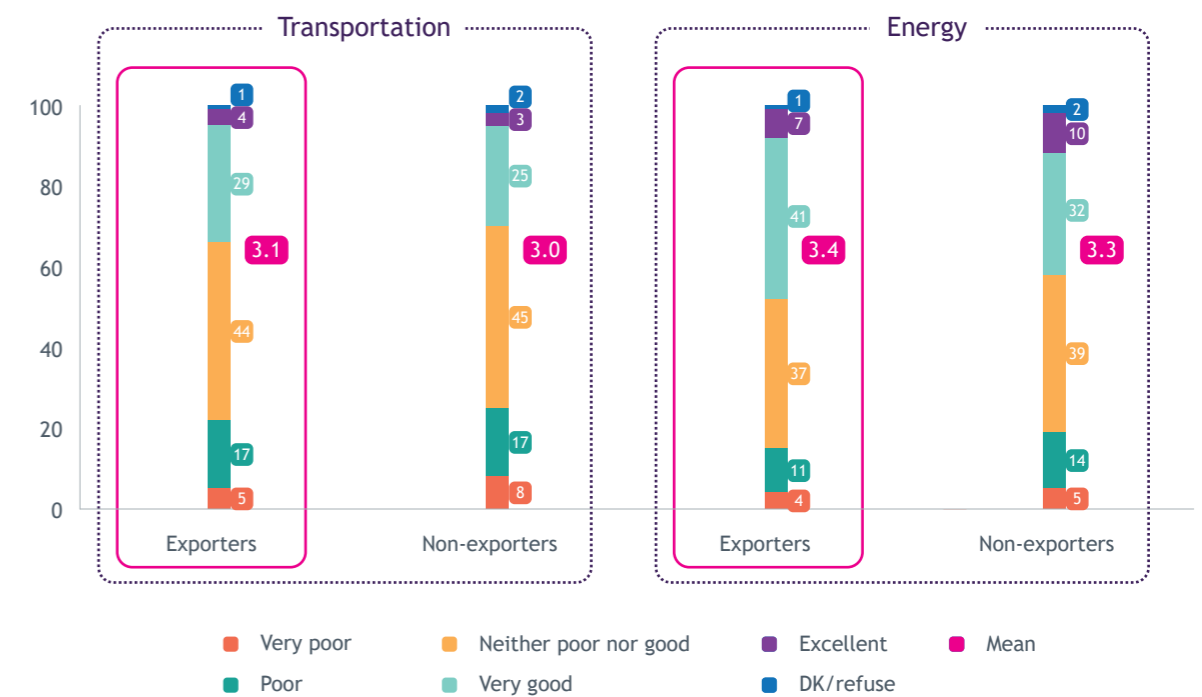
Not much different to non-exporters, export-oriented companies invest highest share of their total investments in fixed assets (47% of total). Also, export companies have reportedly made more strides to tackle their ecological footprint (68%) than non-exporters.

**Business Environment in SEE**

Exporters and non-exporters mostly share the same concerns with almost similar intensities. They are both most concerned about macroeconomic instability (score 2.5), with around 50% of businesses perceiving it as an obstacle. Next come the availability of labour, corruption, taxation administration and rates, and anti-competitive practices of other competitors with the score of 2.7. Also, expectedly, exporters find customs and trade regulations much more bothersome than non-exporters (2.7 vs 3.4).

Exporters tend to assess the changes in business environment as just slightly better than non-exporters. Exporters tend to praise changes in market

Figure 151: Satisfaction with transportation and energy infrastructure<sup>115</sup>



<sup>114</sup> The figures might not add to 100% due to rounding.

<sup>115</sup> The figures might not add to 100% due to rounding.

size and potential, macro-stability and exchange rates and the availability of financial capital in the domestic market more than non-exporters.

Exporters are just slightly more satisfied with transport infrastructure (3.1) than non-exporters (3.0). However, they predominantly see it as neither good nor bad (44% of the exporters), while a third is generally satisfied. Satisfaction with energy infrastructure is generally higher for both, but yet again somewhat higher for exporters (3.4 vs. 3.3). Export-oriented businesses mostly find energy infrastructure as very good (41%). Alike the non-exporters, export-oriented companies would also welcome investments in infrastructure the most (60% of export-oriented companies).

General impression is that perception on public authorities' conduct does not depend on market orientation of the company. If differences do exist, they are only slight and more often positive than negative. Therefore, exporters exert only moderate satisfaction with legal and regulatory framework, as around 50% of them are more or less satisfied with availability, purposefulness, cost and timeliness of information provided by public authorities. Still, only one in five of them strongly believes that governments take their concerns into account.

Exporters more often than non-exporters decide not to take part in public procurements. Reportedly 28% of the export-oriented companies, compared to 17% of non-exporters, decided to withdraw from public procurement procedure, although they could have offered the goods and services solicited. Those exporters who decide not to participate most frequently doubt tenders' legitimacy (almost 50% of those that have decided not to participate), similar to non-exporters. Looking at the revenue sources, the public procurement share of the turn-

over is almost the same for exporters (13%) and non-exporters (12%).

Exporters, more often than non-exporters, tend to be in contact with public procurement agencies, mostly about technical specifications for goods or services that agencies intend to purchase. Also, exporters tend to rely more on guidelines and manuals that national procurement authorities create (43% vs. 35%) and they find them more useful (score 3.4 vs 3.2). The same goes for standard forms (61% vs. 44%) and training in public procurement (26% vs. 16%).

When it comes to cumbersome and obstructive regulation, exporters cite the same regulatory problems as non-exporters. They most often report tax and employment regulations (39% and 18% respectively), when multiple answers are allowed. Closely behind are minimum wage regulations, trading standards and health and safety, just alike non-exporters.

**Accessibility of Loans**

Apart from relying slightly more on commercial banking sector, there are no substantial differences between exporters and non-exporters when it comes to financing their investments and everyday operations.

The same as non-exporters, 58% of exporters' investments and working capital funding comes from internal sources - retained earnings. Commercial banking sector accounts for 17% for exporters, and 14% for non-exporters. Reliance on equity, trade credits or loans from family and friends is only sporadic.

One in three exporters, compared to one in six non-exporters, decided to apply for a loan during

the past 12 months. Compared to last year, taking loans seems to be slightly less common (in 2017 around 40% of exporters and 25% of non-exporters decided to take a loan). Nevertheless, the loan was not approved in only 5% of the cases when exporters applied for it, compared to 14% when the applicants were non-exporters.

**Corruption**

Slightly more than 50% of SEE exporters believe that unofficial payments are not necessary for fostering their businesses (score 2.3). Moreover, compared with non-exporters, these results are largely the same.

Figure 153: Thinking now of unofficial payments/gifts that companies like yours would make in a given year, could you please tell me how often they would make payments/gifts for the following purposes? (Exporters only)<sup>117</sup>

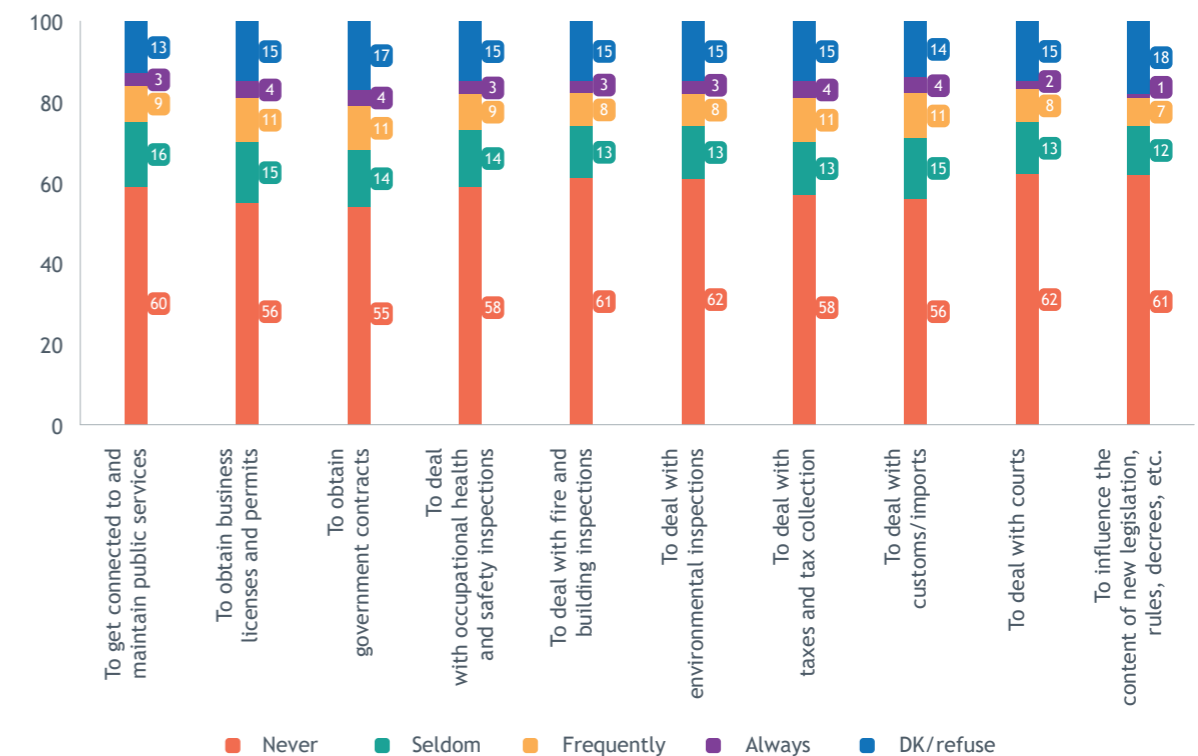
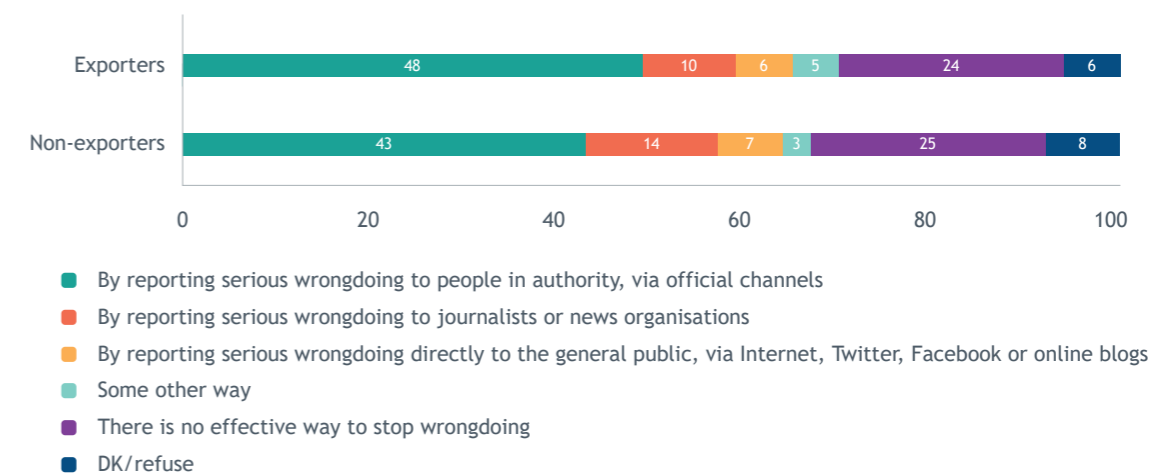
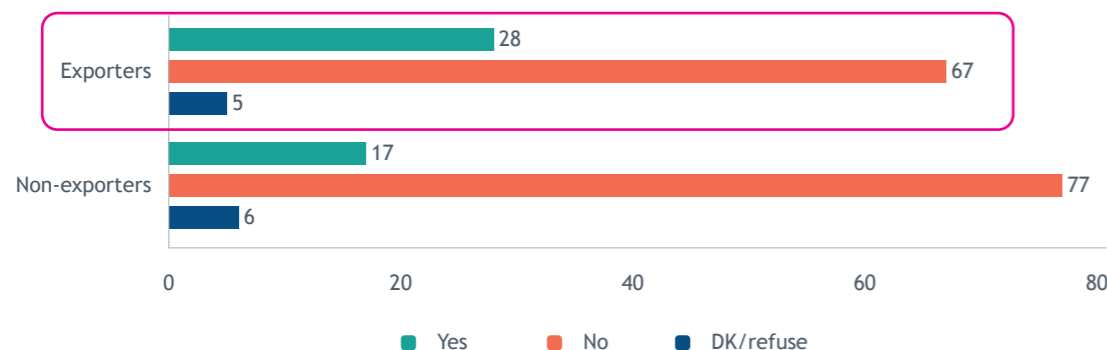


Figure 154: In different societies, there are different views on the most effective ways to stop wrongdoing. Which one of these do you think is the most effective way in your society?<sup>118</sup>



116 The figures might not add to 100% due to rounding.  
 117 The figures might not add to 100% due to rounding.  
 118 The figures might not add to 100% due to rounding.

Figure 152: In the past three years, has your company decided not to take part in a public tender or a public procurement procedure even though you could have offered the goods or services solicited?





When asked about specific topics, exporters tend to report public authorities' misconduct slightly more often than non-exporters. Still almost 60% of exporters on average report that unofficial payments never happen.

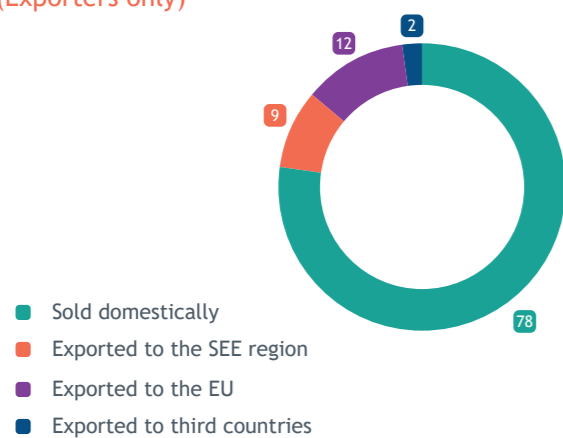
Exporters put somewhat more faith in official channels when dealing with corruption (48%) than non-exporters. Moreover, public authorities have gained some credibility among exporters since 2017, as the share of those who would report misconduct to them increased by 8 points.

**Trade and Investment**

Exporters are more willing to invest abroad than non-exporters, although this type of investment is not that common in SEE (slightly less than 10% of SEE companies reported to have invested abroad). The share of export-oriented companies of 12% is substantially larger than non-exporters' 3%, but nevertheless the share of exporters shrunk significantly compared to 2017 (22%).

Export-oriented companies usually invest in the SEE region (56%) and EU (45%), prevalingly to access new markets and integrate into the company's value chain, while cost reduction comes third. Companies that decide to invest, usually focus on physical infrastructure (4.2), tax rates (4.2), and talent and skill of labour force pool (4.2). Interestingly, they care much more about the aforementioned labour force pool than about its cost. Also, they put much importance on market size and potential, political stability and innovation capacity (all 4.1). Access to land or real estate seems to bear the least significance (3.5),

Figure 155: What percentage of your company's sales are made domestically, exported to the SEE region, the EU or to the third countries? (Exporters only)<sup>119</sup>



<sup>119</sup> The figures might not add to 100% due to rounding.

but it is nevertheless important for 57% of export-oriented investors.

Exports account for 22% of the SEE exporters' total sales. Most of the export turnover comes from the EU (12%), but the region stands relatively close as well (9%). Export to third countries is almost negligible - 2%. When exporting to the region, need to hardcopy documents represents the most significant obstacle.

Exporters are also importers more often than non-exporters. Around three quarters of export-oriented companies also import their inputs, while non-exporters rely more on domestic markets (less than 10% of them import).

Customs do not seem to be too much of an obstacle, since more than half of exporters clear through in less than 2 days, in both cases - export of goods and import of materials.

Around a third of the SEE export-oriented companies feel threatened by global and regional competition. Nevertheless, almost 80% exerts high confidence in their products and services, since they believe that their products can be competitive on those markets.

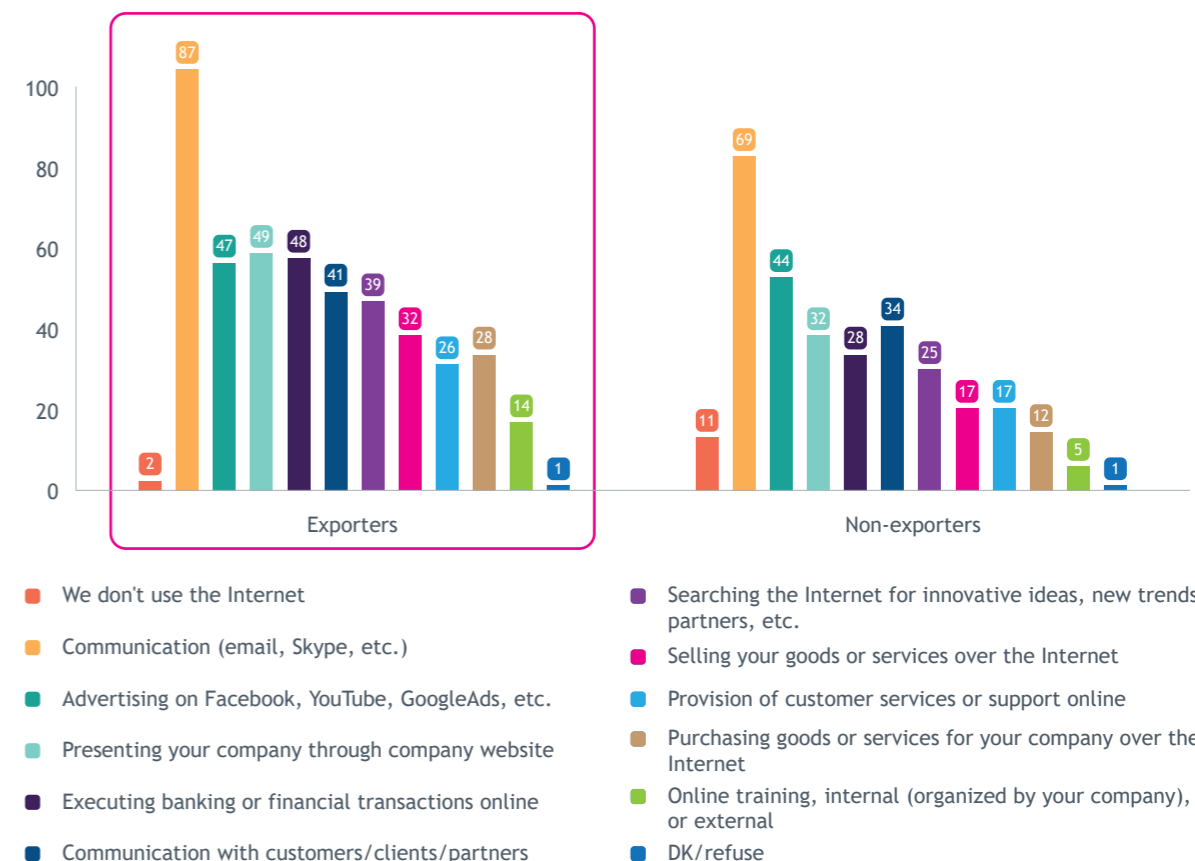
Exporters are generally informed about the CEFTA free trade agreement (only 22% of them are not informed at all), and slightly more than half of them has felt some type of benefit from it. Moreover, larger share of SEE exporters feels that it is easier to export to SEE region (23%) than to the EU (16%), while as much as 24% could not tell the difference.

Executives of domestic market-oriented companies more firmly believe that domestic companies should be given advantage as suppliers for public procurements (79%) than export-oriented companies (69%).

**Innovation and Technology**

Conducting everyday business without the use of Internet is unimaginable for almost all export companies. Large majority of companies oriented to domestic market is dependable on the Internet as well, but still much higher share reported not using Internet at all (11% of non-exporters compared to only 2% of the exporters). Moreover, intensity of usage across various purposes is considerably higher among exporters. Most notable differenc-

Figure 156: Does your company use Internet for...?



es in using the Internet are online executing of banking transactions (48% of exporters and 28% of non-exporters), communication (87% of exporters and 69% of non-exporters), presenting company through an online website (49% of exporters and 32% of non-exporters). Also, exporting companies use the Internet for online sales more often (32% of exporters and 17% of non-exporters) and purchases of inputs (28% of exporters and 12% of non-exporters). Higher share of Internet users among exporters also reflects in generally higher share of sales generated through online sales.

Majority of exporters (89%) is satisfied with Internet connection, and only 22% of them reported to have had some issues, mostly viruses. Compared to last year, this represents solid improvement, since 36% of exporters reported having problems in 2017. Most important factors are still internet speed and reliability of connection, while price plays a minor role.

Export companies tend to be more innovative than non-exporting companies. Although declining, from last year's 51%, still 44% of exporters reported introducing improved product or service, while that share among non-exporters is consider-

ably smaller (30%). Exporters are also more likely to engage universities in these processes (11% of exporters and only 4% of non-exporters).

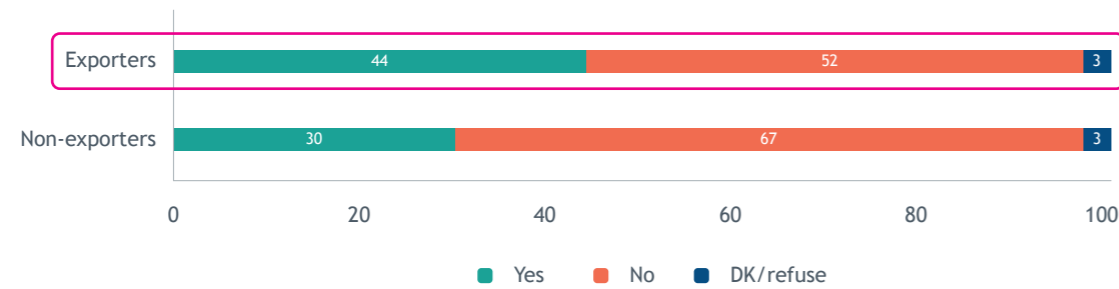
Among these improved products, innovations that are recognised as first in the company's respective economy are more common among exporters (29%) than among non-exporters (13%). Innovations on the European level are extremely rare among exporters (3%), while among non-exporters no executive reported such an undertaking.

Process innovations are also more common among exporters (34%) than among non-exporters (23%). Also, they are introduced and developed similarly to product and service innovations.

**Skills Needs**

Due to higher reliance on the Internet in general, export companies tend to improve digital skills of their employees much more often than non-exporters (around 60% of exporters have reported providing additional digital skills to employees, while only around 40% of non-exporters reported so). Most often, skills were provided through on-

Figure 157: Have you introduced new or significantly improved products and/or services in the last 3 years (2016-18)?<sup>120</sup>



the-job training or some other form of internal training.

Partially due to higher demand for labour force, 42% of export-oriented companies' executives reported hard-to-fill vacancies. This problem is common for non-exporters as well, but on a smaller scale (33%). The most common reason why job vacancies are not filled quicker – according to exporters' executives – is that applicants lack appropriate skills.

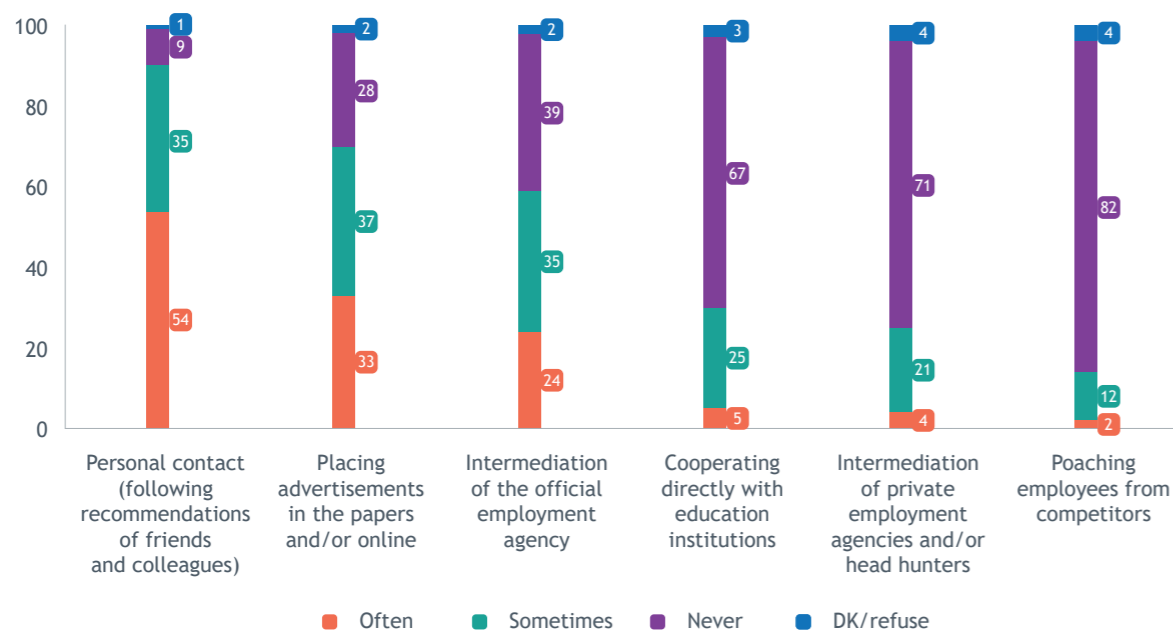
Employment Practices

Reliance on personal contacts remains the most frequently used channel to fill job vacancies among both exporters and non-exporters (almost 90% of their managers reported using it at least sometimes). Second most common channel is re-

cruiting new employees through papers and on-line advertisements (70% of exporters and 65% of non-exporters). Exporters tend to rely more on both public and private employment agencies (59% public and 25% private) than their non-exporter peers (44% public and 19% private). Attracting new employees directly from education institutions is also a common practice for 30% of exporters, while poaching from competitors is equally (non) widespread among both exporters (14%) and non-exporters (12%).

Around two thirds of both exporters and non-exporters would retain the same number of employees, even if there were no restrictions. The share of those who would increase the number of employees is slightly higher for exporters (26%) than for non-exporters (23%).

Figure 158: How often do you use the following when hiring new employees? (Exporters)<sup>121</sup>



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

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

Figure 159: How likely would you employ workers from abroad / the SEE region in your company? (Exporters only)

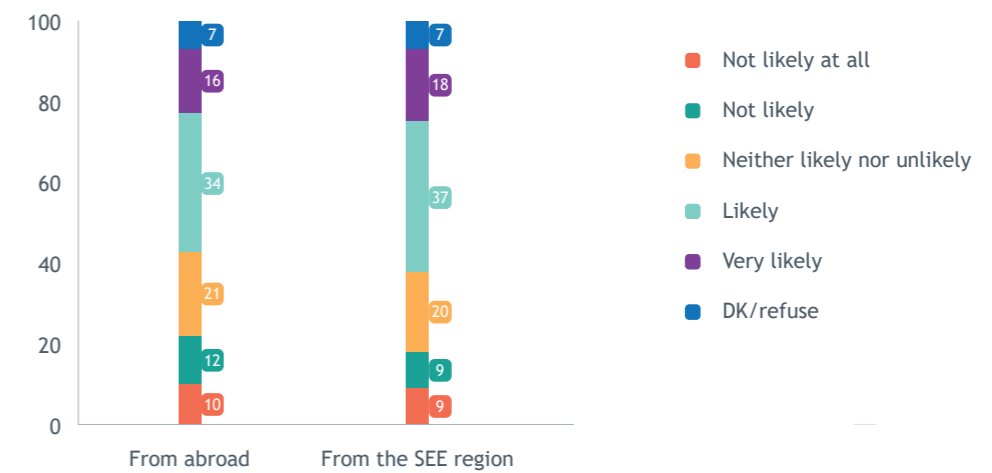
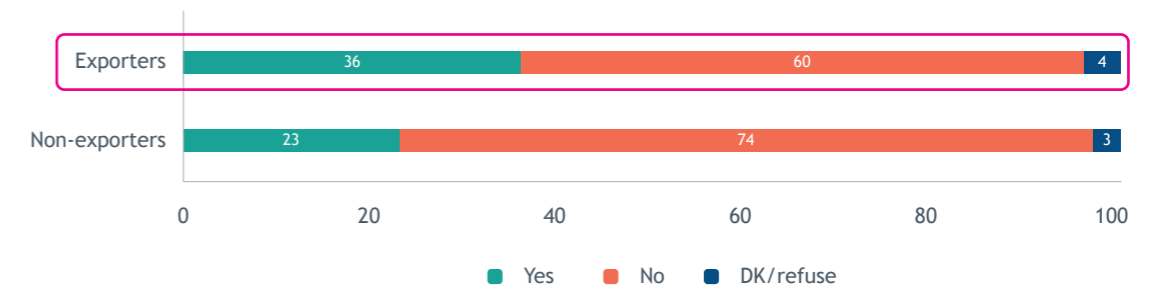


Figure 160: Over the past 12 months, has your business funded or arranged any training and development for staff in the organisation, including any informal on-the-job training, except training required by the law?



Exporters are reportedly less choosy when it comes to picking employees from vulnerable social group. They are more likely to employ a Roma person with adequate skills, as reported by 70% of export companies' executives. Also, only one in ten of them feels that Roma person would have a negative impact on the working environment or sales. Moreover, persons with disabilities and refugees are more often employed in exporting companies (13% and 16% respectively) than in non-exporting companies (5% each).

Gender discrimination exists in exporting companies as much as in non-exporting companies. A third of exporters' managers indicated that gender preferences do exist, and that men would be hired more often (24%) than women (12%).

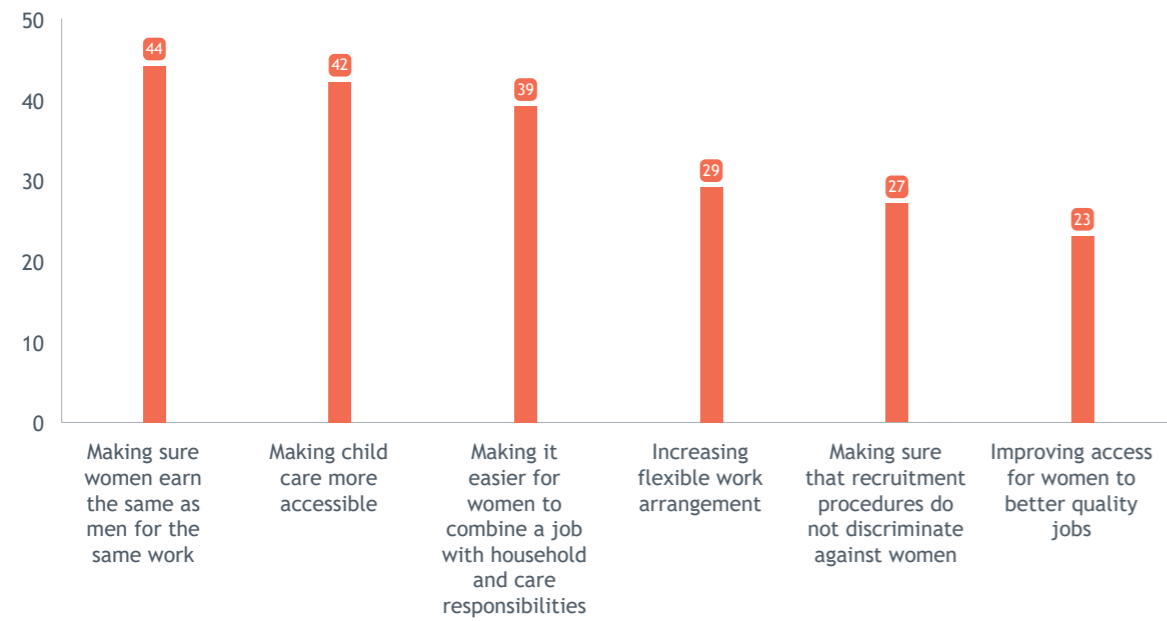
Export companies are generally much more open to workers from abroad (50%) than non-exporters (32%). Likewise, they are even more open towards employing workers coming from the SEE region (55%) than non-exporters (37%). Workers from Serbia, the Republic of North Macedonia and Bosnia

and Herzegovina seem to be the most desirable among the exporting companies from the region.

Investment in Employees

In order to improve their competitiveness, export companies more often arrange additional training for their employees. More than a third of exporters reported to have organised supplementary education for their workforce, compared to just 23% of non-exporters. Additionally, more than half of exporters (53%) perceive their workers as willing to acquire new skills, compared to 47% of non-exporters.

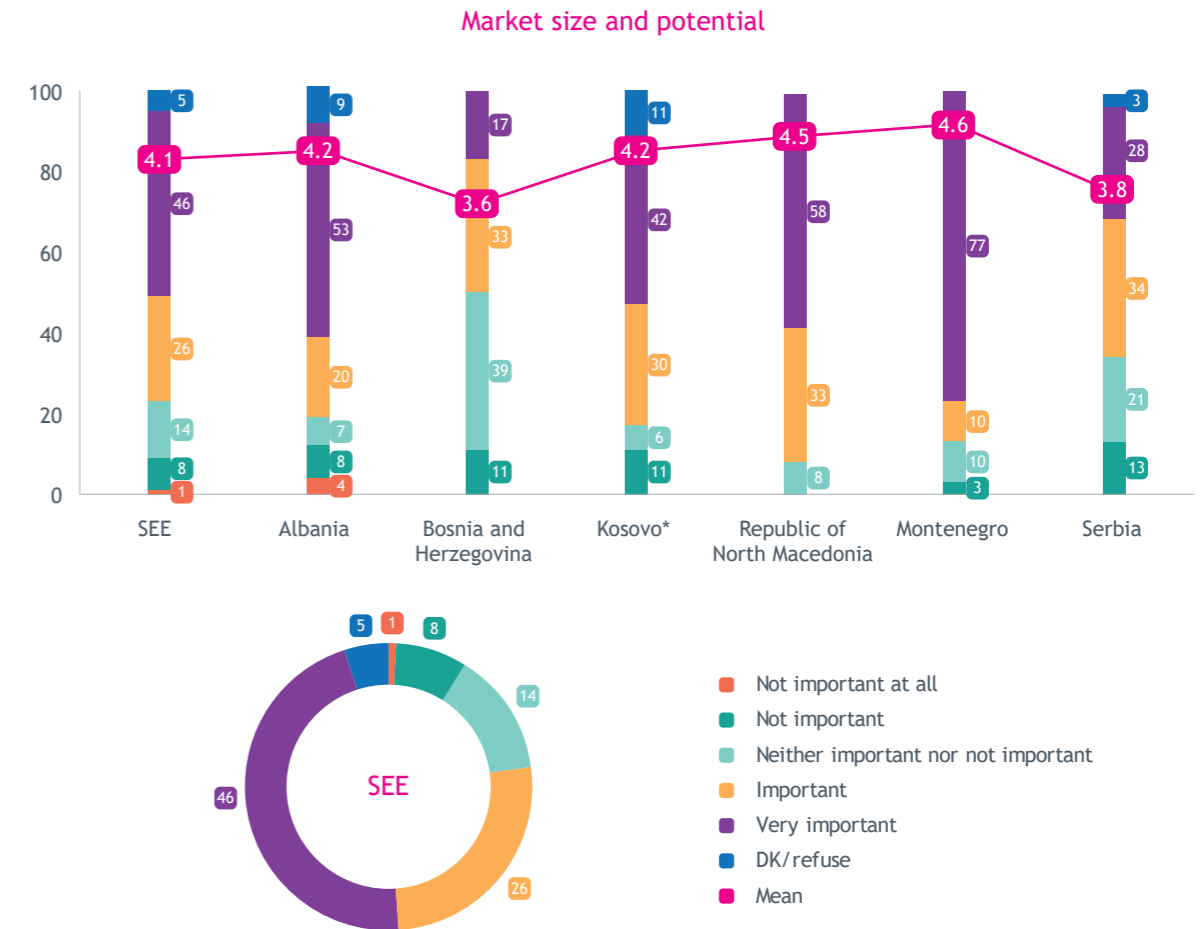
Figure 161: In your opinion, what are the most effective ways to increase the number of women in the labour market? (Exporters)



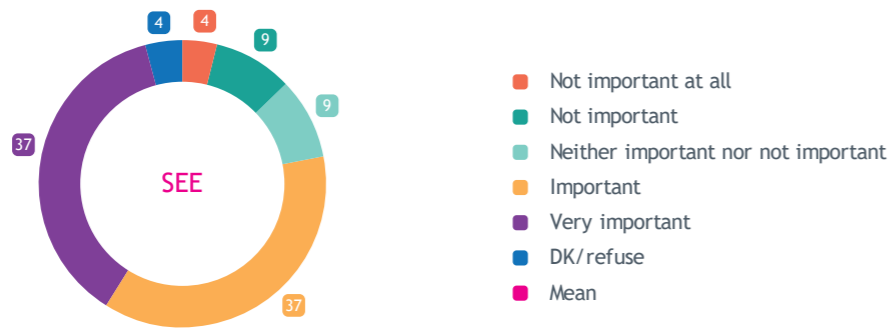
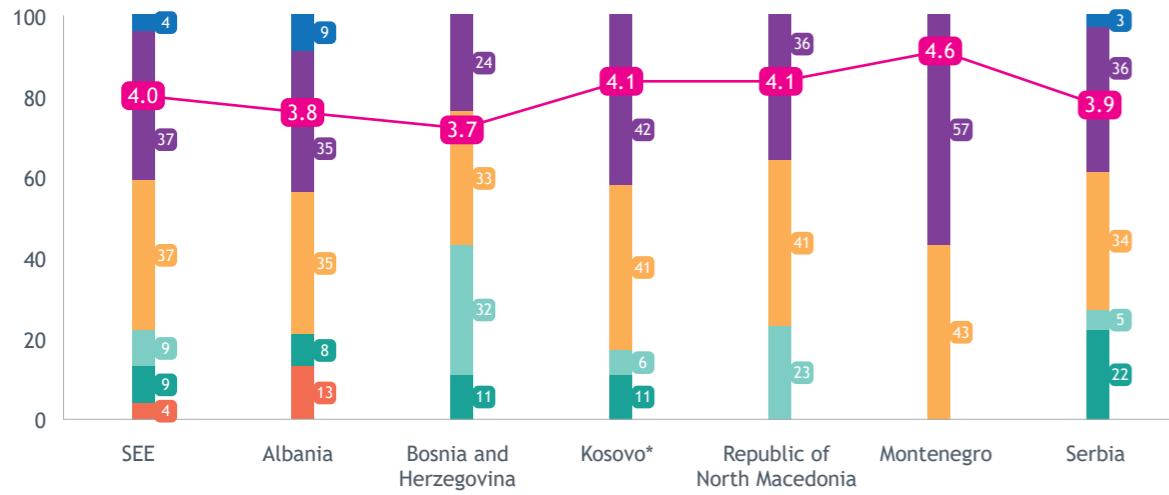
In order to enhance participation of women in the labour market, export companies' executives feel that removing gender pay gap would be the most effective, along with making childcare more accessible and making it easier for women to attain balance between career and household responsibilities.

# APPENDIX

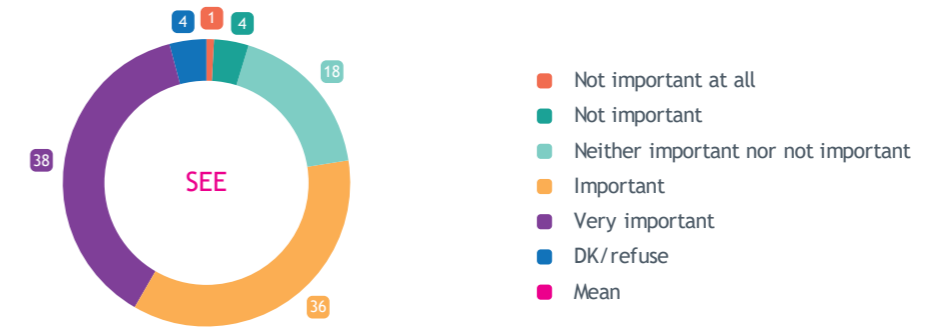
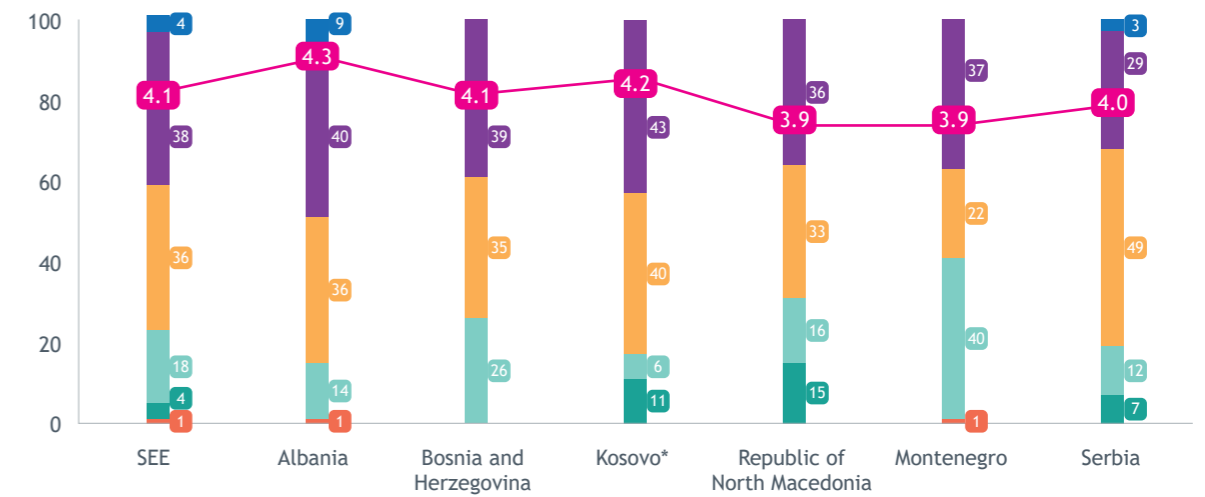
Figure 162: In the process of choosing where to invest abroad, how important were the following factors? (Only Albania has sufficient sample size - 37)



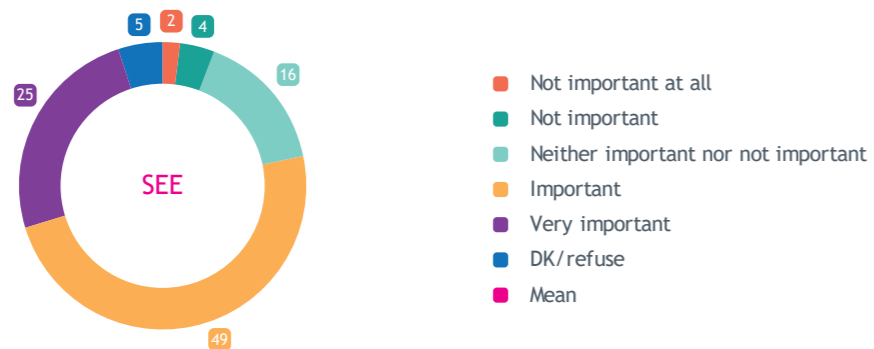
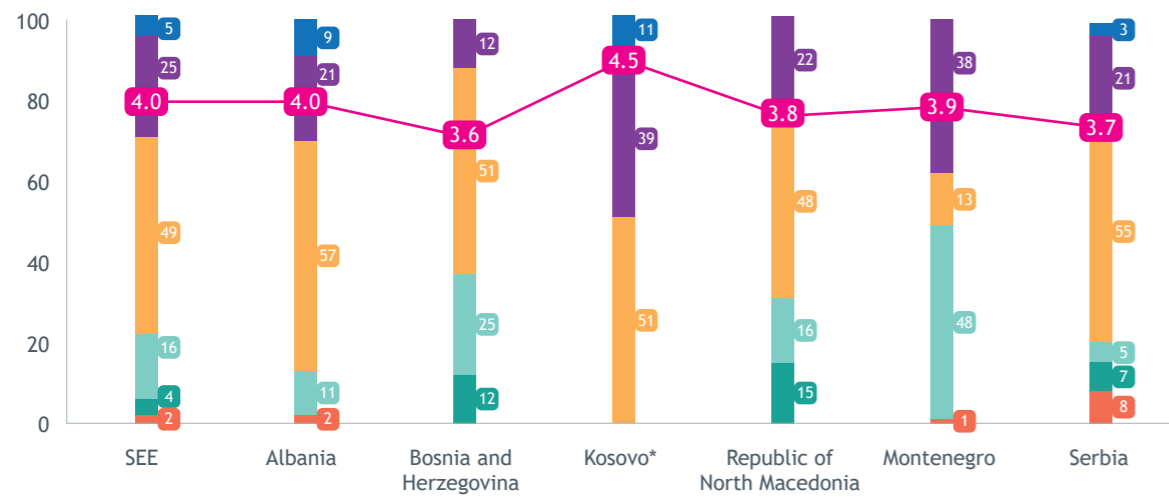
Macro-economic stability and favourability of exchange rate



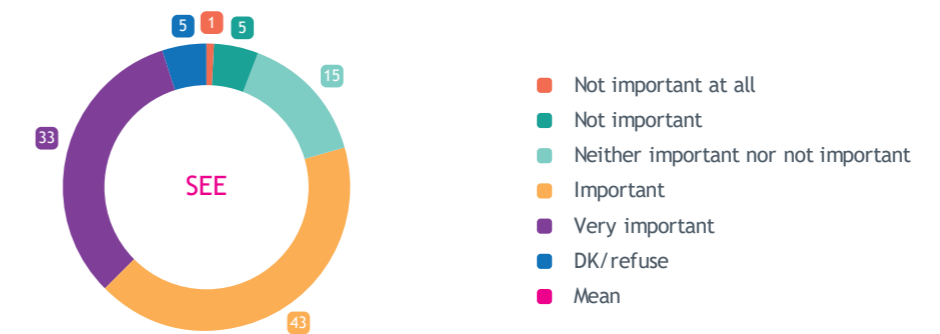
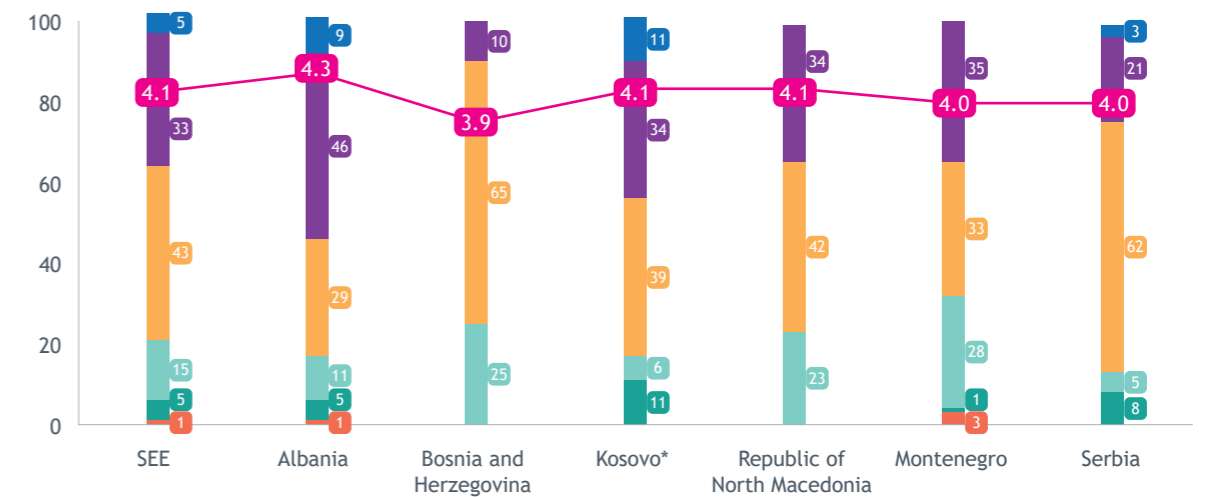
Talent and skill of labour pool



Labour force cost

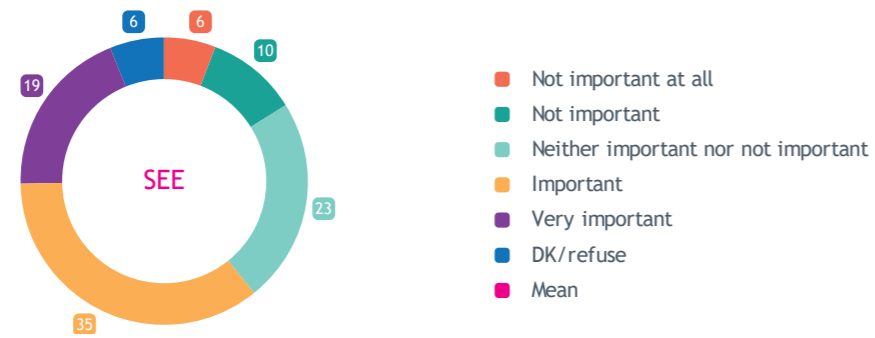
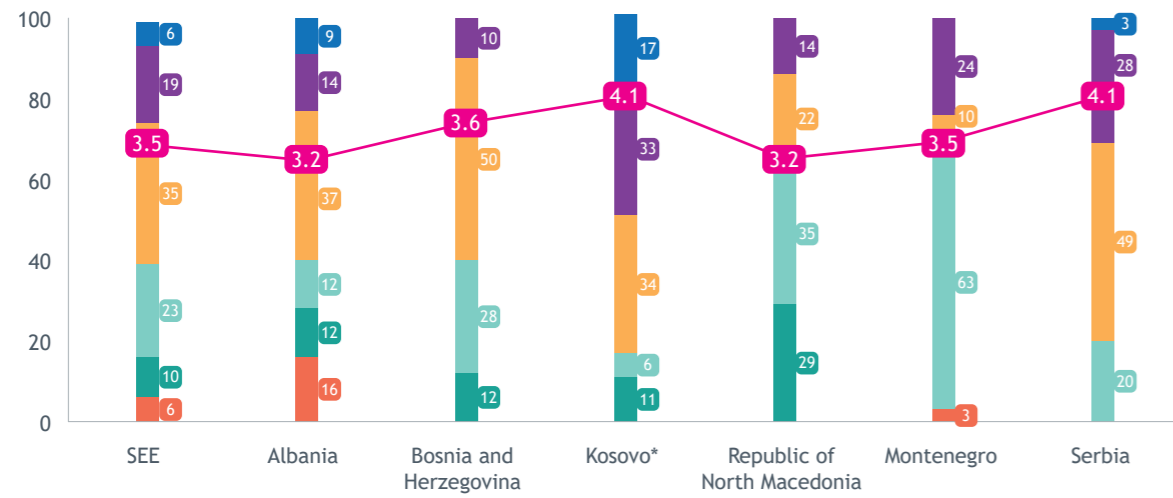


Physical infrastructure

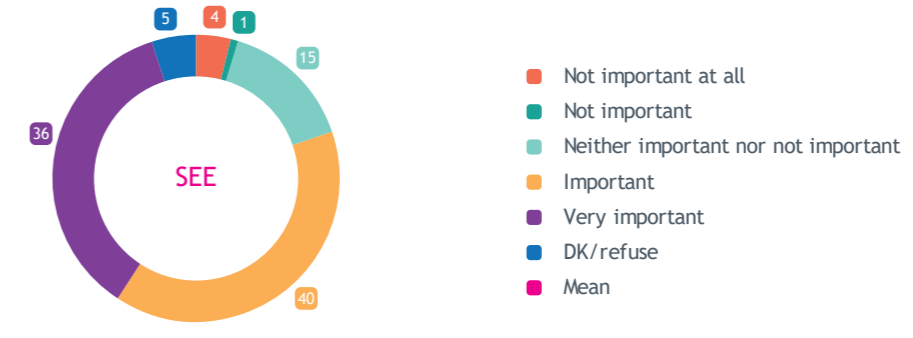
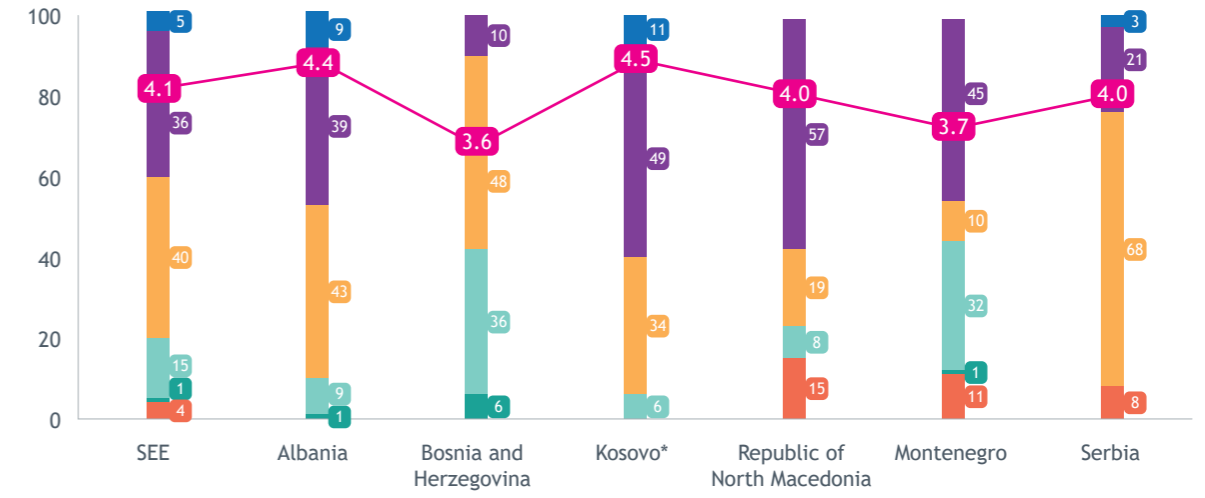




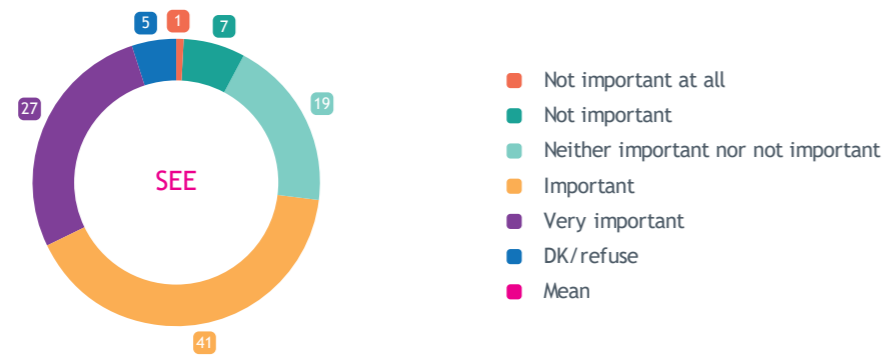
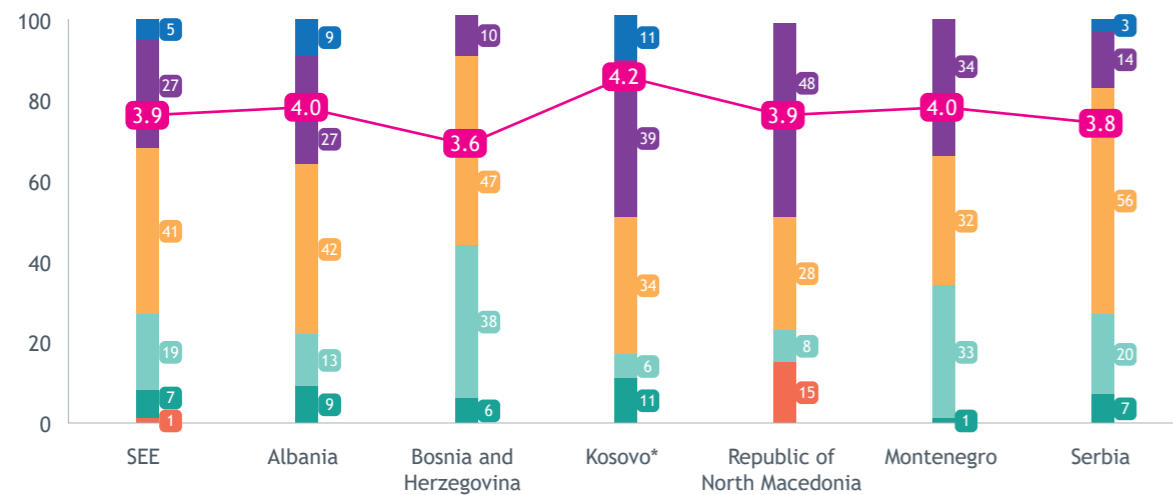
Access to land or real estate



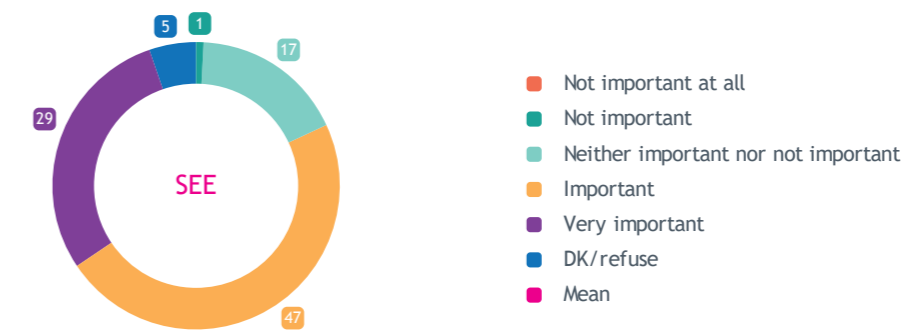
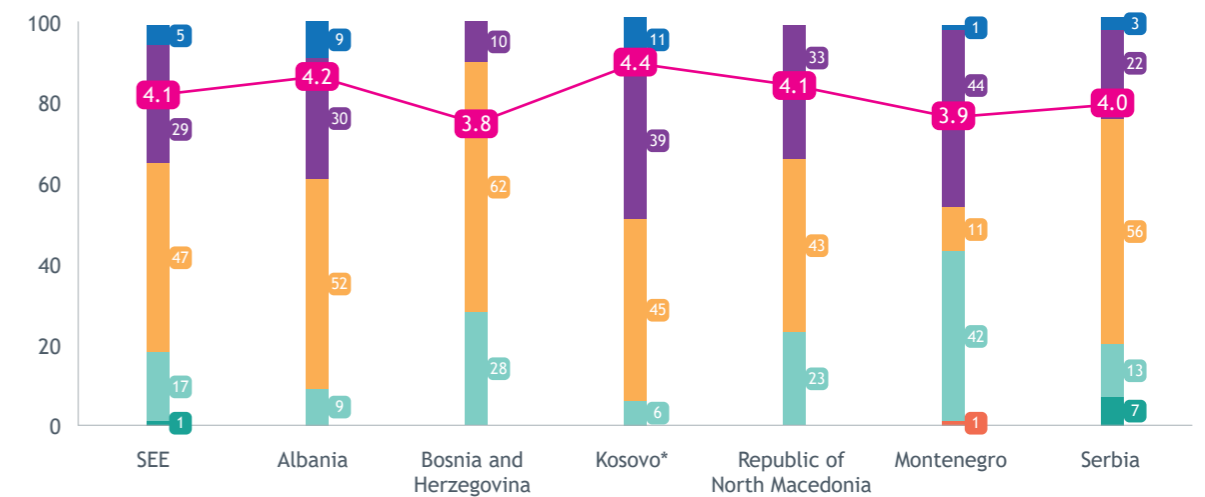
Political stability and security



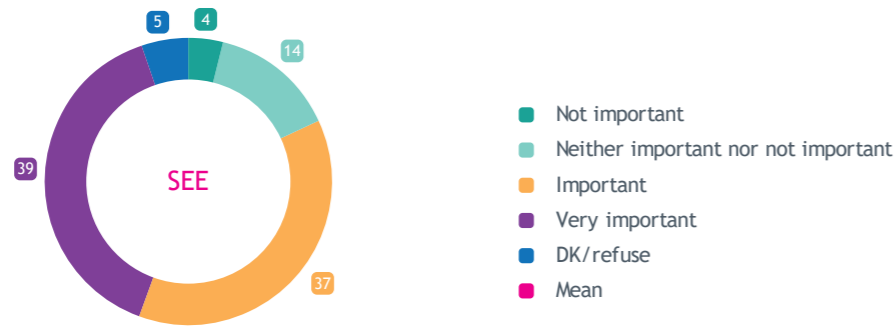
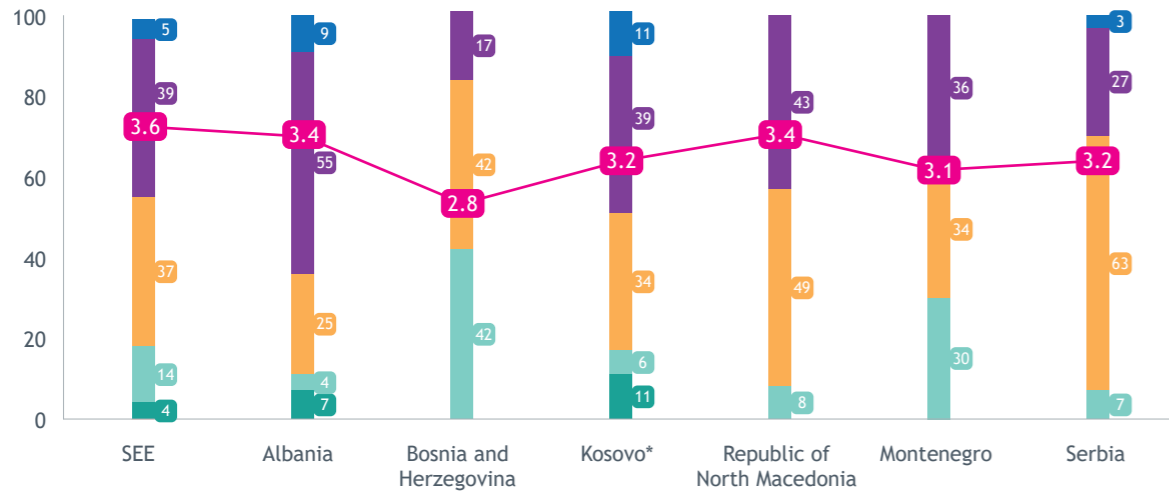
Availability of financial capital in the certain market



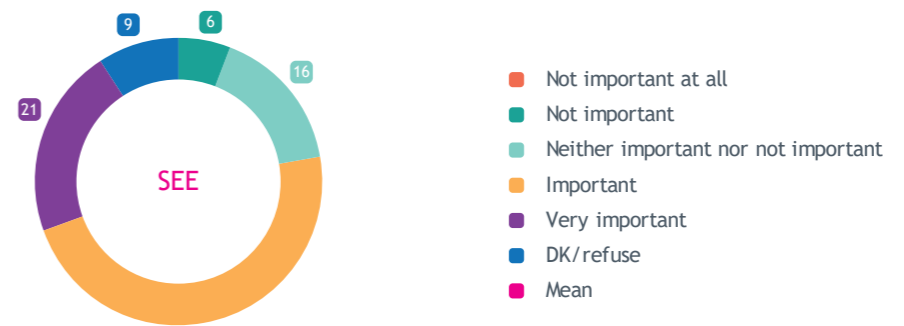
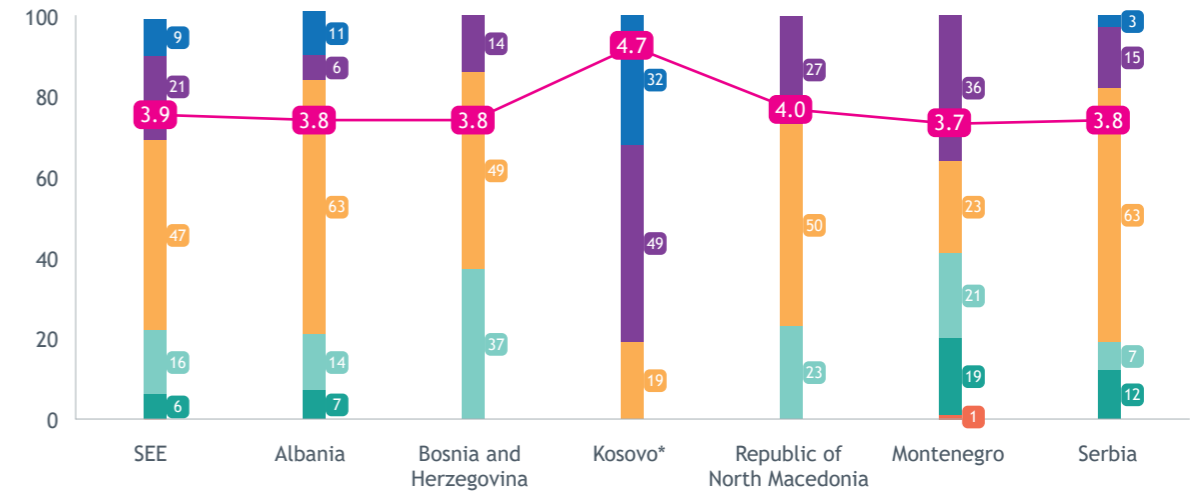
Technological innovation and capabilities



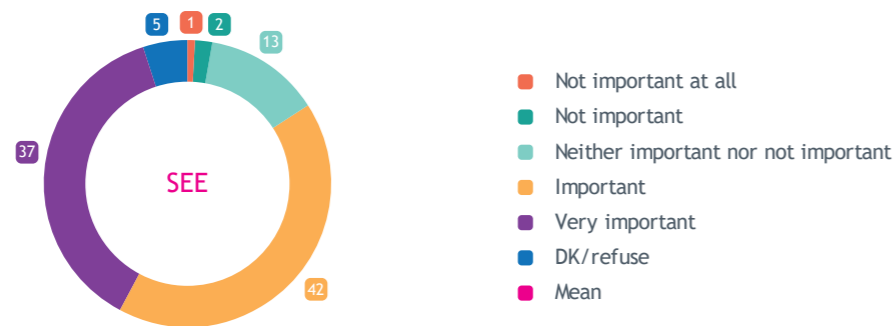
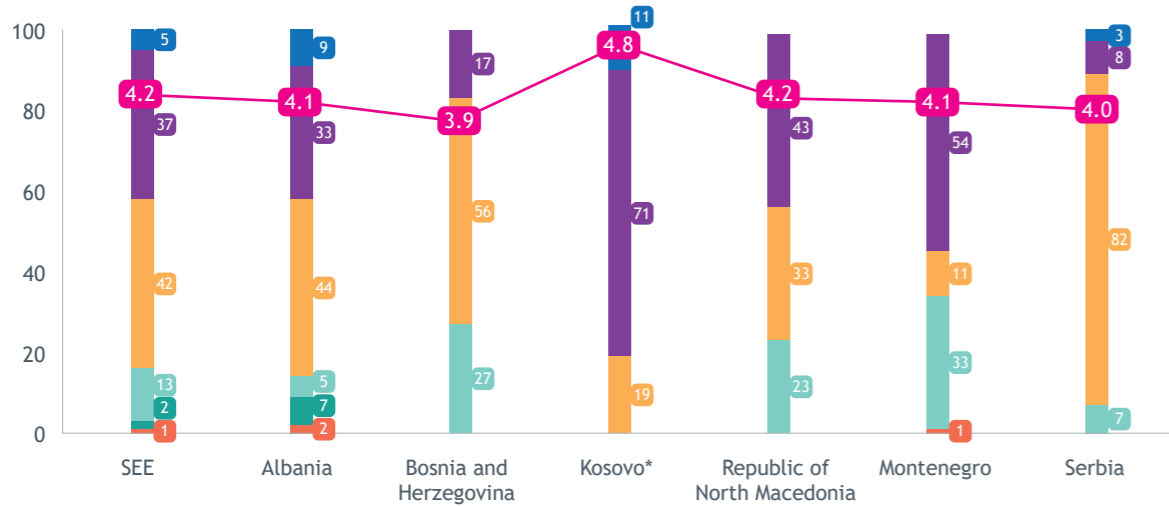
Tax rates



Availability of linkages with local firms



Business-friendly legal and regulatory environment



# CONCLUSIONS AND RECOMMENDATIONS

As has now been firmly established through all five iterations of the Barometer, day-to-day political developments shape business attitudes for better or worse. That has been evident over the past year in the Republic of North Macedonia where developments in economic, social and political spheres were perceived much more gloomily than warranted by relevant statistics.

Transparency, accountability and responsibility must therefore become more than just talking points but rather building blocks on which the business of politics is conducted. While an admittedly ambitious objective, responsible politics, along with better governance and stronger rule of law, would also help greatly reduce the overwhelmingly negative perception of democratic institutions, and their representatives, throughout the region. Structuring a more efficient and effective public-private dialogue for regular consultations on economic reforms could be a step in the right direction, enabling a more stable and predictable regulatory and business environment. Efforts on digitalisation of public services is another key step in increasing accessibility, reducing transactional costs and removing discretionary decision-making, an entry point for corrupt practices.

Demand for labour has been steadily growing and is expected to grow further over the coming year, as indicated by the respondents in this year's survey. However, a steady outward migration and a large economically inactive population require more engagement by the region's governments in activating and mobilising more people, and women in particular, into the workforce. Harnessing the considerable potential of Western Balkans diaspora in the economic development could provide an important avenue for further internationalisation of the region's private sector, still predominantly focused on small domestic markets.

Growth in exports has been one of the key driving forces of economic development of the region. The region's policymakers should pursue this driver of growth further, through renewed efforts in both intra-regional and extra-regional trade

and investment integration. The creation of the Regional Economic Area in the Western Balkans could provide a much needed boost in this segment and help prepare the businesses better for the competitive pressures of the EU market. Further awareness raising of the benefits of openness, integration, and mobility should thus be pursued.

The region's businesses continue to be overwhelmingly positive about their business situation and optimistic about the future outlook. They are also more supportive of both EU integration and regional cooperation than any other section of the region's societies, as they move much quicker in seizing opportunities at home and abroad. An increasing number of firms are making the Western Balkans and the EU an integral part of their growth strategies. Clear political support and concrete measures to ensure improved regional cooperation and stepping up the EU integration process will be an essential determinant of success of these growth strategies.

# NOTES 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 Ipsos. Some adjustments and preparations were necessary for the successful implementation of the survey:

## Questionnaire

The questionnaire was provided by 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 Republic of North Macedonia where questionnaires in two different languages were also used. 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' tablets. The programme was reviewed by a competent person in each economy.

## Interviewers

The survey was conducted by Ipsos in all economies. All interviewers were given written instructions containing general description of the questionnaire, contact details of selected companies and scheduled time of the interview. In addition to providing written instructions, Ipsos has organised a training for interviewers to explain research goals. Moreover, project coordinators examined the entire digital questionnaire jointly with the examiners and emphasised some important elements (especially the need to read individual answers where one or more answers were possible, etc.).

## Sample

A Business Opinion Survey was conducted on at least N=200 companies for each economy, with the total of 1271 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 areas (21 business fields according to NACE classification);
- companies which are not majority publicly owned or by government;
- companies established earlier than 2015.

**It is important to note that the data were weighted based on the region, size of company and sector, according to the official data provided by national statistical offices.**

## Interviewing Procedure

Before the main part of the fieldwork, i.e. interviews with business respondents, Ipsos 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 six economies were used as data source. The selection was completed before the first phase of fieldwork, enabling interviewers to receive lists of companies to be contacted.

### 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 organised. 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 mentioned 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 163: Sample structure by respondent's position

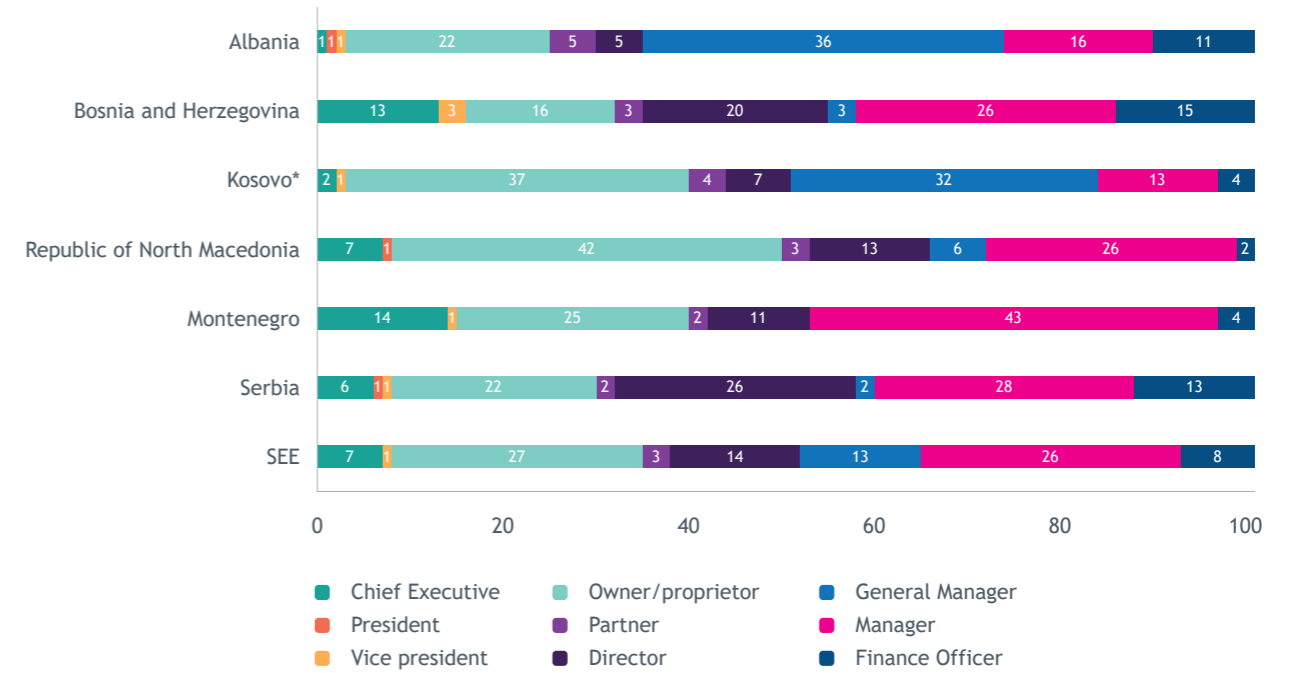


Figure 164: Sample structure by number of employees

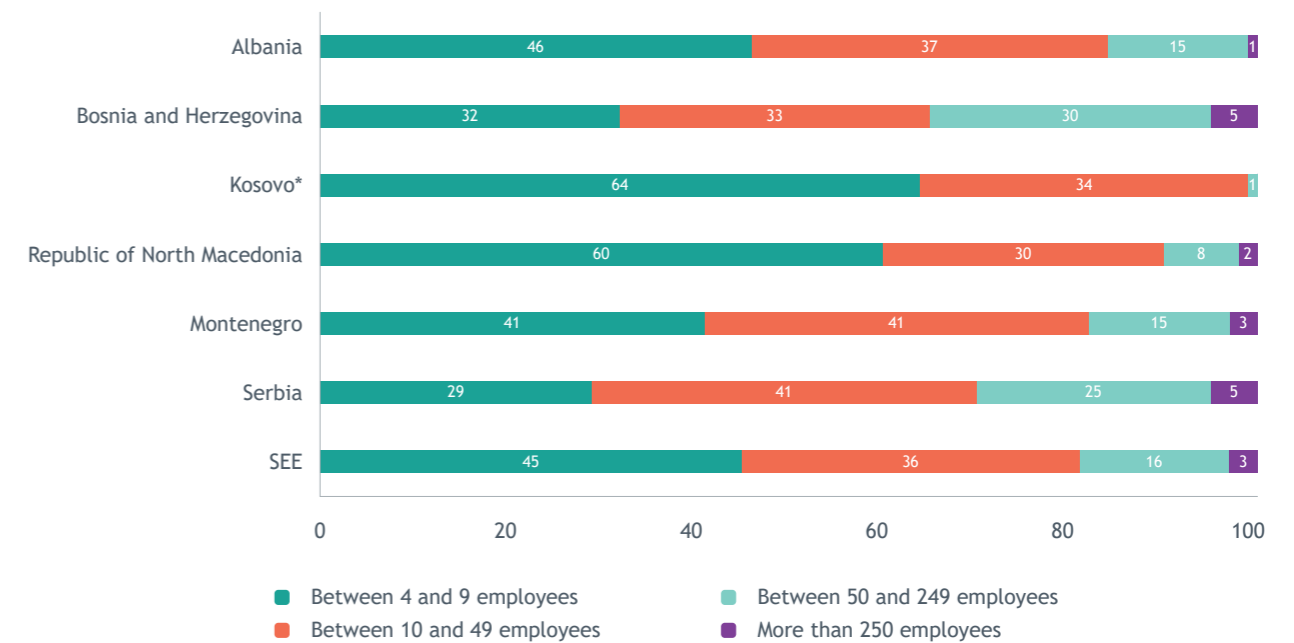




Figure 165: Sample structure by largest shareholder



Figure 167: Sample structure by ownership

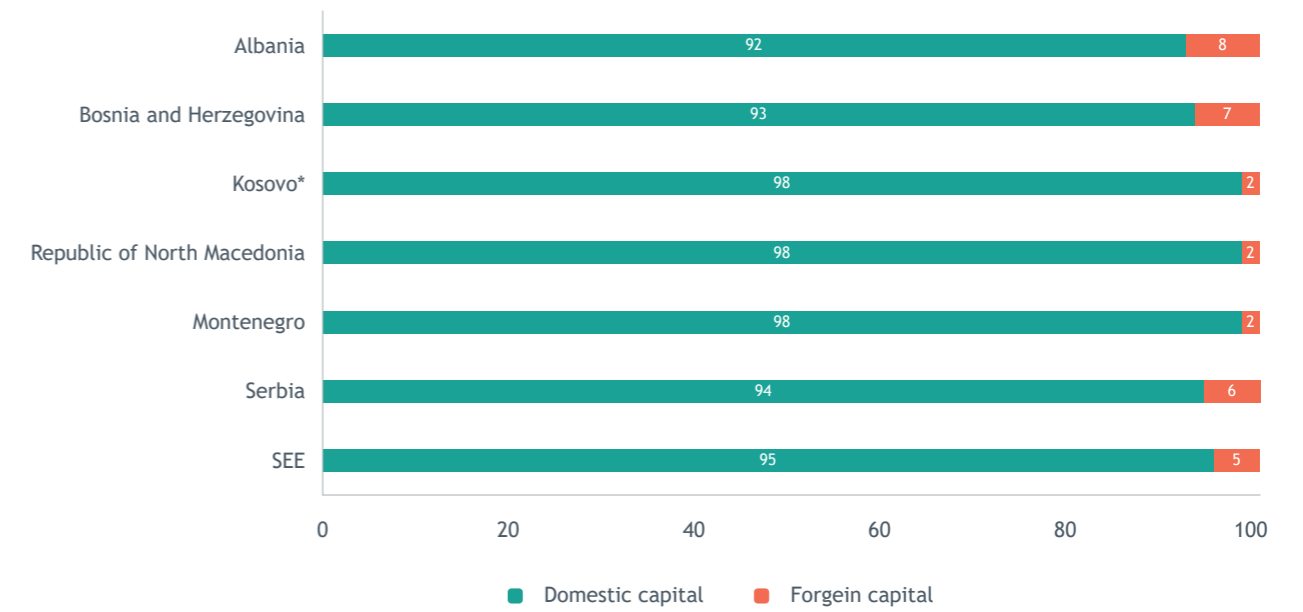
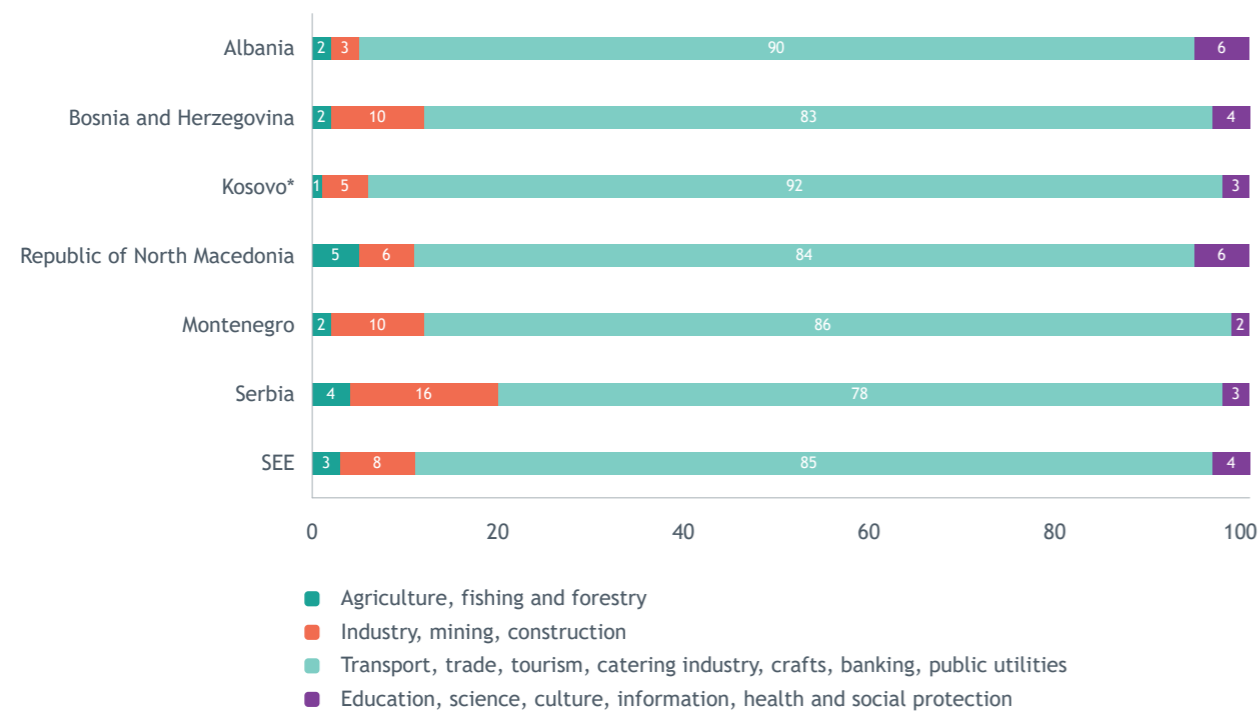


Figure 166: Sample structure by business area







RegionalCooperationCouncil



@rccint



RegionalCooperationCouncil



RCCSec



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