



BUSINESS OPINION SURVEY

# Balkan Barometer 2017



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SEE 2020 SERIES

# Balkan Barometer 2017

Business Opinion Survey

Analytical report

Group of authors - GfK

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Regional Cooperation Council Secretariat (RCC)  
Sarajevo, 2017

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## Foreword



In 2014, the Regional Cooperation Council (RCC) first commissioned a comprehensive perception survey, the Balkan Barometer, targeting the region's population and its business community. The primary purpose of the survey was to assess the perceptions of regional trends and processes as part of the monitoring and reporting mechanism for the SEE 2020 Strategy, an ambitious blueprint for the region in years to come.

It is with a sense of great pride and pleasure that I give you the Barometer's 2017 edition, the most recent examination of attitudes, experiences, aspirations, perceptions and expectations across the seven economies of the SEE 2020 process.

While the Balkan Barometer remains an instrumental element of the SEE 2020 monitoring process, the usefulness and timeliness of its data, now set against a wealth of baseline data, provide ample openings for analysis that transcend the confines of the 2020 Strategy. The ability to observe the evolution of socio-economic trends across a number of years represents an unprecedented opportunity to develop fact-based policy and observe its effects on the region and its individual economies. The value of data generated through the Barometer is not restricted to policy elites alone. Civil society actors, the media, as well as the general public now benefit from reliable statistics on regional trends and perceptions. This year's Barometer brings mixed news. While there is further evidence of economic recovery across a number of the region's larger economies, unemployment remains the chief concern. Worryingly, the Barometer highlights the ever-growing anxiety over corruption. In 2015, 15% rated corruption as one of the key problems for the region. The number was up to 27% in 2016 and is now at 32%.

Likewise, the perception of traditional democratic institutions, for reasons both complex and manifold, leaves much to be desired in terms of both performance and public confidence. Furthermore, despite notional support for European integration, there continues to be widespread scepticism about the region's short to medium term accession prospects. At the same time, an upturn in economic performance by the region's economies has brought about an increasingly optimistic outlook for the future that needs to be solidified through decisive government action.

Business people continue to struggle with what they see as complex taxation and an unfriendly business environment with an unpredictable legal system. As in previous years, both groups of respondents express markedly more confidence in themselves or their businesses, than in their economies.

Goran Svilanovic, PhD  
Secretary General

While it's hardly news that the region has much work to do, our hope is that the Barometer's findings will help set the agenda that will ultimately spur further growth in the region. As in 2016, this year's edition of the Balkan Barometer includes an addition to the seven regional economies. This year, it's the survey of the public and the business community of Turkey with the idea to enhance understanding of the similarities and differences between Turkey and the SEE 2020 economies and the explicit aim of bringing these markets closer together.

The preparation of this publication has involved the dedication, skill and efforts of many individuals, whom I would like to thank. I hope that you will enjoy reading the report and will benefit from its findings.

# Introduction

The 2017 Balkan Barometer represents yet another instalment in the series of annual public opinion surveys commissioned by the Regional Cooperation Council to collect and analyse data across a host of thematic areas, examining aspirations and expectations of the region's populations and its business community on life and work, prevalent socio-economic and political trends as well as regional and European integration, among others.

With its baseline expanding with every new edition, the Barometer is now a critical part of the monitoring framework for the SEE 2020 Strategy, an ambitious regional agenda adopted in 2013 by the Ministers of Economy of the seven regional economies (Albania, Bosnia and Herzegovina, Croatia, Kosovo\*, Montenegro, Serbia and The Former Yugoslav Republic of Macedonia). Mirroring its EU counterpart, the Strategy aims to grow prosperity and promote job creation in the region while fostering cooperation along regional and European lines. Much like the EU 2020 Strategy, the document sets out a number of growth-oriented integrated development policy objectives:

**Integrated growth:** through the promotion of regional trade and investment policies and linkages that are non-discriminatory, transparent and predictable.

**Smart growth:** by committing to innovate and compete on value added rather than labour costs.

**Sustainable growth:** by raising the level of competitiveness in the private sector, enhancing connectivity through infrastructure development and encouraging greener and more energy efficient growth.

**Inclusive growth:** by placing greater emphasis on developing skills, creating employment, inclusive participation in the labour market and health and wellbeing.

**Governance for growth:** by enhancing the capacity of the public administration to strengthen the rule of law and reduce corruption, the creation of a business-friendly environment and delivery of public services necessary for economic development.

The findings of the survey illustrate the need to pursue these objectives with increased vigour and greater speed. Unemployment

\*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.

continues to dominate thinking while the perception of traditional democratic institutions, for reasons both complex and manifold, leaves much to be desired in terms of both performance and public confidence. Despite notional support for regional and European integration, there continues to be widespread scepticism about the ability of regional and European arrangements to address pressing economic and political problems. At the same time, an upturn in economic performance by the region's economies has brought about an increasingly optimistic outlook for the future that needs to be solidified through decisive government policy.

The findings of the Balkan Barometer have become an important companion to statistical data collected by the RCC, the individual governments in the region as well as other partners in trying to assess the level of implementation for the SEE 2020 Strategy. Unlike traditional statistical data, the Balkan Barometer provides a direct interface for the business community and the public at large to engage directly. Thus, the perception-based indicators complement well the qualitative and quantitative indicators collected through other means.

Since its inception in 2014, the Barometer has evolved in order to remain current and relevant, with questions added and removed without adversely affecting its comparability or utility in reading and interpreting trends across the region.

As last year, the report will look at perceptions and expectations in the broader SEE region, with Turkey in focus in the current edition, in order to identify and showcase the similarities and differences within the SEE region.

# Main Findings

Over the past three years, business opinion in the region has grown steadily more optimistic than that of the general public, even to an extent not entirely borne out by the underlying fundamentals. This is an encouraging trend and one that bodes well for the entrepreneurial spirit and the region's so-far modest investment prospects. Increased reliance on export, coupled with improved access to foreign markets and the EU in particular, is evident and should spur further internationalisation, innovation and productivity.

Sentiment towards regional and EU integration has warmed as a result of the growing economic ties and despite a veritable plethora of negative externalities that have plagued the Union over the past several years. Slow but steady improvement in the larger regional economies, in particular, has translated into stronger support for EU integration. The same can be said of regional instruments, although CEFTA is something of an unknown to most business people.

Although largely depressed across the region, labour markets show some encouraging, if tentative, signs of recovery. The following period will tell whether a more optimistic hiring outlook by employers is borne out by developments in the region, with increased productivity still preferred to employment by most respondents.

Underlying structural problems, however, linger on largely unaddressed. Businesses and policy makers are yet to find a common language. Accountability remains a thorny issue in the relationship between the two, with the governments' perceived attitude towards corruption especially problematic. While most businesses polled deny attempts to unduly influence governments for their benefit, the perception that public contracts are awarded in a corrupt or non-transparent fashion is very much present within the business community. Governments in the region are routinely described as unresponsive with the majority of respondents not expecting to be listened to by the authorities. In addition, the readiness of relevant public institutions to share information or explain their actions falls well below the respondents' expectations of transparency. Taxation, government regulation and rule of law-related concerns are again voiced by the business community with growing political instability adding to the sense of uncertainty that continues to adversely affect the prospects for economic growth and expansion in the region.

Overall, the policy and institutional framework, and its implementation, continue to be the main obstacles to growth and employment in the region.

When it comes to markets, business people are confident they have a good product, that they can compete domestically and abroad and overall do not feel threatened by foreign competition. Still, they rely more on domestic markets while the survey results paint a picture of the region as less open to export than it really is. This can likely be attributed to the concentration of export activity within the large company segment of the survey, somewhat skewing the results.

Labour markets show little improvement in the way jobs are acquired. Although skills are clearly important to businesses, the informal channels for recruitment are relied upon by the businesses rather than those that are designed to promote open competition for employment. Interestingly enough, at the same time the businesses report a mismatch between skill supply and demand and satisfaction with the skills acquired through the local education systems. In economies where there is a more pronounced shortage of skilled labour, social connections play less of a role than skills and hard work.

Finally, public employment is still preferred to private, which means that job security is more important than a potentially higher income due to high levels of unemployment. The labour market is largely unfavourable for women and some minorities (Roma), though increasingly less for foreigners from both the region and beyond.

Financial markets are less important than own finances. That is probably the prolonged effect of financial distress, indicated by high non-performing loans in the banking sector. Also, there are lingering significant problems with liquidity and in some cases solvency as well. Overall, the financial sector is not the main driving force of business activities.

Attitudes toward infrastructure and other public and communal services are somewhere around average. Deteriorating physical infrastructure is not yet a major obstacle as economic activity is relatively low. There is broad agreement that businesses would benefit most from more investment in roads.

The highlight of the survey remains the improvement in sentiment across the region, followed by heightened expectations for the future. Business remains well ahead of the public at large in this regard - this should indicate better results for the next wave of the Balkan Public Barometer as business prospects tend to be a harbinger of public sentiment.

# Regional Overview

Economic activity shows overall improvement. While smaller economies have tended to do better over the past several years, the last 12 months sees their recovery slow down with larger economies picking up the pace. This is expected to balance out over the next two to three years.

As forecasted, the region is on its way to a growth rate of around 3% in the medium term with potential growth rates now projected at close to 4%.

The potential growth rate is consistent with sustainable macro balances along with

structural, and/or regulatory, framework either in place or emerging.

The region has undergone some structural reforms with imbalances, outside of the labour market, also improving. With the slack in employment and capacity, growth should speed up, domestic and regional political stability allowing.

Mild improvements in inflation, as presented in Table 1, are supportive of speedier recovery with most economies recording speedier price increases.

**Table 1: Inflation, CPI**

	2015	2016	2017	2018	2019
Albania	1.9	1.3	2.3	2.8	3.0
Bosnia and Herzegovina	-1.0	-1.2	1.0	1.4	1.9
Croatia	-0.3	-0.6	1.3	1.6	1.6
Kosovo*	-0.5	0.3	0.9	1.6	2.3
The Former Yugoslav Republic of Macedonia	-0.3	-0.2	1.0	1.5	2.0
Montenegro	1.4	0.1	1.5	2.0	2.0
Serbia	1.9	1.2	2.0	2.0	2.0

Source: wiiw

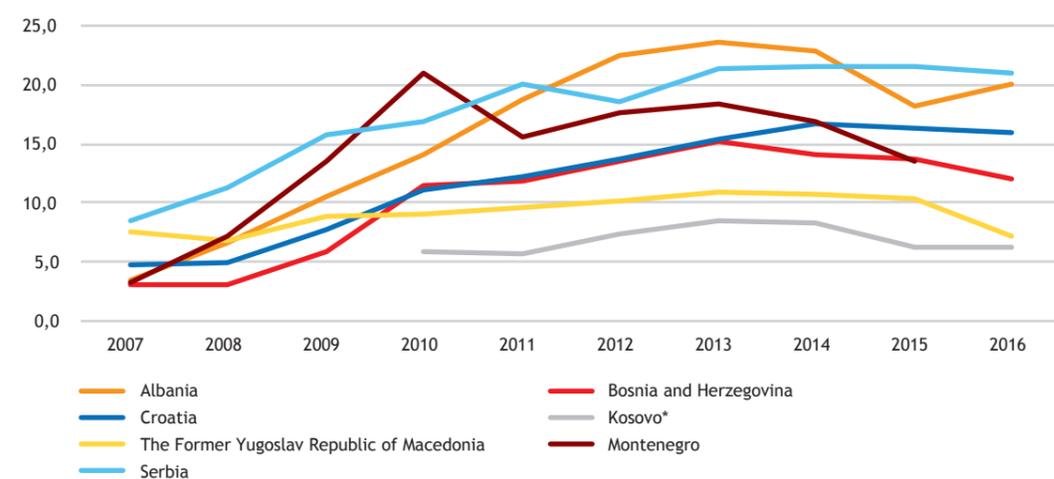
Financial conditions are on the up. While non-performing loans are still elevated, they are being dealt with and their share in the banks' assets is declining across the vast majority of the region. This has resulted in an increase in the supply of credit on offer.

The process of deleveraging is still proceeding in some economies, but demand and supply of credit is growing together with improved

prospects for investments and access to markets. The region differs in how deep their financial sectors are, which is in part due to the fact that the sector is dominated by banks almost to the exclusion of other financial and capital markets. That is in part the reason why recovery has been somewhat delayed and has yet to push these economies closer to their potential growth rates.

**Figure 1: Non-performing loans to gross loans**

Source: The World Bank



There has been some increase in public investment. In economies with significant unemployment, public investment can spur private investment as well as overall economic activity. The region is notoriously inefficient in spending money on infrastructure, but some improvement has been recently noted in this regard.

In addition, the announcement of significant infrastructure projects, both nationally and regionally, e.g. within the Berlin Process, have improved economic prospects.

Structural reforms continue to be on the agenda. Businesses tend to complain about taxes and regulation. Usually, these concerns tend to be tempered if the costs they incur are seen as providing returns in improved public services. Also, regulation needs to be seen as fair and equitable, rather than biased. Tax and regulatory reforms in the region have yet to meet these standards. Some improvement has been noted with regards to EU integration, but the process itself lacks pace and is proving difficult to speed up.

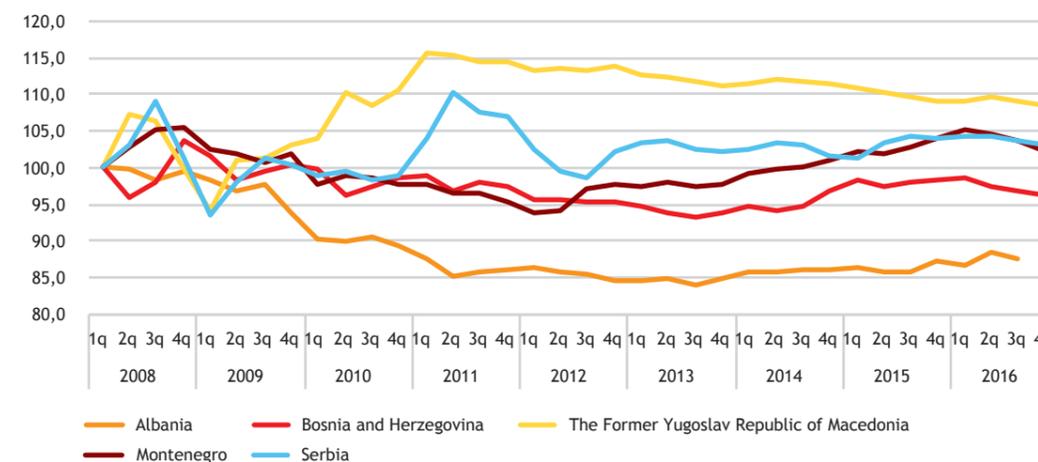
By contrast, access to EU markets has proved beneficial and increased dependence on exports to these markets is helping turn the opinion of business people in the region towards regional and EU integration.

Monetary and exchange rate stability have been helpful. The region is using the euro in

preference over domestic currencies (where they exist). Fixed exchange rates have also supported monetary stability, not only in terms of low or very low inflation rates, but also with historically relatively low nominal interest rates. This should prove even more helpful when growth accelerates and prices start rising

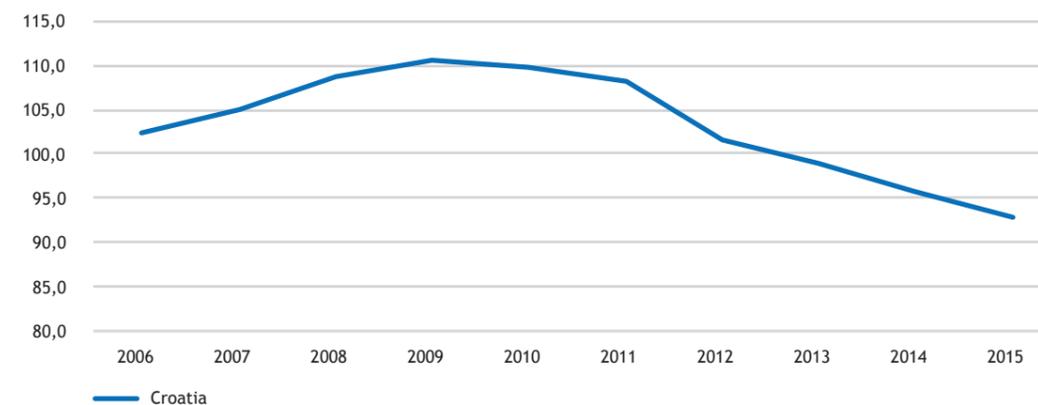
**Figure 2: Real exchange rate, EUR per NCU, PPI deflated, index 1 Q 2008=100**

Note: 1 Q 2008=100 Index is calculated from previous month = 100 monthly data. The increasing line indicates appreciation. Source: wiiw incorporating national statistics and Eurostat



**Figure 3: Croatia, real effective exchange rate, 37 countries, unit labour costs deflator**

Source: Eurostat



Also, as Figures 2 and 3 show, real exchange rates have adjusted and are supporting improved competitiveness, especially after 2010 or thereabout. Croatia is shown separately because it is a more striking case and also Eurostat provides the more relevant indicator of competitiveness which takes unit labour costs into consideration. Real depreciation supports improved exports and in part explains improved expectations.

The main risks are political. Increased regional normalisation, democratisation, and integration will boost economic activity, cross-border and at home; on the flip side, the challenges to government legitimacy and conflicts with neighbours can and will suspend economic recovery and stunt development, as was the case with some economies over the past year.

# Balkan Business Sentiment Index

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

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

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

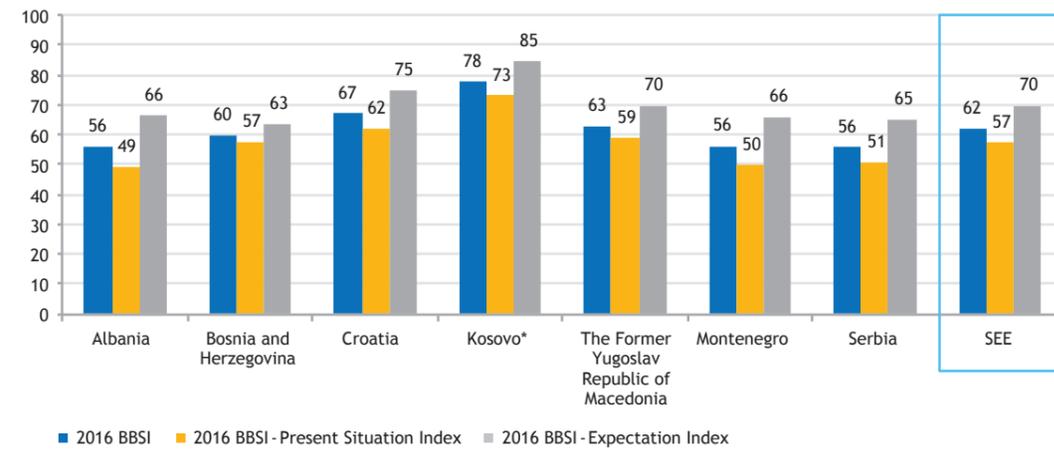
The index is scored as follows: better - 100 points, worse - 0 points, no change - 50 points. After responses are recoded, the average value is calculated for the whole SEE region as well as for each economy separately (see the Figure 1). The index values are expressed on a scale of 0 to 100.

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

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

**Figure 4: Balkan Business Sentiment Index**

(Scores are on a scale of 0 to 100)



The overall business sentiment has significantly improved compared to the previous year (62 in 2016 vs. 56 in 2015). It now exceeds 60, which is indicative of an unambiguously positive assessment of both the present situation and prospects for the future.

In contrast to the 2015 survey, the growth is not only due to a more optimistic outlook for the future (70 in 2016 vs. 64 in 2015), but also due to current developments (57 in 2016 vs. 51 in 2015). The latter is especially encouraging as it validates the optimism voiced by the SEE business leaders in the previous year.

What is striking, however, is the vast discrepancy in the results of the BBSI on one hand and those of the BPSI (Balkan Public Sentiment Index) on the other (21 index points). While the BPSI has remained at a steady level over both years with the public at large unmoved by any social and economic developments, the business community displays an ever growing optimism for both the present and the future. The comparative results of the two surveys indicate that the average citizen of the region is yet to experience first-hand the progress so acutely felt within the business community.

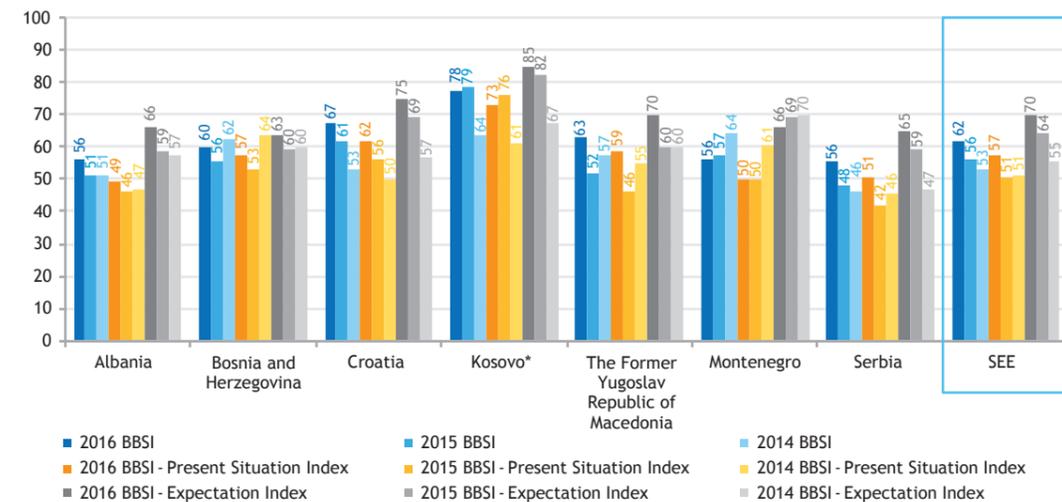
A survey of the region's economies reaffirms the positive sentiment with all scoring above 50 on the BBSI. Kosovo\* leads the field convincingly once again with the BBSI score of 78, followed by Croatia with 67.

Albania, Montenegro and Serbia are all at 56 with positive sentiments driven largely by expectations rather than the respondents' assessment of the present situation; the three average out at about 50 for the latter.

Interestingly, all of the economies surveyed, with the exception of Bosnia and Herzegovina, boast an average 10 point gap between the respondents' estimation of the current situation and the countries' outlook for the future. While this may be indicative of current progress driving up future expectations, the discrepancy in sentiment between the business community and the general public remains a cause for concern as development benefits do not seem to be felt equally across the two groups of respondents.

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

(Scores are on a scale of 0 to 100)



The figure above denotes the results of the indices for the three waves of the survey administered for 2014, 2015 and 2016 respectively. The SEE BBSI has recorded an overall improvement in sentiment compared to 2015 although the only statistically significant growth was evidenced in the case of The Former Yugoslav Republic of Macedonia (63 in 2016 vs. 52 in 2015). It is interesting that the protracted political crisis that the economy underwent seems not to have taken away from the positive sentiment evident within the business community.

Other economies surveyed can be divided into two groups. The first involves Albania (51 in 2015 vs. 56 in 2016), Bosnia and Herzegovina (56 in 2015 vs. 60 in 2016), Croatia (61 in 2015 vs. 67 in 2016) and Serbia (48 in 2015 vs. 56 in 2016), where the BBSI has recorded some growth.

At the same time, the two economies have recorded a negligible deterioration in their BBSI scores; Kosovo\* (79 in 2015 vs. 78 in 2016) and Montenegro (57 in 2015 vs. 56 in 2016). While Serbia has recorded BBSI scores under 50 in 2014 and 2015, its numbers for 2016 indicate a marked change in the attitudes and perceptions of the Serbian business community over the past 12 months.

# Perceptions of the General Business Environment and Economic Trends

Compared to previous years, there is a marked improvement in the business community's appraisal of the situation in their respective economies.

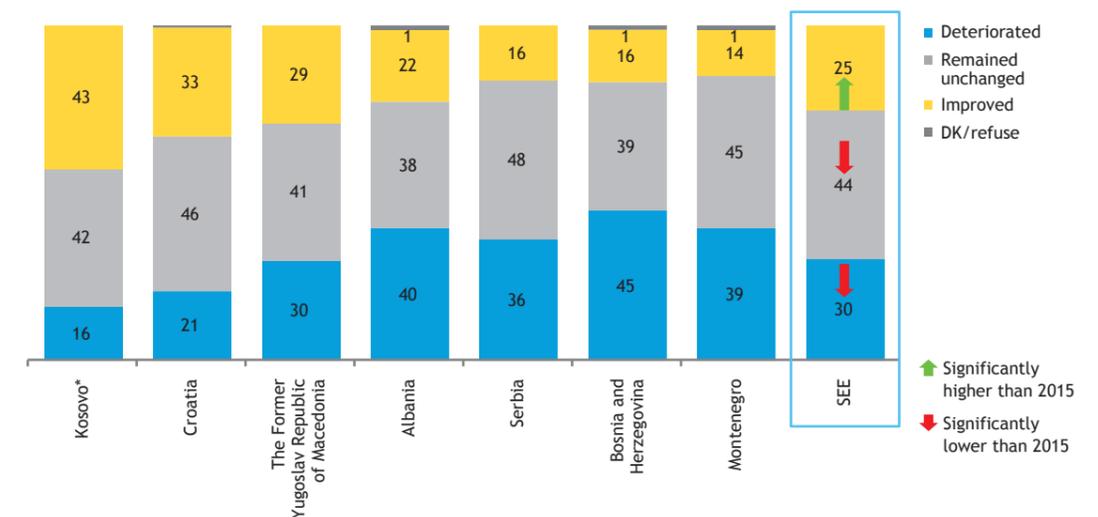
Substantially fewer executives report worsening of the overall economic situation (41% in 2015 down to 30% in 2016) while a marginally larger number note progress (up to 25% in 2016 from 20% in 2015). In terms of individual economies, Kosovo\*, Croatia and The Former Yugoslav Republic of Macedonia

are more satisfied with the way things are going.

Nonetheless, the results of the survey indicate that almost a third of the respondents see further deterioration in their economies while only a quarter report tangible improvement. In Bosnia and Herzegovina, 45% of respondents view the past 12 months as a predominantly negative period for their economy while only 16% report progress.

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

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



It should be emphasized that, in comparison to 2015, the general opinion of the SEE business

community on the recent economic situation has improved (which is confirmed in the above

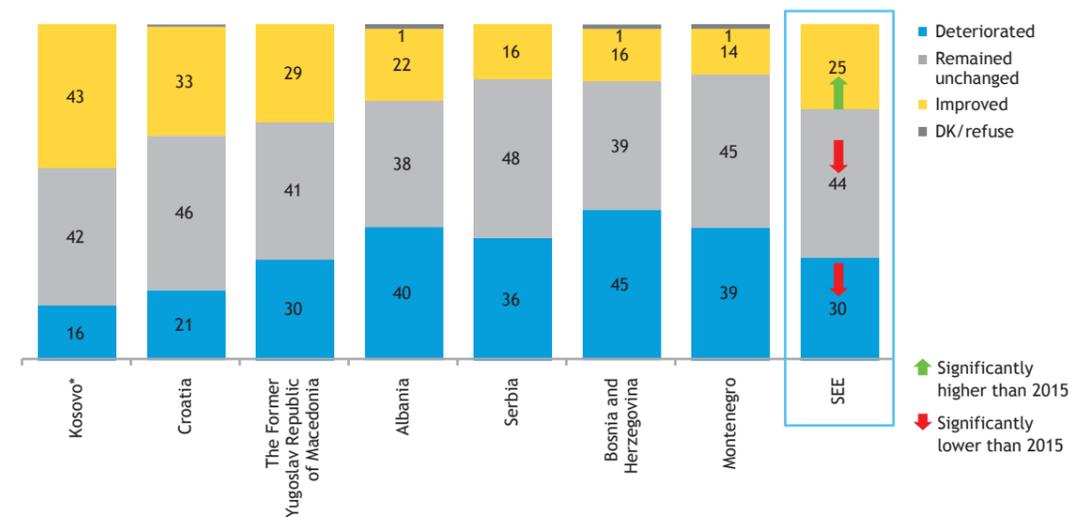
mentioned BBSI). This is corroborated by the fact that significantly less executives report worsening (30% in 2016 vs. 41% in 2015), i.e. a remarkably larger number notice progress (25% in 2016 vs. 20% in 2015). It could be said that Kosovo\*, Croatia, but also The Former Yugoslav Republic of Macedonia to some extent, are more satisfied with the way things are going. On the other hand, company representatives from Bosnia and Herzegovina seem

to be the most disappointed - more than two fifths feel deterioration of the general economic environment.

As shown last year, heads of large enterprises have a more positive attitude towards economic developments over the past twelve months (43%) than those managing small-to-medium firms (23%).

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

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

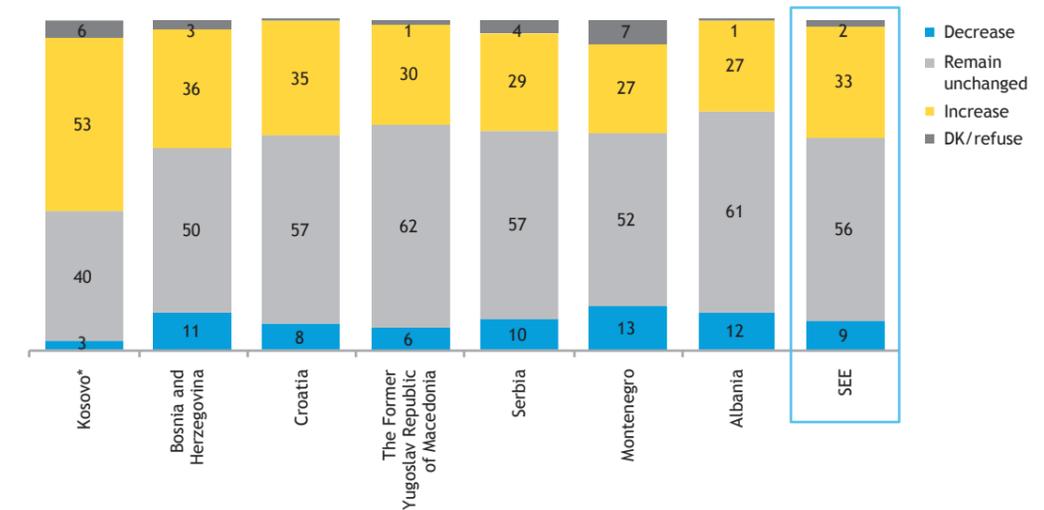


There is renewed optimism in the immediate outlook for the region's economies - 43% of respondents expect to see improvement in the coming 12 months, compared to 37% in 2015. Corporate leaders from Kosovo\* are the region's most optimistic; as many as 66% expect

to see improvement, with Croatia a distant second, with 52%. Bosnia and Herzegovina is once again the region's pessimist in chief - with nearly a quarter of respondents expecting to see the situation deteriorate further.

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

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

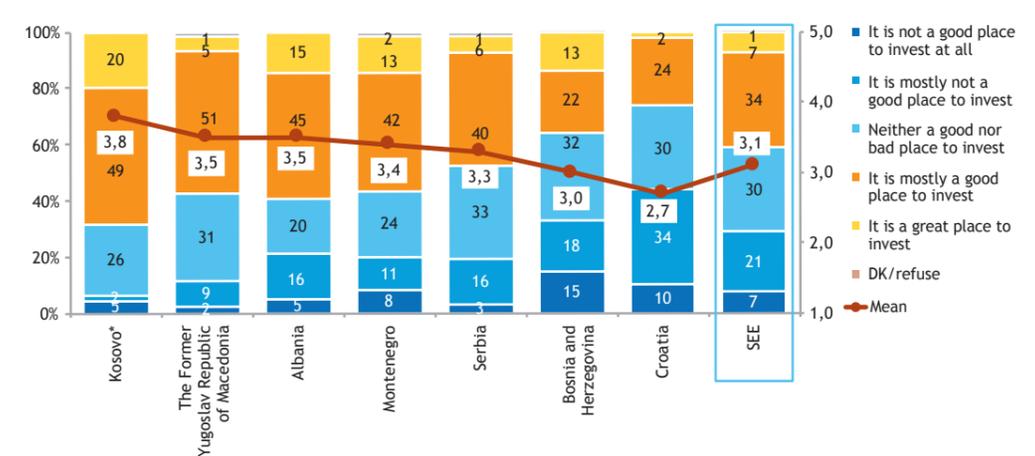


The overwhelming sentiment when it comes to employment projections is one of stability. There are 56% of respondents who expect to see no change in the number of staff their companies employ while a third expect to see some growth in the labour force. This figure, however, is heavily influenced by the positivity of the respondents from Kosovo\* where 53% expect an increase in employment. Only 9% expect to see layoffs over the coming 12 months.

Medium sized companies (44% of their leaders expect an increase in the number of employees). Those which export their products or services (42%) as well as the ones that operate in industrial manufacturing and related fields (39%) show a higher level of enthusiasm in this context.

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

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

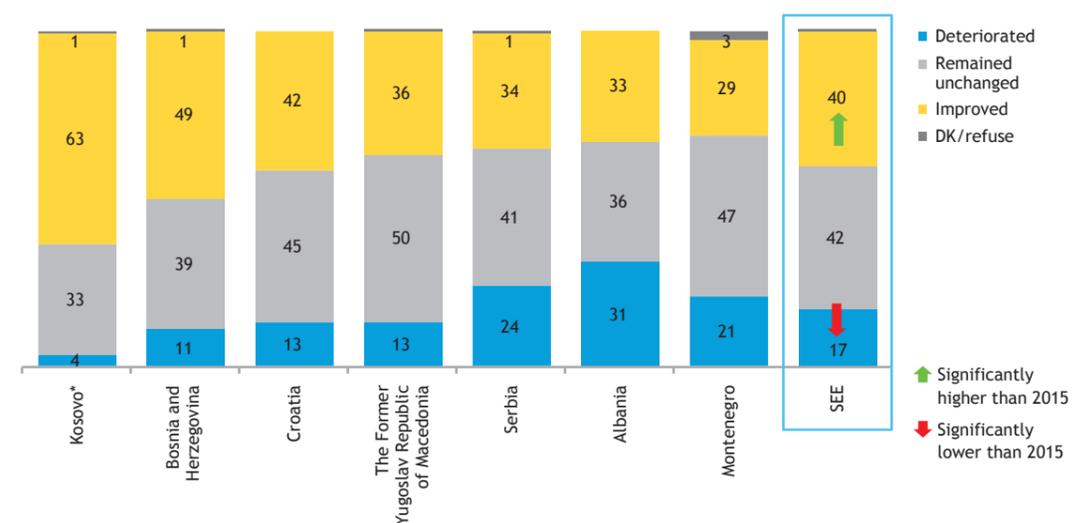


The changes in the business community's appraisal of the region's investment potential are negligible - 41% of business leaders see their economy as a good place to invest, 30% are unsure, while 28% would not recommend investing in their economy. Kosovars are again the most positive with 69% recommending investment in their economy. As in 2015,

managers from the most developed economy in the region - Croatia - are the most doubtful; merely one quarter of respondents believe their market is a good choice for investors. The contrast in attitudes between Croatia and Kosovo\* is striking as they represent the most and the least developed economies in the region respectively.

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

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



Two fifths of company leaders report improvement in their business situation over the past 12 months, a significant development in comparison to the 2015 survey. A slightly higher number of respondents (42%) see no change, while 17% report deterioration (as compared to 23% in 2015).

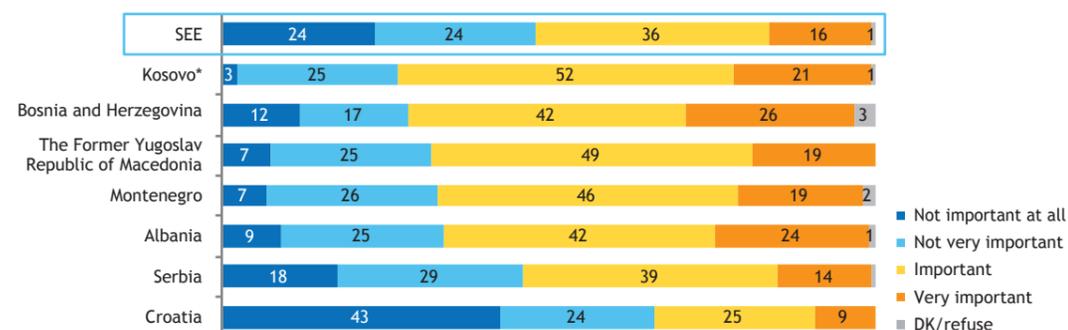
The majority of enterprises surveyed in Kosovo\* report progress (63%), once again helping sway the overall numbers for the region. Albania (31%) and Serbia (24%), on the other hand, boast a significantly larger proportion of disenchanted executives, followed closely by Montenegro (21%).

The discrepancy in perception of own business versus the general economy remains an overarching trend across the region. In Bosnia and Herzegovina, half of the executives surveyed report growth in their business while only 16% feel that way about the economy in general (Figure 6).

One noteworthy trend is that the extent of satisfaction with business results grows in proportion to company size, indicating a better business landscape for larger corporate entities. Furthermore, companies dealing with exports and those with foreign capital holdings report better results over the previous period.

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

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

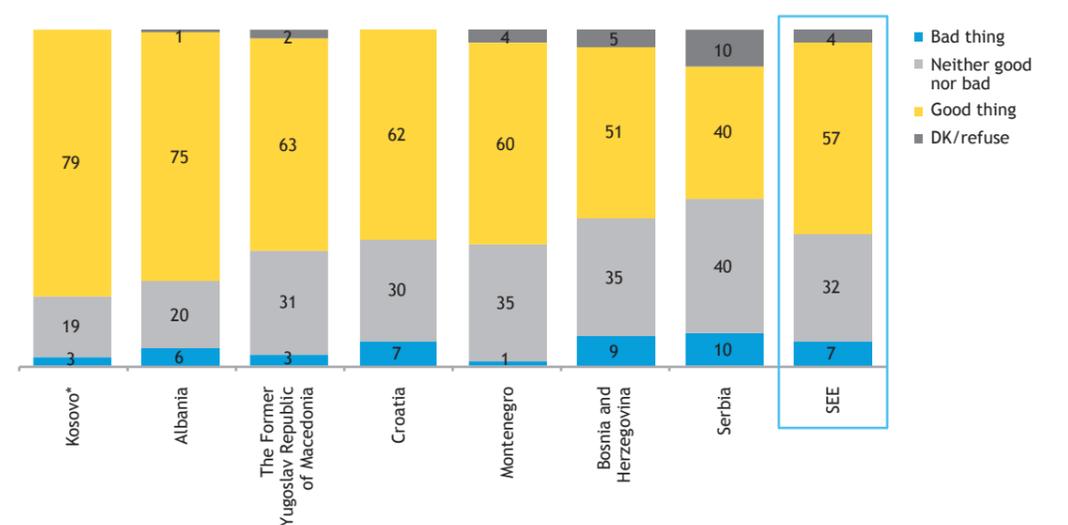


As with the 2015 survey, the opinions on regional cooperation remain divided, but a slight majority (52%) still find it beneficial to their business. Croatia, increasingly dependent on and influenced by the overall situation in the EU, attaches significantly less importance to collaboration within SEE than all of the rest. Corporate actors from Kosovo\* (73%) and Bosnia and Herzegovina (68%) view regional relationships as more beneficial than those from Serbia (53%).

Logically, exporters attach more significance to regional cooperation - 77% consider it important vs. 53% of non-exporters. Firms with foreign capital recognize its value more clearly (73%) than those who operate only with domestic assets (61%).

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

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



In terms of European Union membership, the situation remains largely unchanged with some variation in individual economies. The majority of business leaders (57%) feel that accession would be beneficial to their company, one third of respondents are unsure while 7% view membership through a negative lens. Supporters of EU accession are most numerous in Kosovo\* (79%) while, at the other end of the

spectrum, Serbia now boasts an increasing number of pro-EU businesses with the number of supporters growing from 29% in 2015 to 40% in 2016.

As anticipated, exporters are more inclined towards the EU (68%) than those oriented solely on domestic markets (58%).

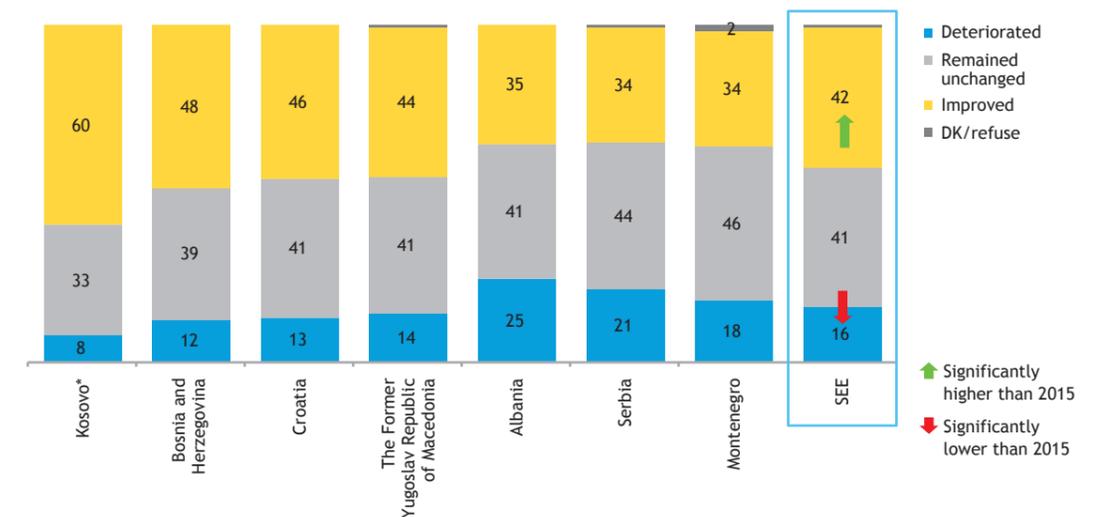
# Business Trends in SEE

Increased demand has, however, not resulted in business expansion, but it has rather driven more investment in current production

through the purchasing of equipment. This is one of the factors that account for the relatively slow recovery.

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

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

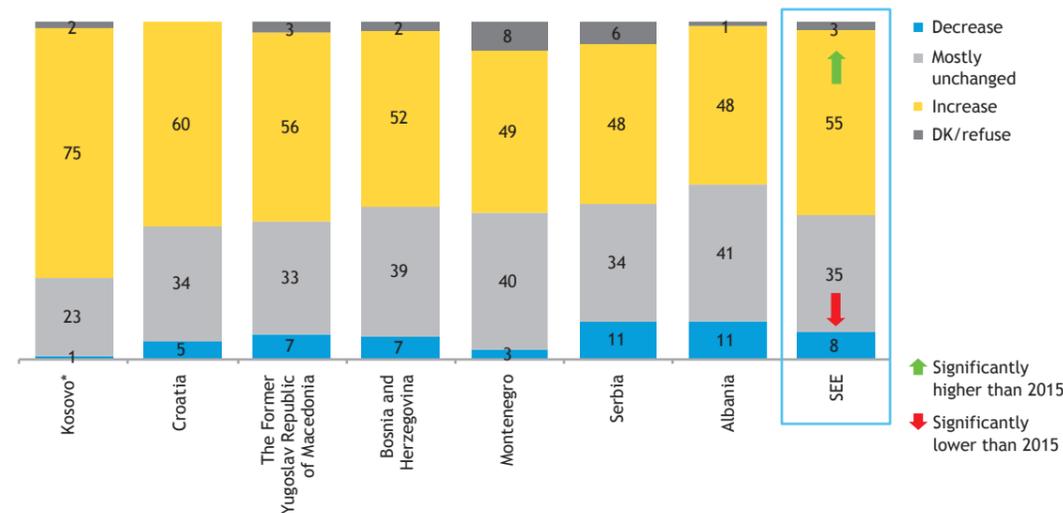


Demand for products and services continues to record significant growth over the past 12 months. More than two fifths of SEE companies (42% vs. 36% in 2015) report a demand increase. Kosovo\* with 60% leads the field while Bosnia and Herzegovina (48%), and Croatia (46%) follow suit. Although Serbia with 34% and Albania with 35% record lower numbers, they are still showing better figures compared to 2015.

Exporters (54%), companies with more than 49 employees (57% for medium sized firms; 67% for large ones), as well as those operating in manufacturing and related fields (51%) are more content with the market position of their goods over the past year.

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

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



Likely encouraged by recent growth in demand, SEE's business leaders forecast further increases (55% in 2016 vs. 49% in 2015).

About one third expect stagnation while 8% anticipate a drop in demand.

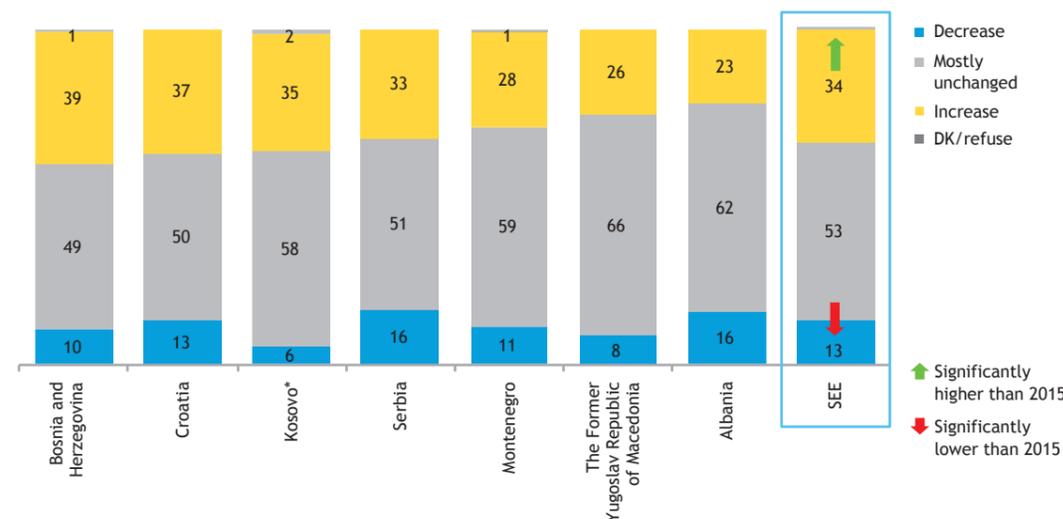
Kosovo\* stands out with three quarters of business leaders hopeful of another increase in

demand. At the same time, more than half of the respondents in Albania don't expect to see improvement in the coming period.

Further analysis shows that companies active in more than one market (65%), larger in size (62% for medium, 76% for large companies) and/or operating in manufacturing sectors (64%) have the more optimistic outlooks.

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

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



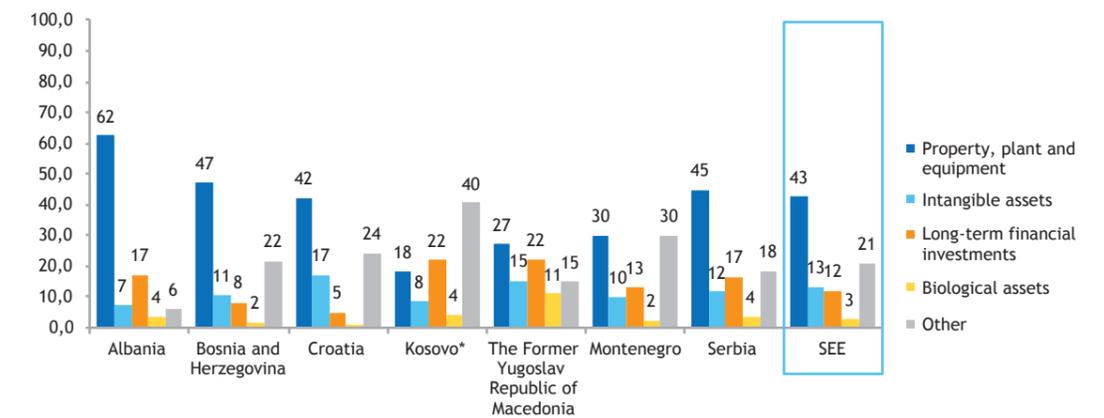
Most SEE companies (53%) have not seen a change in the level of total employment over the past year. Compared to the previous wave, however, there is a larger number of firms that have increased their employment (34% vs. 27% in 2015). It seems that, unlike in Albania and The Former Yugoslav Republic of Macedonia, people from Bosnia and Herzegovina and Croatia have benefited from improved job prospects. Interestingly, at least for Bosnia

and Herzegovina, improved employment prospects have not translated into a more positive outlook for the general public, as attested by the results of the Balkan Public Sentiment Index.

Overall, it has been the larger companies, as well as those in manufacturing, exporting and in possession of foreign capital that have been doing most of the hiring.

**Figure 16: Could you please tell me what percentage (%) of your company's total investment in 2016 went to each of the following?**

(Respondents who did not mark DK/refuse - N=1304, %)

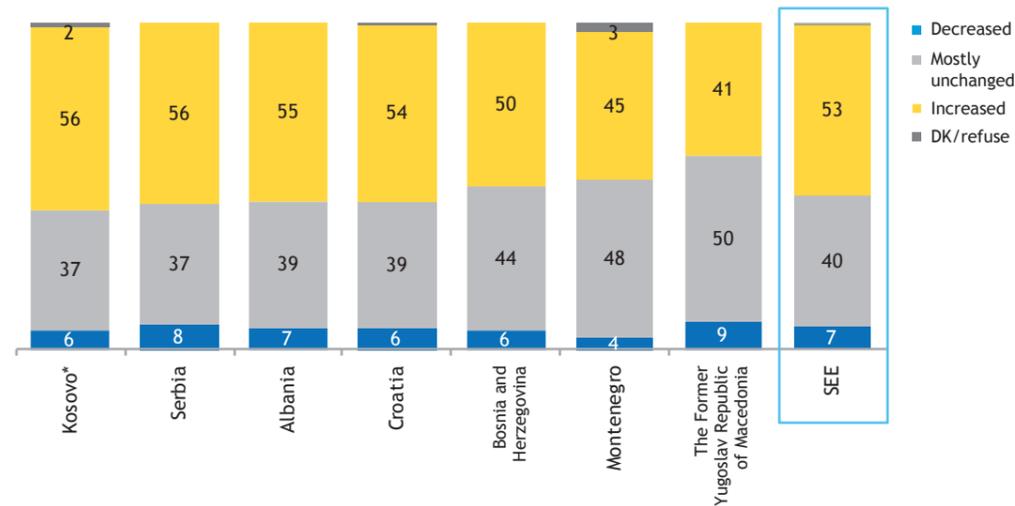


As with the 2015 survey, SEE companies mostly invested in property, plant and equipment (43%), followed by investment in intangible assets (13%) and long term financial investments (12%). In Albania (62%), investments related to property, plant and equipment were higher than the SEE average. Similarly, The Former Yugoslav Republic of Macedonia has been a leader (11%) in terms of investing in biological assets (SEE average - 3%).

Comparing exporters to non-exporters, there is a marked difference in the types of investment: companies which operate internationally have invested more in intangible assets (15% vs. 10% for non-exporters) and property (45% vs. 36% for non-exporters), while those limited to their own markets made more long-term financial investments (16% vs. 13% for exporters).

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

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

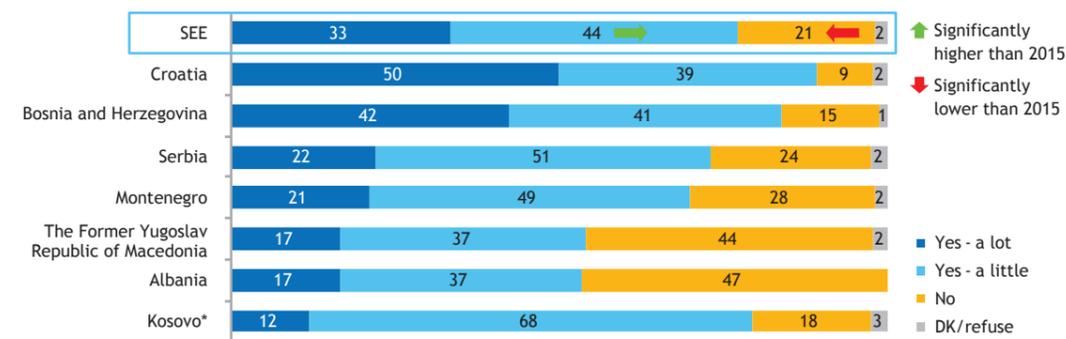


As with the previous year, more than half of the companies surveyed (53%) cite an increase in their costs over the past 12 months. Companies in Bosnia and Herzegovina (41%)

labour under fewer new burdens compared to their counterparts in Kosovo\* (56%), Serbia (56%), Albania (55%) and Croatia (54%).

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

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



The upward trend recorded last year with regards to environmental awareness is evident again in 2016; more than three quarters (77%)

of companies have taken some measure or action to reduce their harmful impact on the environment.

Still, one fifth admit they do nothing to mitigate their risk to the environment. This lax attitude is especially evident in Albania (47%), and The Former Yugoslav Republic of Macedonia (44%). At the other end of the spectrum, Croatia (89%) and Bosnia and Herzegovina (83%) pay more attention to the environment than the rest of the region, which may be attributed to stricter domestic regulation.

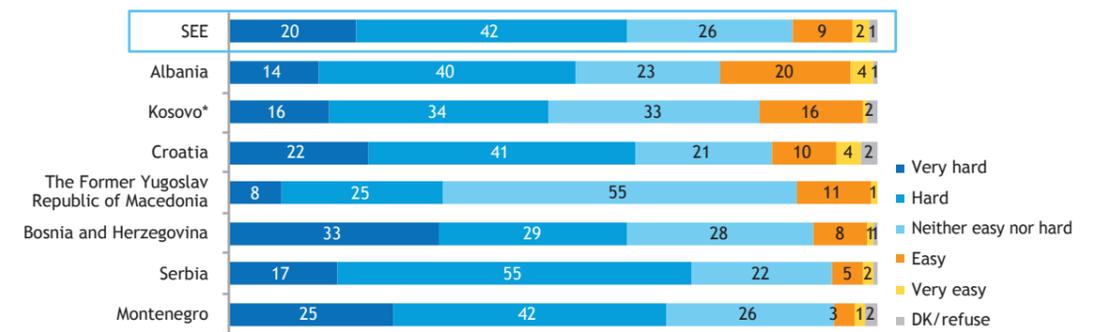
Larger companies, exporters, enterprises supported by foreign capital or active in heavy industry try harder than others to protect the environment largely due to the scrutiny inherent in those sectors.

# Business Environment in SEE

Starting a business in The Former Yugoslav Republic of Macedonia is perceived as easier than in the rest of the region, a finding validated by a number of ranking agencies.

**Figure 19: How easy or hard is it to start a private business in your place of living?**

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



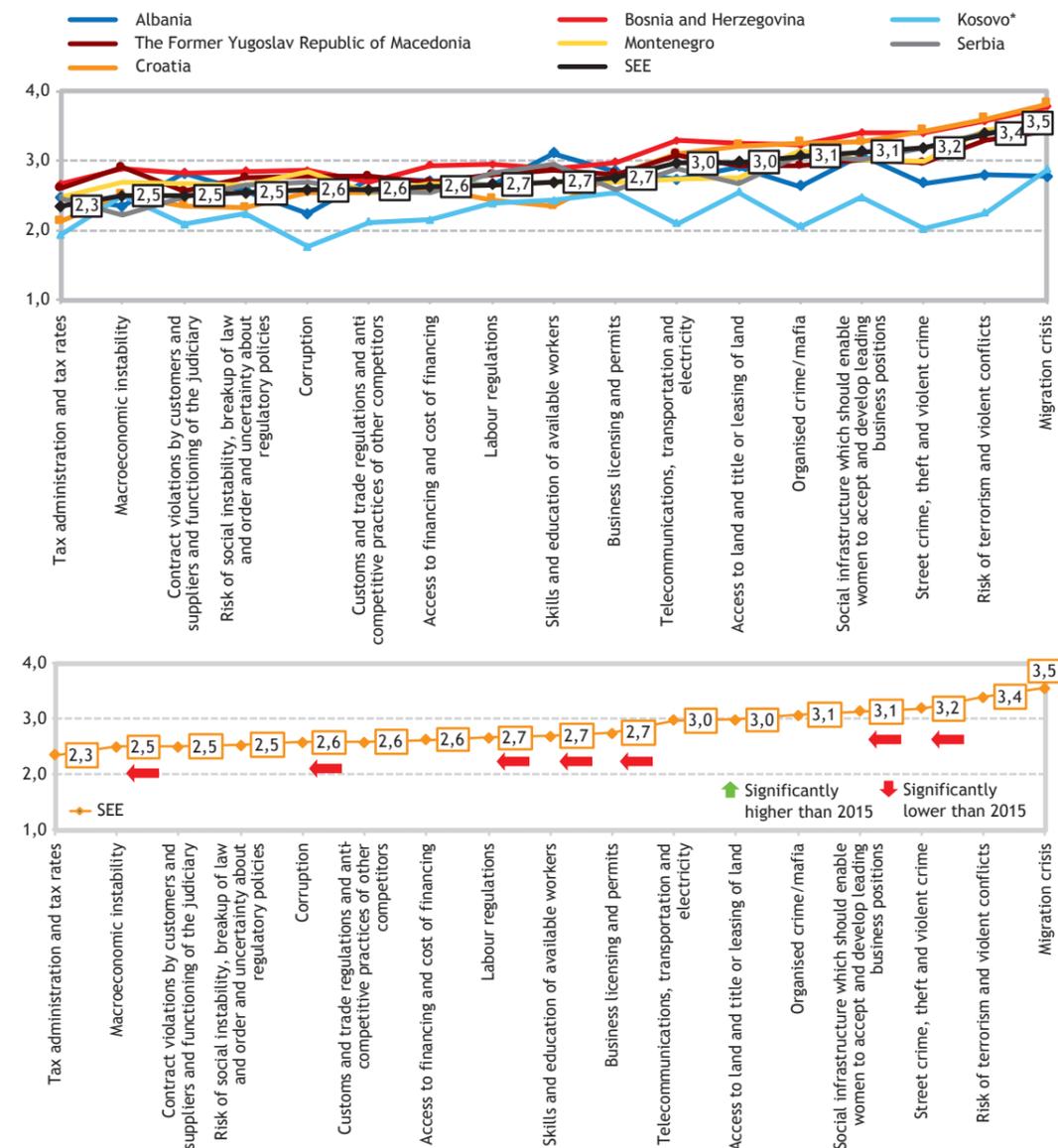
Similar to last year's results, almost two thirds of the SEE business community (62%) cite difficulties with starting a private business in their respective economy, while only one out of ten respondents disagrees. This illustrates an absence of a firm commitment by the region's governments to promoting and facilitating entrepreneurship.

Albanian businesses appear to encounter the fewest obstacles - one quarter report not experiencing any problems with the registration process.

At the other end is Montenegro where a quarter of the respondents describe the registration process as very difficult.

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

(All respondents - N=1430, scores are on a scale of 1 to 4 where 1 means major obstacle, 2 moderate obstacle, 3 minor obstacle and 4 no obstacle, mean)



**Table 2: Obstacles for business operation and growth (for each economy)**

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

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

Main obstacles

While there are changes in the ranking of obstacles to doing business by the region's corporations, taxes yet again come out on top (2.3). Macroeconomic instability as well as contract violations by customers and suppliers and functioning of the judiciary have been upgraded since last year and are both scored at 2.5).

An increase in the perceived risk of social instability, breakup of law and order and

uncertainty about regulatory policies further illustrates rising uncertainty and insecurity felt by the region's business community.

What is especially concerning is the absence of perceived progress across the regional risk matrix. At the other end of the spectrum, the migration crisis and the threat of terrorism and violent conflict are perceived as the least problematic.

Concerns regarding tax rates and administration are a common theme across all of the economies. Croatia (2.1), Kosovo\* (1.9) and Montenegro (2.5), however, feel those concerns more acutely than their counterparts across the region. Serbia (2.5) and Albania (2.5) are more concerned about macroeconomic instability while corruption continues to worry businesses in Albania (2.2) and Kosovo\* (1.8).

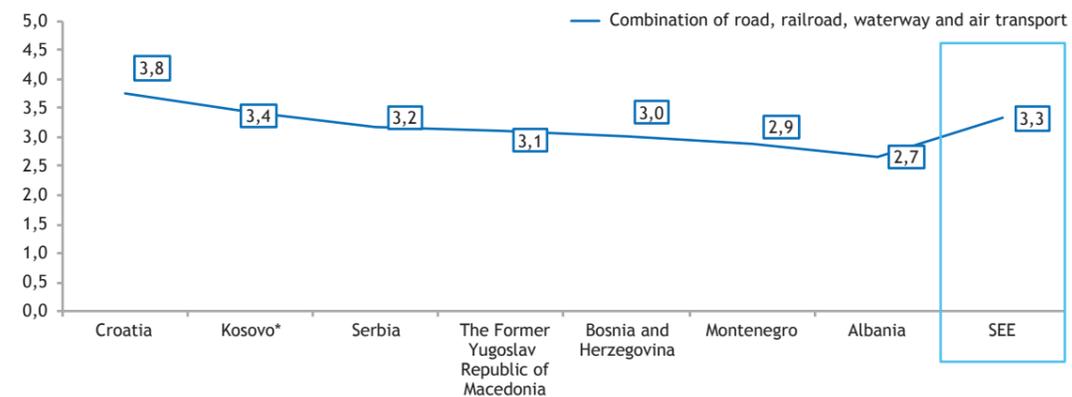
In addition to taxation, managers from Bosnia and Herzegovina are concerned about customs and trade regulations and the anti-competitive practices of other competitors (2.7).

Their concerns are shared by business leaders from Montenegro (2.5). In addition to taxation, companies operating in The Former Yugoslav Republic of Macedonia list contract violations by customers and suppliers and the functioning of the judiciary as the biggest obstacles (2.6). As in 2015, business people from Kosovo\* tend to be the most distressed business community across most of the issues surveyed.

As with the previous wave, exporters fear a shortage of skilled and educated employees (2.6) more than those who are not active in foreign markets (2.8).

**Figure 21: 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=1430, scores are on a scale of 1 to 5 where 1 means very poor and 5 excellent, mean)

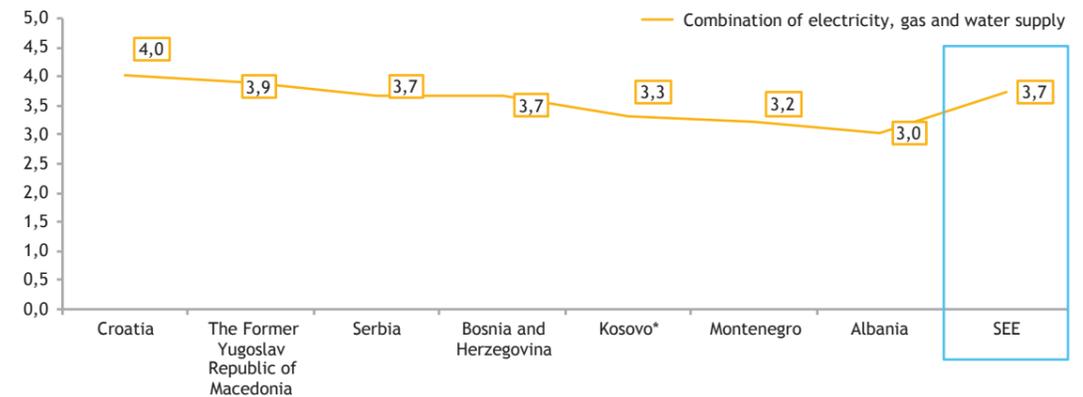


The level of satisfaction with transport modes has remained steady since 2015 with much room for improvement in this regard. Companies in Croatia tend to be the most satisfied, borne out by hefty investments in infrastructure over a number of years, followed by Kosovo\*.

Albania is at the other end with available transport infrastructure given mostly poor marks (2.7).

**Figure 22: 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=1430, scores are on a scale of 1 to 5 where 1 means very poor and 5 excellent, mean)

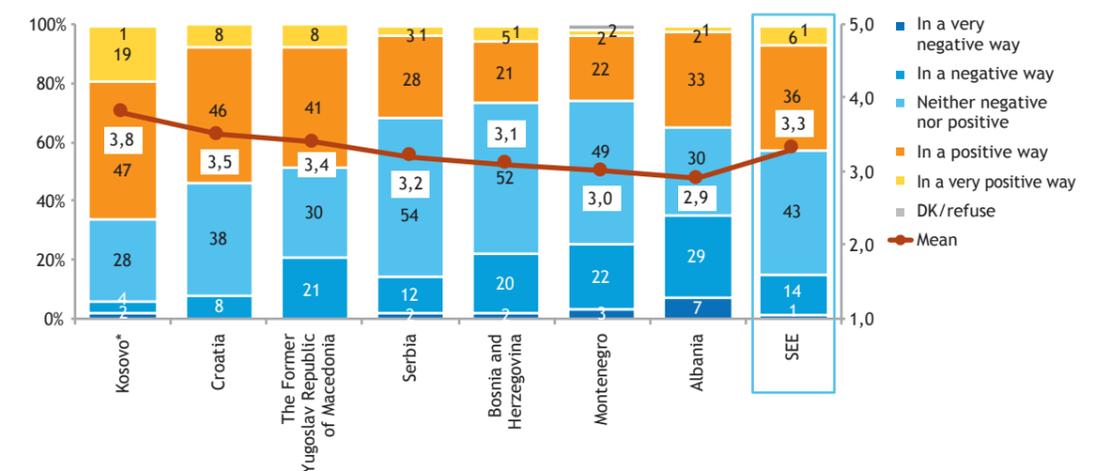


The combination of availability, quality and affordability of electricity, gas and water has been rated better than roads, railroads, waterways and air transport by SEE business representatives with the average score of 3.7. In this regard, there is no noticeable difference

to 2015. Croatia again stands out with the score of 4.0 while The Former Yugoslav Republic of Macedonia comes in second with 3.9. As with transport infrastructure, Albania again scores the lowest marks out of the SEE community.

**Figure 23: In what way the infrastructure in general (transportation and communication means, supply) impacts your business?**

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

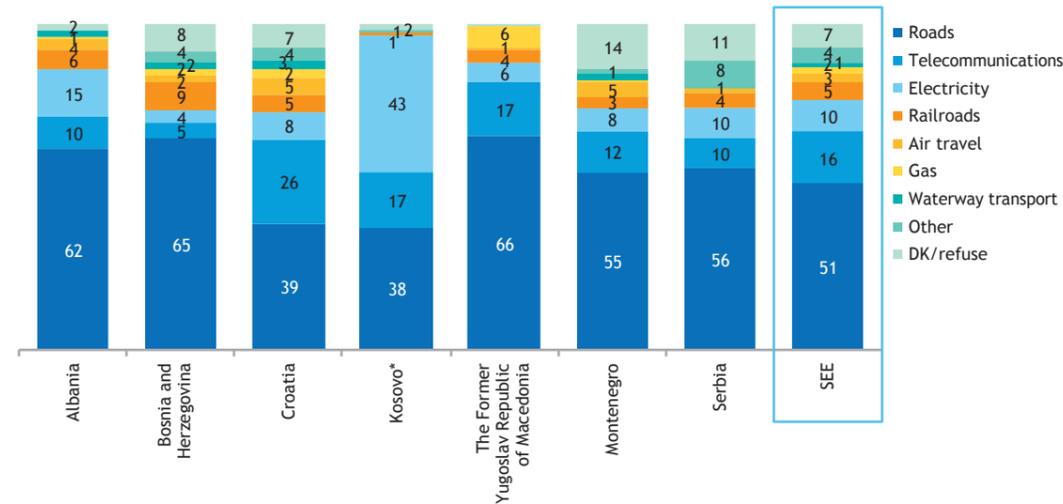


The overall impression of business leaders when it comes to the impact of infrastructure on business is positive, with the average score the same as last year - 3.3. Executives from Kosovo\*

(3.8) lead the way with Croatia (3.5) and The Former Yugoslav Republic of Macedonia (3.4) coming in second and third respectively.

**Figure 24: In your opinion, which infrastructure upgrades would have the highest positive impact on your business?**

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



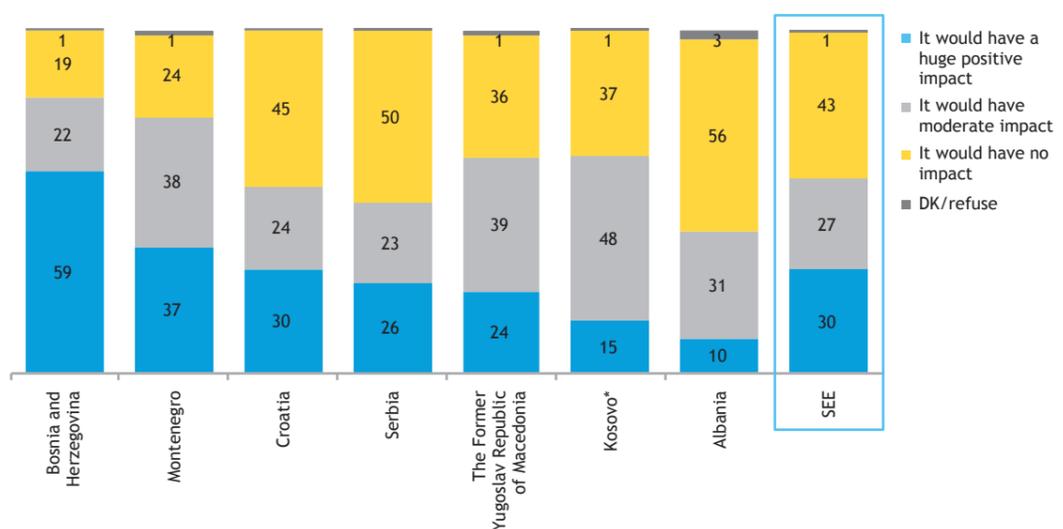
More than half of the SEE respondents (51%) believe that upgrading roads would have the most positive effect on their business. Telecommunications come second with a relatively high number of respondents (16%) prioritizing this infrastructure upgrade with electricity ranked third on 10%. The advanced condition of transport infrastructure in Croatia translates into support for telecommunications upgrades (26%) well above the SEE average (16%).

Due to the long-standing infrastructural deficiencies, power supply in Kosovo\* remains interrupted, a fact reflected in the responses of the local business community with electricity prioritized by 43% of respondents.

Interestingly, medium-sized firms would prioritize investment in roads (63%), while small (14%) and large enterprises (19%) choose further development of telecommunications infrastructure (at only 8% for medium companies).

**Figure 25: Would the removal of mobile phone roaming charges when travelling within SEE have a positive impact on your business?**

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



Almost three fifths of respondents (57%) see the direct business benefits that the elimination of roaming charges would bring with 30% highlighting a huge positive impact of that act. There are 59% of managers in Bosnia and Herzegovina who see it as hugely beneficial, likely in part due to the fact that users of mobile phone services were exposed as well to internal roaming charges in Bosnia and

Herzegovina itself when switching between domestic operators. This practice was only suspended in February 2016.

As with most progressive infrastructure interventions, investments in this sector are seen as particularly beneficial by heavy industry actors (38%) and those internationally oriented (49%).

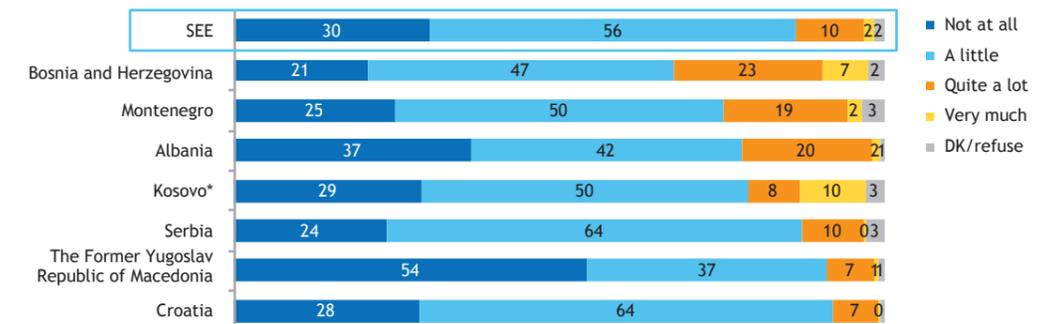
## LEGAL AND REGULATORY FRAMEWORK

Respondent satisfaction with the overall legal environment is average. Croatian legal and regulatory regimes receive a particularly unfavourable rating, but that may be in part due to heightened expectations as it is the only member of the EU family in the region.

In terms of good governance, answers tend to be inconsistent in that taxes, though unpopular, apparently tend to be reported and paid and bribes are uncommon, while public procurement is seen as being rigged to a significant extent.

**Figure 26: How much do you feel the Government takes into account the concerns of businesses?**

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

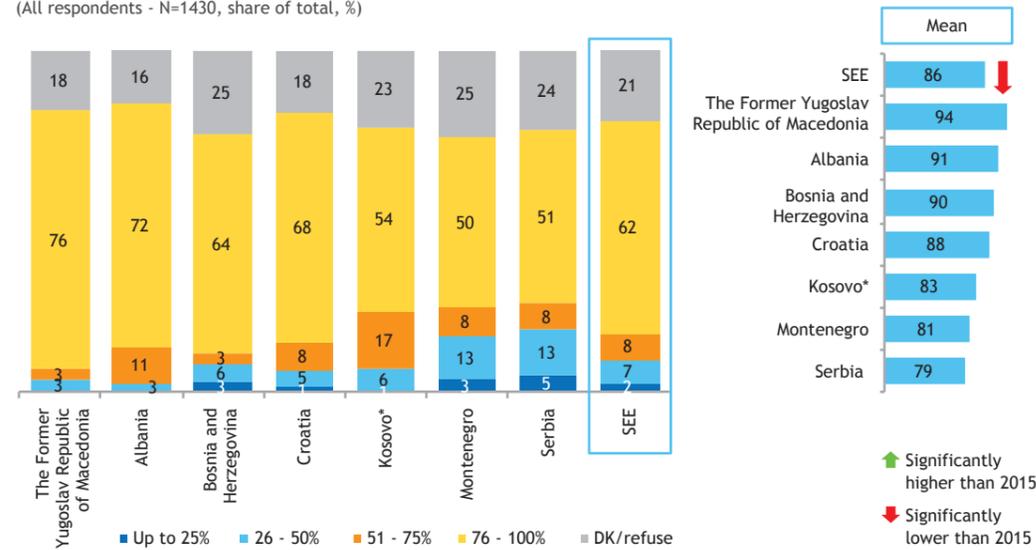


The majority of SEE companies surveyed (56%) agree that the government takes note of their needs, but only to a limited extent. What is positive is the decline in the number of respondents who feel ignored by the authorities (down to 30% from 38% in 2015). Companies disillusioned with their government's responsiveness are most numerous in Bosnia and Herzegovina.

Taking into consideration company size, small companies feel disproportionately marginalised and unhappy with their relationship with the authorities (vs. 24% for medium and 19% for large firms).

**Figure 27: What percentage of total annual sales would you estimate a typical company in your line of business reports for tax purposes?**

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

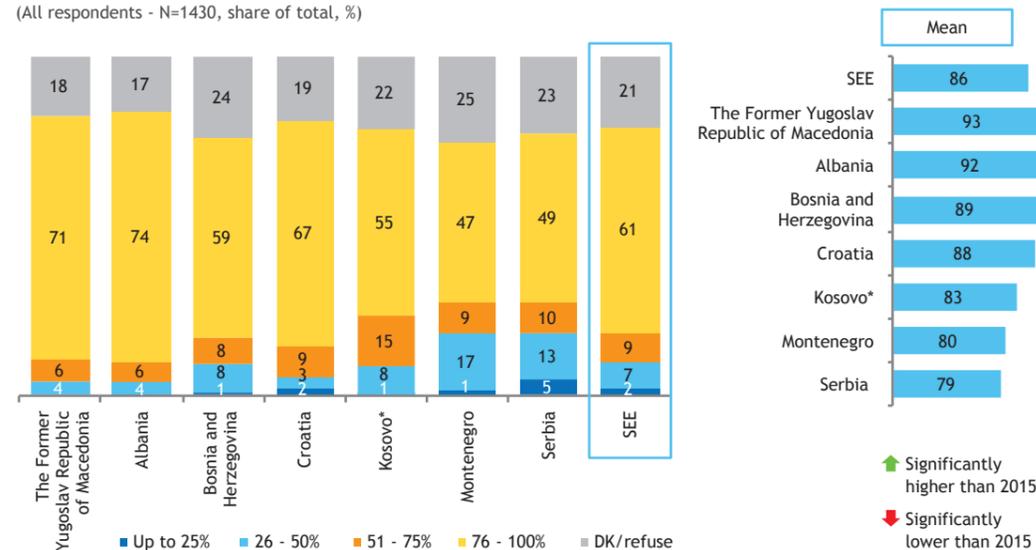


SEE business representatives estimate that a typical firm will report 86% of its total annual sales for tax purposes. This is a slight drop in estimates from last year when the figure cited was 90%. Respondents in Serbia and Montenegro feel that about a fifth of the turnover is unreported, followed by Kosovo\* (with 17% unreported).

Larger sized companies are expected to submit a higher percentage of their annual sales (96%) compared to small firms (86%). This relationship is replicated between companies supported by foreign capital (93%) and those with solely domestic assets (86%).

**Figure 28: What percentage of the actual wage bill would you estimate a typical company in your area of business reports for tax purposes?**

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

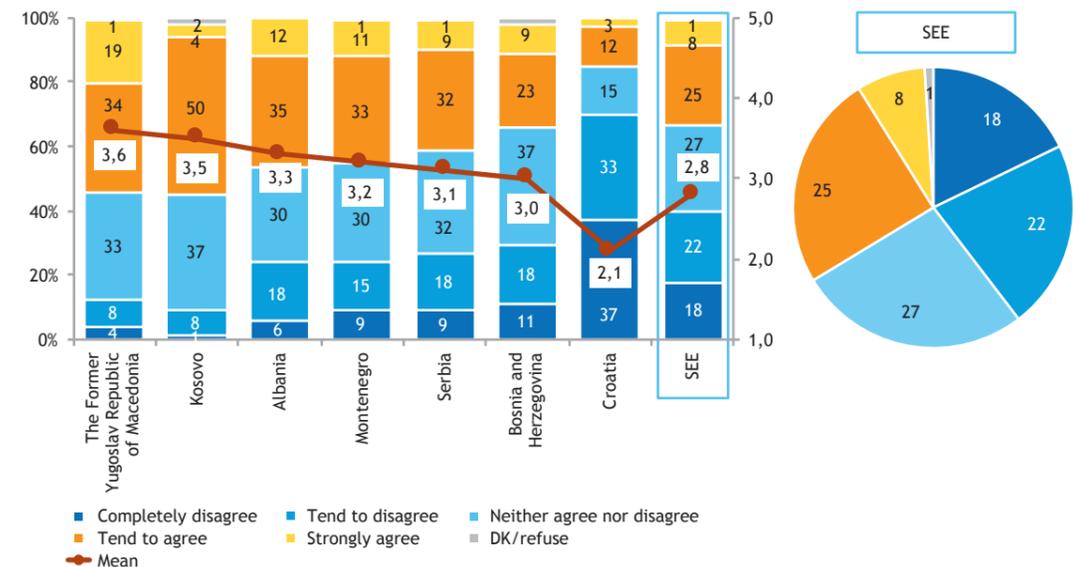


In keeping with annual sale estimates, business leaders believe 86% of the actual wage bill is reported for taxation purposes, again lower than the 2015 figure (90%). Once again, the number is significantly lower in Serbia

(where business people think 79% is reported). The discrepancy brought on by the size of the company is present here as well; 96% of large businesses believe the full wage bill is reported as opposed to 86% for smaller firms.

**Figure 29: 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? (NEW QUESTION)**

(All respondents - N=1430, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)



The average score of 2.8 (on a scale from 1 to 5), indicates a degree of dissatisfaction of the SEE business community with the regulatory and legal frameworks influencing the operation of their companies.

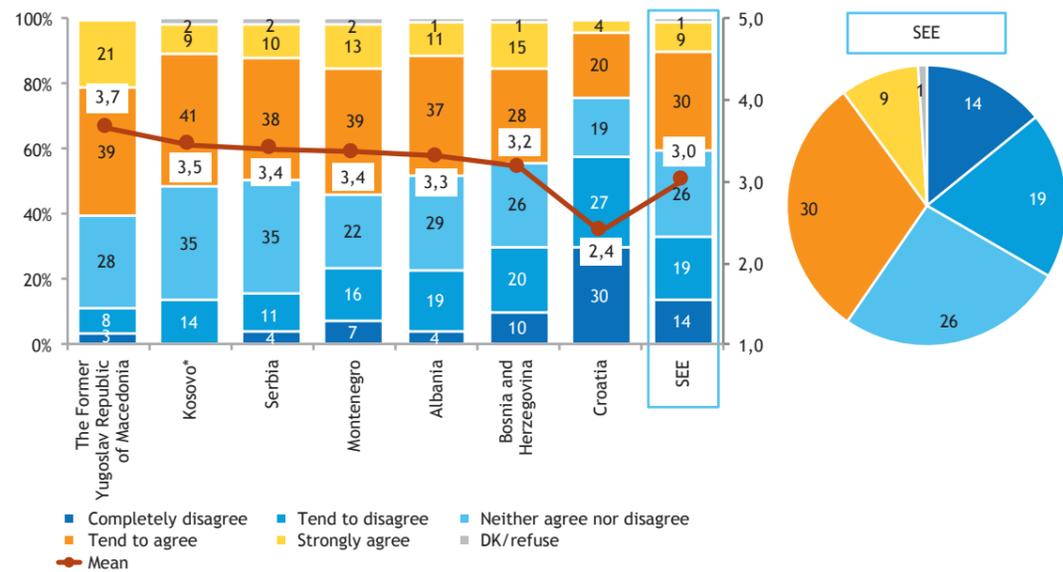
Croatian executives particularly scathing in their assessment.

Two fifths of respondents provided a negative appraisal of the laws and regulations with

Compared to export companies (2.9), non-exporters (3.2) have a more positive attitude in this regard.

**Figure 30: 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? (NEW QUESTION)**

(All respondents - N=1430, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)

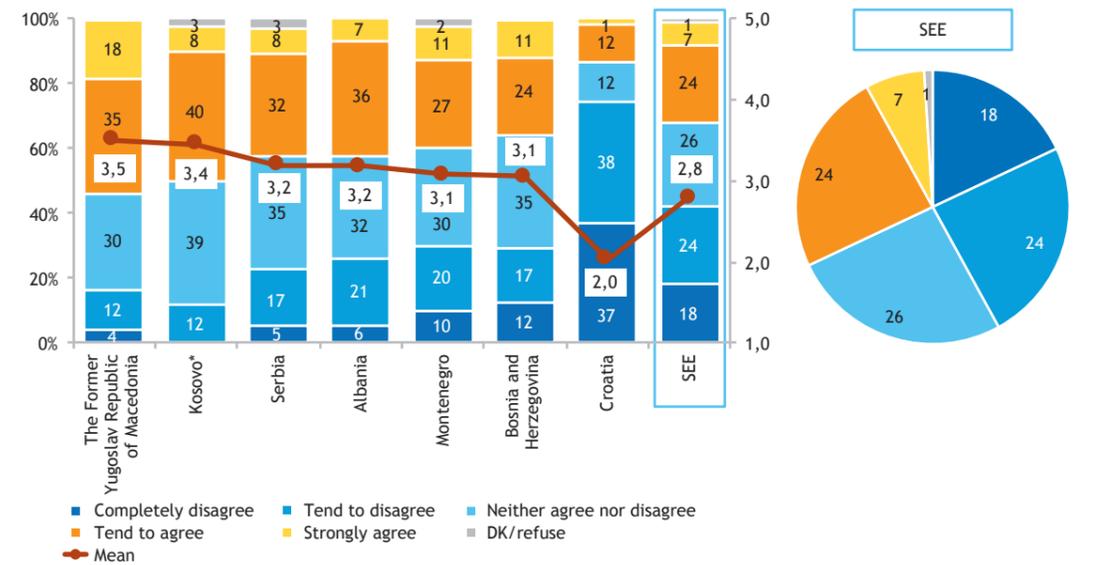


In terms of availability of relevant information provided by the authorities, business leaders in the SEE region show moderate satisfaction (3.0) but more than a third still find access difficult or obstructed. Once again, Croatian companies are markedly more negative in their assessment (2.4). At the same time, public institutions in The Former Yugoslav Republic of Macedonia seem to be by far the most cooperative (3.7).

Representatives of firms focused on domestic markets (3.3) and those representing larger enterprises (3.7) are the most content with access to the necessary information.

**Figure 31: 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? (NEW QUESTION)**

(All respondents - N=1430, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)



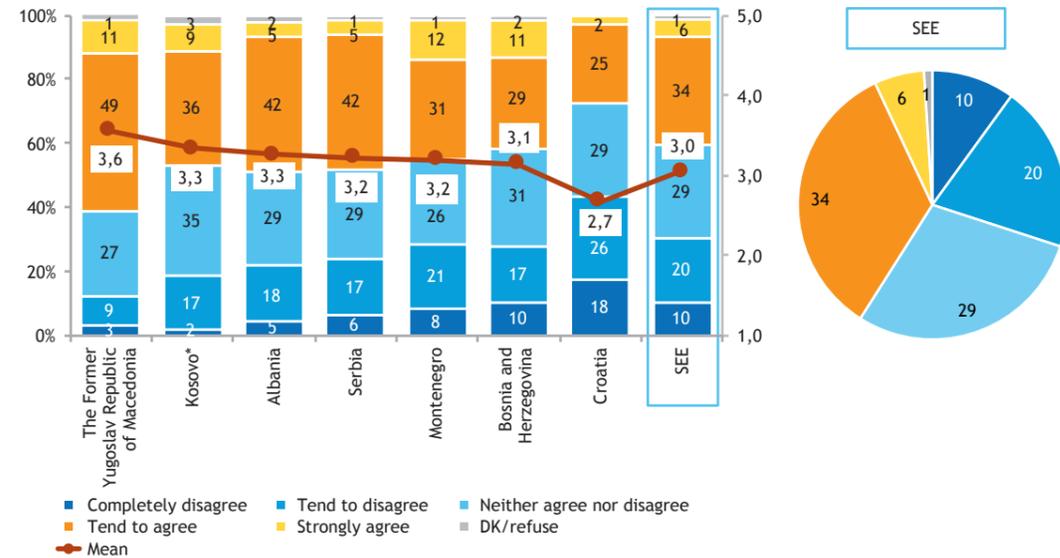
The trend of dissatisfaction with government performance is evident here as well with 42% of respondents dissatisfied with the consistency and predictability of the government's legal interpretation called into question. Once again, Croats lead the unhappy chart with an overall rating of 2.0 against an average for the region of 2.8. The results are particularly

concerning as they indicate an overarching climate of legal uncertainty which has a direct and profoundly negative effect on economic growth as well as stability.

Companies not active internationally are more positive (3.1) than those dealing with export markets (2.9).

**Figure 32: To what extent do you agree with the following statement - Requests for information held by a government agency are granted in a timely manner? (NEW QUESTION)**

(All respondents - N=1430, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)



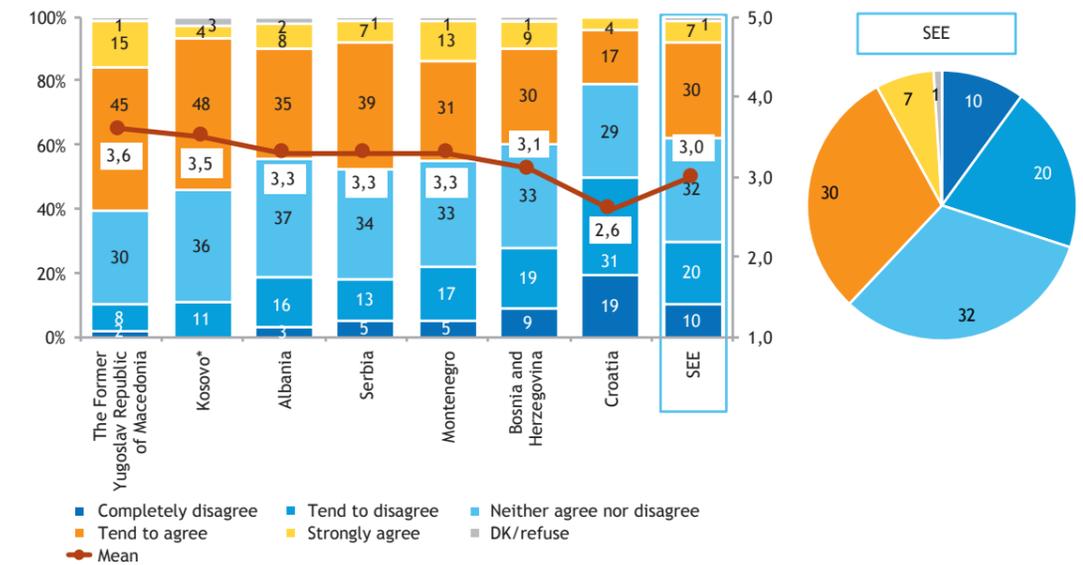
The efficiency of government agencies in providing required information is rated as satisfactory overall with the average score of 3.0. There are 40% of SEE executives who agree with the assertion of positive government performance and 30% who disagree. Again, Croatia carries the torch for the dissatisfied camp with a below average rating of 2.7.

Overall, it does appear that freedom of information laws adopted across the region are having an effect.

Companies which possess some foreign capital state that information is granted in a timely manner (3.5) more often than domestic ones (3.2).

**Figure 33: To what extent do you agree with the following statement - The information provided by a government agency is pertinent and complete? (NEW QUESTION)**

(All respondents - N=1430, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)



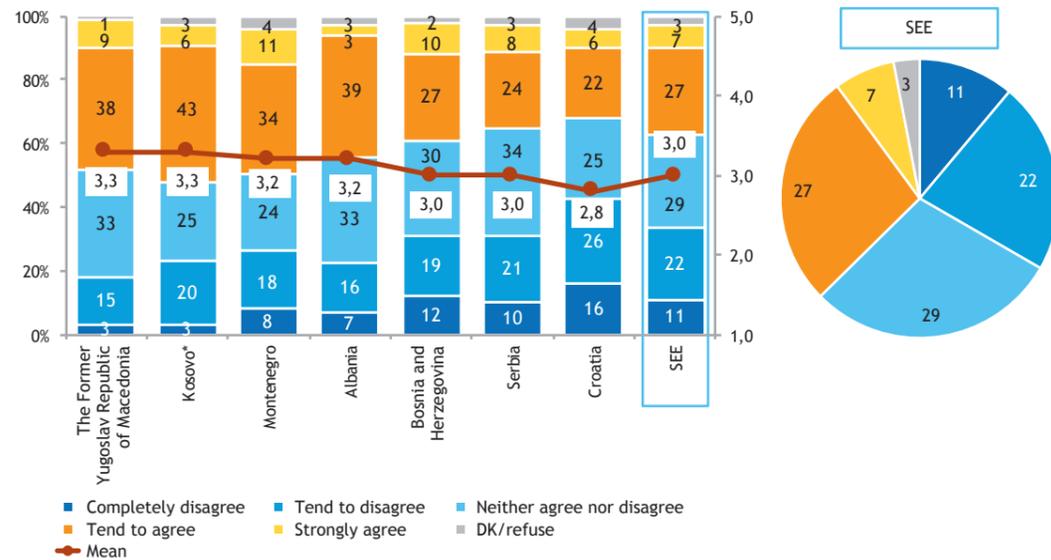
While opinion on completeness and relevance of information provided by the competent authorities is divided, as with efficiency in the provision of information, those satisfied prevail at the regional level (37%). With the exception of Croatia, the number of satisfied executives outnumbers those unhappy with the services received.

Nonetheless, almost a third of respondents found the information neither pertinent nor complete which is cause for concern.

Non-exporters confirm that the mentioned information is pertinent and complete (3.3) more frequently than exporters (3.1).

**Figure 34: To what extent do you agree with the following statement - Requests for information held by a government agency are granted at a reasonable cost? (NEW QUESTION)**

(All respondents - N=1430, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)



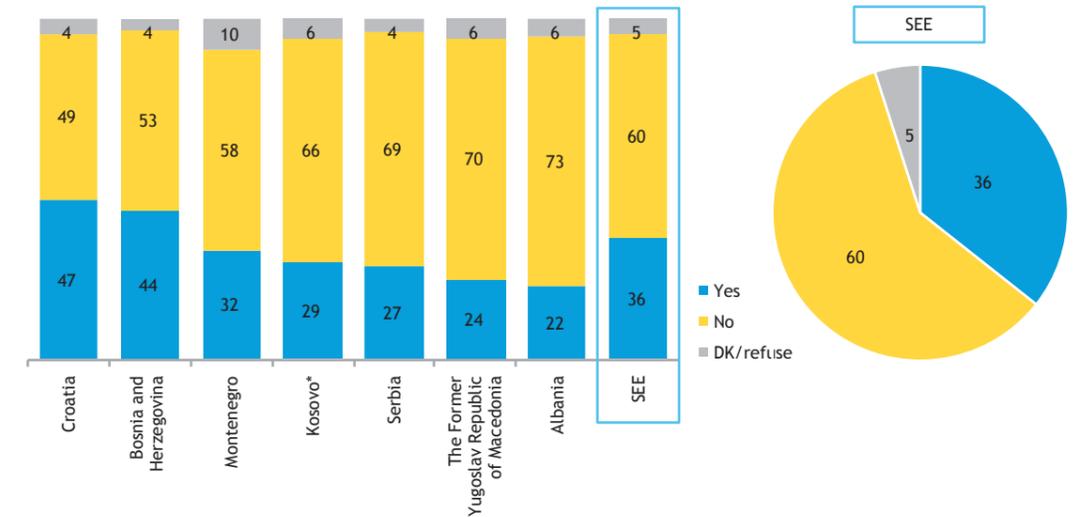
The trend for this section carries over into the appraisal of cost incurred in exchange for the requested information. While a third find the costs excessive (33%), a negligibly higher number (34%) finds them appropriate. Croatia's below average score of 2.8 is again the outlier for the region.

Having in mind the cumulative findings of this section, it is clear there is much work ahead for the SEE governments in making the region friendlier to business. While there are improvements in certain segments of the

public-private relationship, the extent of the respondents' displeasure across a series of critical industry enablers calls for a more structured and consistent engagement by the region's governments, going well beyond mere lip service and sporadic token initiatives.

**Figure 35: In the past three years, has your company decided not to take part in a public tender or a public procurement procedure? (NEW QUESTION)**

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

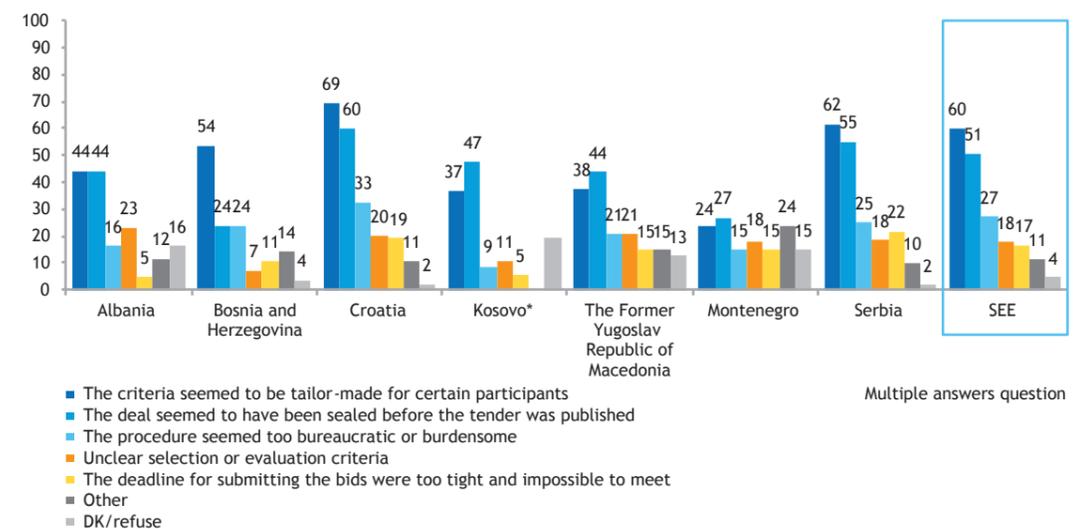


More than a third of companies surveyed (36%) have decided against participating in a public tender or a procurement exercise over the past three years. Corporations from Croatia

(47%) and Bosnia and Herzegovina (44%) are especially notable in this regard while Albania has fewest examples of this practice (22%).

**Figure 36: Was it for any of the following reasons? (NEW QUESTION)**

(Respondents whose company decided not to take part in a public tender or a public procurement procedure - N=454, share of total, %)



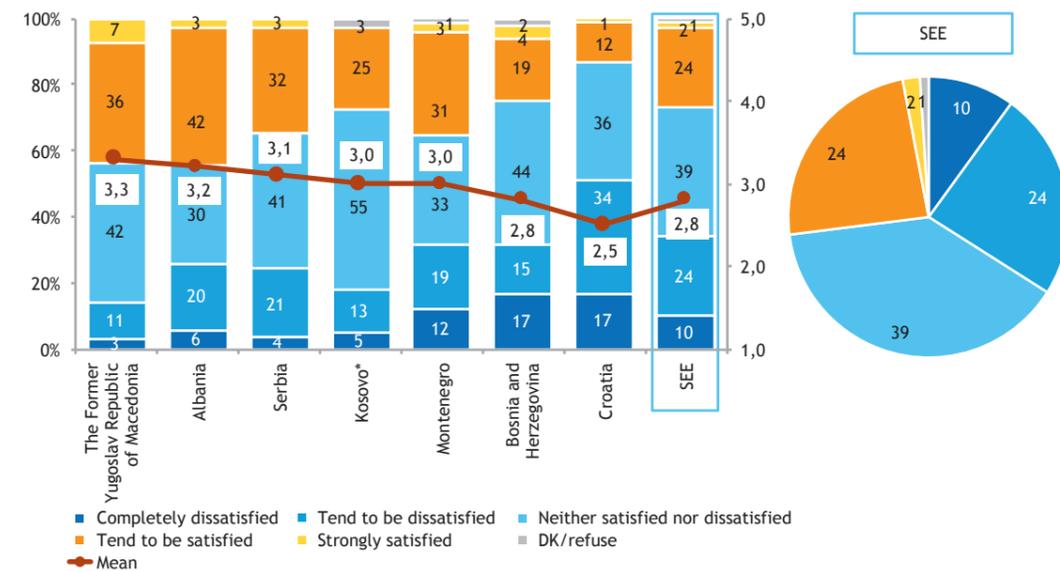
Multiple answers question

Three fifths of SEE business leaders who decided not to take part in a public tender or procurement did so due to an impression of undue interference with the award criteria by the contracting authority to benefit one of the bidders. The second most cited reason is the belief that a deal had already been struck with a contractor and was merely going to be rubberstamped through the public procurement process (51%). Roughly a quarter of respondents (27%) point the finger at the cumbersome bureaucratic process.

Company representatives from Croatia (69%) and Serbia (62%) are particularly inclined to believe the criteria have been tampered with. Again, Croats (60%) and Serbs (55%) are in the majority as well when it comes to their belief that an agreement has been made outside of the public procurement process. The figures for Bosnia and Herzegovina and Montenegro are 24% and 27% respectively.

**Figure 37: Could you please tell me how satisfied you are with each of the following in your place of living - Public services for businesses? (NEW QUESTION)**

(All respondents - N=1430, scores are on a scale of 1 to 5 where 1 means completely dissatisfied and 5 strongly satisfied, share of total, %, mean)

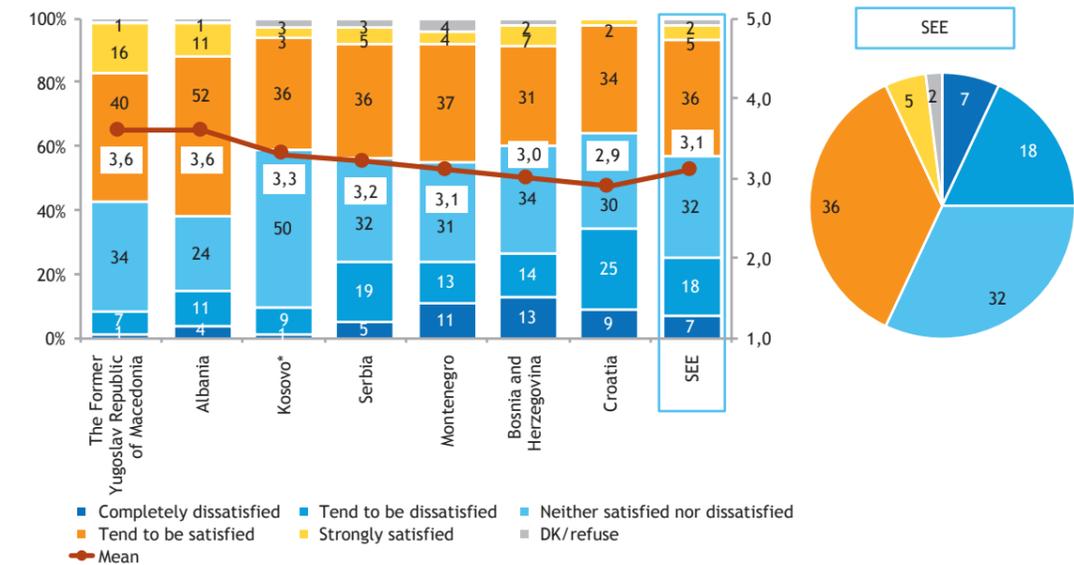


The degree of satisfaction with public services in the SEE region is below average and stands at 2.8. Managers from Croatia (2.5) tend to be least satisfied with the services on offer while The Former Yugoslav Republic of Macedonia leads the way with a 3.3 rating.

Possibly due to lower expectations, non-exporters (3.0) show a slightly higher level of satisfaction with services provided than export oriented companies (2.9).

**Figure 38: 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? (NEW QUESTION)**

(All respondents - N=1430, scores are on a scale of 1 to 5 where 1 means completely dissatisfied and 5 strongly satisfied, share of total, %, mean)

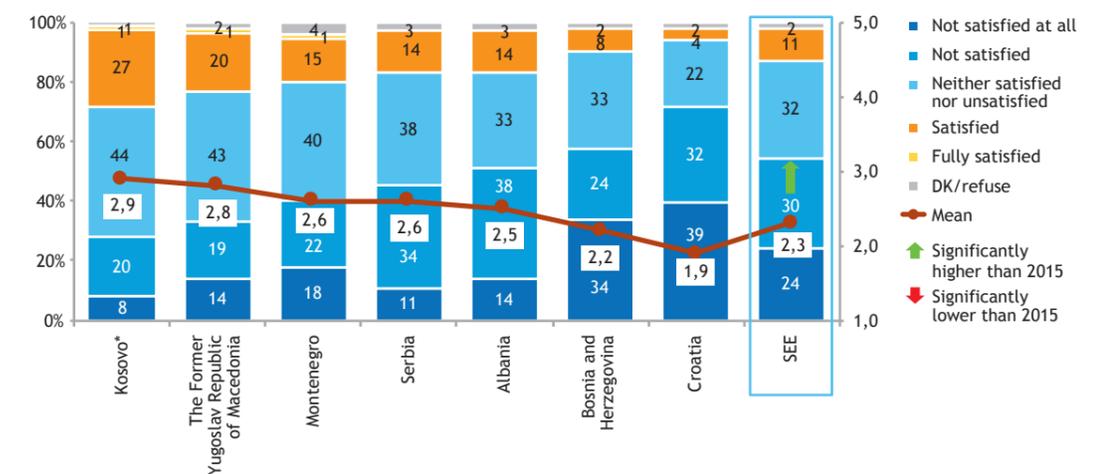


Two fifths of the SEE business community are satisfied with the digital services on offer (the average score is 3.1). Respondents from Albania (63%) and The Former Yugoslav

Republic of Macedonia (56%) seem to be especially content with the benefits of available new technologies.

**Figure 39: To what extent are you satisfied with how the Government consults and involves the private sector when developing new laws and regulations relevant for doing business?**

(All respondents - N=1430, scores are on a scale of 1 to 5 where 1 means not satisfied at all, 2 not satisfied, 3 neither satisfied nor unsatisfied, 4 satisfied and 5 fully satisfied, share of total, %, mean)



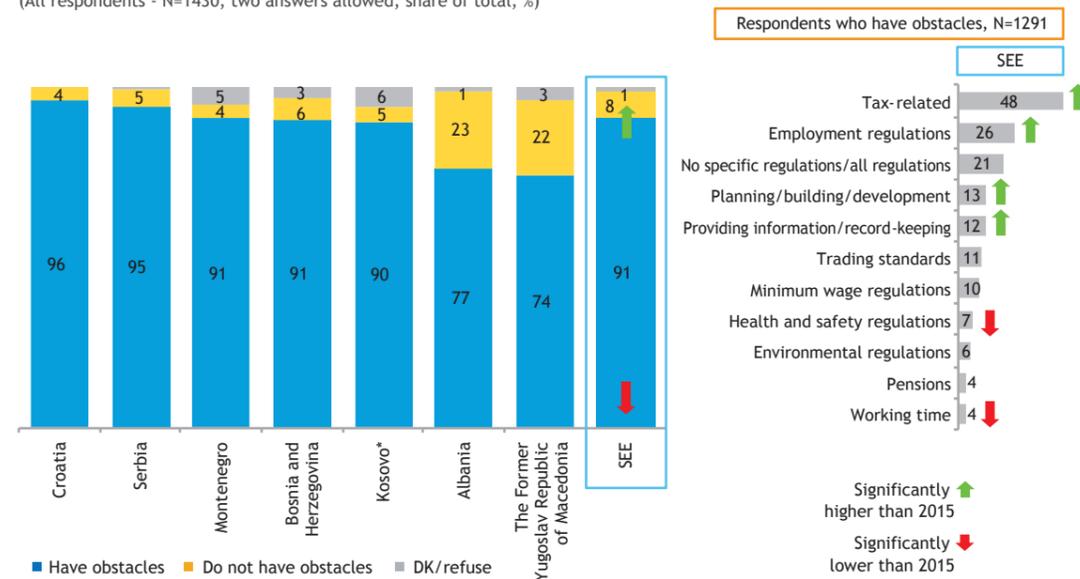
While marginally better rated than in 2015 (2.2), the SEE private sector is still overwhelmingly unhappy with how the region's governments include business interests in the drafting of new sectoral regulation and legislation (2.3). Croatian companies are especially dissatisfied (1.9), along with their counterparts in Bosnia and Herzegovina (2.2). Even in Kosovo\*, where the average score is the highest in the region (2.9), it is still below average.

This is an alarming state of affairs for the region and one that must be urgently addressed by all the SEE governments through a set of structured measures that will ensure inclusivity and consultation are respected as key prerequisites for the policy making process.

A more detailed analysis shows that large companies (2.8), as well as those which are not active internationally (2.5) are more satisfied with the current situation in this regard.

**Figure 40: Which regulations do you consider to be an obstacle to the success of a business?**

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



While the ranking of regulatory issues remains broadly the same compared to last year, the number of respondents reporting problems directly caused by the regulations has increased from 83% to 91%. Almost half of the respondent community (48%) reports struggle with tax regimes, up from 43% in 2015. The application

of employment regulations has also caused a surge in concern by the business community, up to 26% from 18% in 2015. This can in part be attributed to attempts by some of the region's governments to improve revenue collection through stricter tax collection.

**Table 3: Regulations considered to be an obstacle to the success of the business (for each economy)**

(Respondents who have obstacles - N=1291, %)

N	1291	155	181	196	191	158	200	210
	SEE	Albania	Bosnia and Herzegovina	Croatia	Kosovo*	The Former Yugoslav Republic of Macedonia	Montenegro	Serbia
Tax-related	48	50	54	53	40	24	49	48
Employment regulations	26	15	32	30	12	20	38	24
No specific regulations/all regulations	21	8	17	25	15	24	13	24
Planning/building/development	13	19	15	10	15	5	10	16
Providing information/record-keeping	12	12	4	20	10	8	3	9
Trading standards	11	13	6	9	8	13	19	14
Minimum wage regulations	10	10	10	5	36	7	13	12
Health and safety regulations	7	3	6	7	15	7	7	6
Environmental regulations	6	15	9	2	4	4	7	6
Pensions	4	0	8	2	7	2	7	5
Working time	4	3	2	4	6	8	2	3

Question requires two answers

Main obstacles

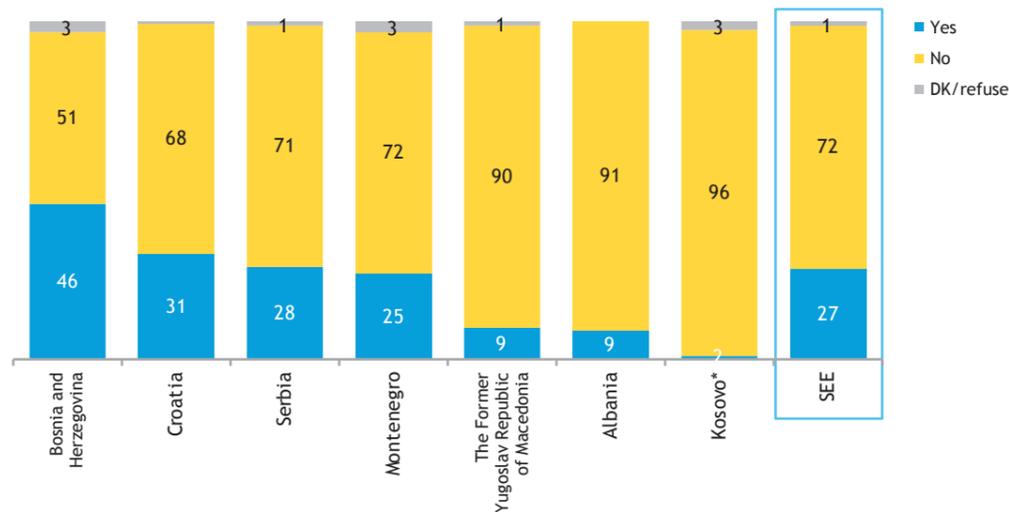
While taxation is recognized as a key regulatory obstacle across the region, business leaders in Bosnia and Herzegovina (54%) and Croatia (53%) find it especially burdensome. Kosovo\*, last year's most distressed economy, has shifted its focus to minimum wage regulations (36%).

Albania (23%) and The Former Yugoslav Republic of Macedonia (22%) stand out as the economies with the least regulatory troubles.

Analysis by company's export activity shows that international market players are more concerned by planning/building/development (17% vs. 11% for non-exporters) while those operating in agricultural (16%) and heavy industry fields (11%), as well as companies supported by foreign capital (17% vs. 6% for those with domestic only), seem more environmentally aware.

**Figure 41: Has your company had any cases in arbitration courts in the last 36 months?**

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

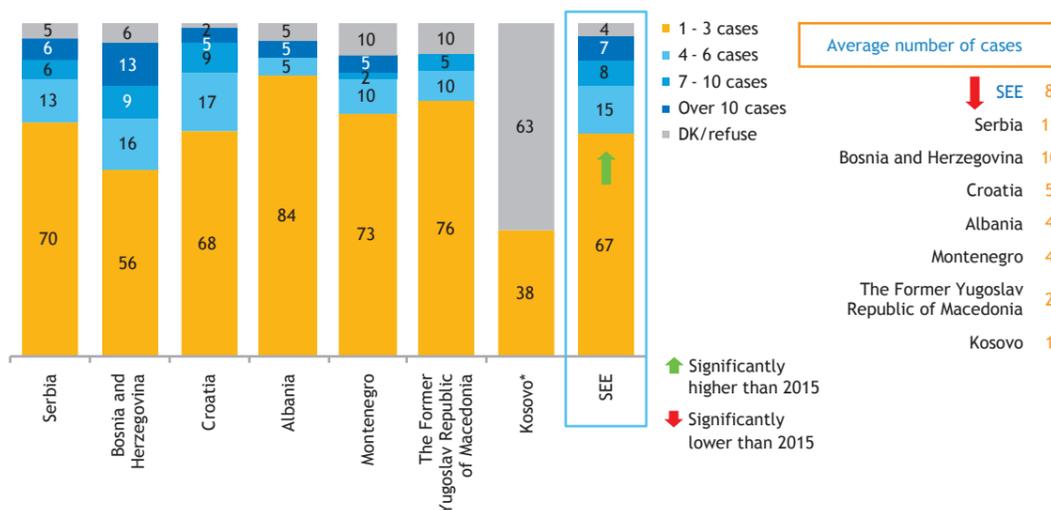


As in 2015, slightly more than a quarter of the surveyed SEE companies (27%) have had cases before arbitration courts in the past 3 years. This number is significantly higher in Bosnia and Herzegovina (46%) than in other economies. Next up are Croatia (31%), Serbia (28%) and Montenegro (25%) while Kosovo\* (6%), Albania (9%) and The Former Yugoslav Republic of Macedonia (9%) have significantly fewer of such cases.

Court cases are significantly more frequent among companies with more than 49 employees. Firms active outside the borders of their own economy and enterprises with some foreign capital have been compelled to solve problems through the courts more frequently.

**Figure 42: How many cases in civil or commercial arbitration courts have involved your company either as a plaintiff or as a defendant in the last 36 months?**

(Respondents who had cases in arbitration courts - N=307, %)



The regional average for cases processed in the past 36 months remains eight. There are significantly more businesses involved in up to three cases (67% in 2016 vs. 48% in 2015). The largest number of court cases was recorded

in Serbia (11 on average), then in last year's "leader" Bosnia and Herzegovina (10 on average) while Kosovo\* has the least number of cases (1 on average).

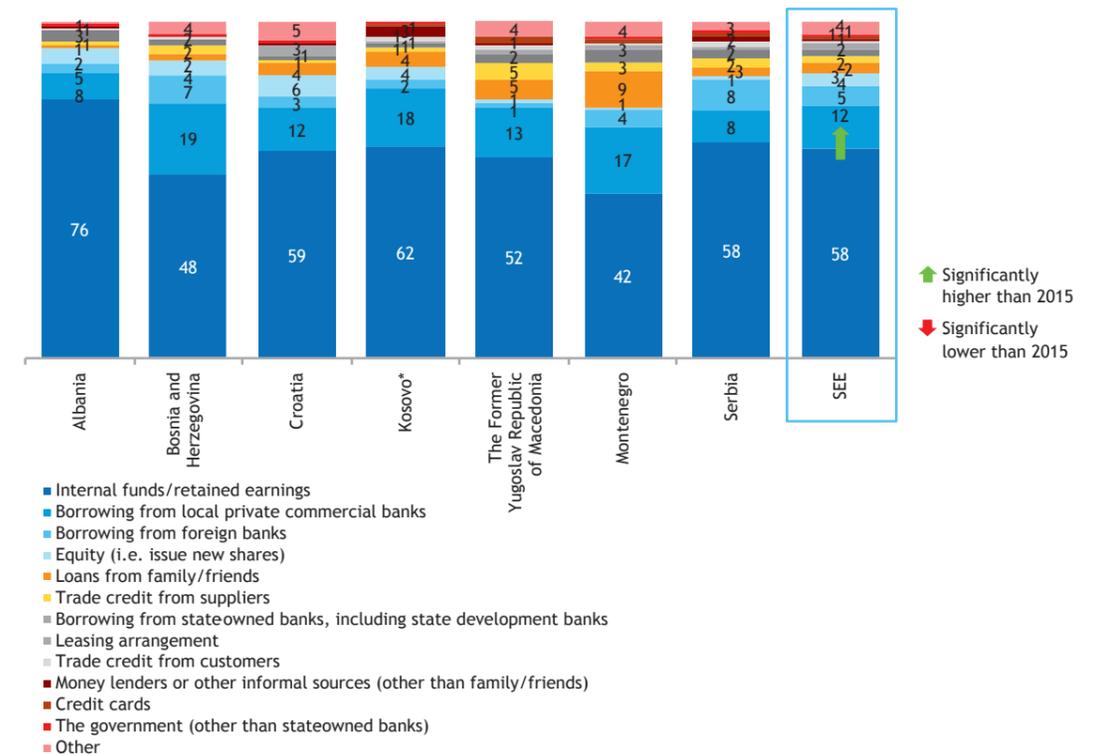
## ACCESSIBILITY OF LOANS

There is a correlation with the statistics on non-performing loan and credit behaviour by the businesses. Similarly, the data presented below correlates with the financial

sophistication of the economy. Croatia seems to have more of a credit problem, while, for example, Albania has less access to loans.

**Figure 43: What proportion of your company's working capital and new fixed investment has been financed from each of the following sources, over the past 12 months?**

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



In the SEE, 58% of companies' working capital and new fixed investment were financed from internal funds i.e. retained earnings. The share is at a similar level as in 2015 (56%). On the other hand, the share of local private

commercial banks' loans, as the second most important source of financing, has increased (12% in 2016 vs. 7% in 2015) indicating better and easier access to credit.

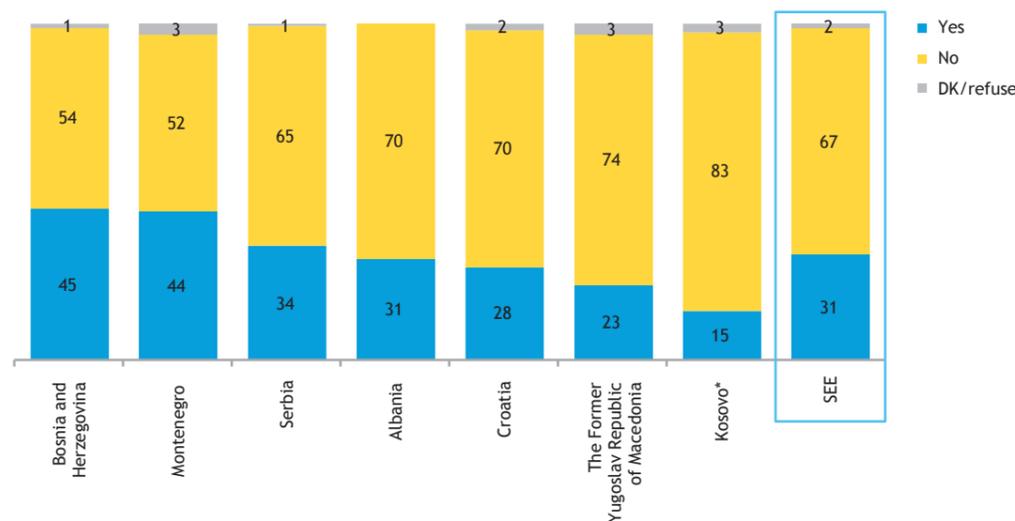
Borrowing from foreign banks comes in third and is at last year's level - 5%. Companies relying on their own resources (internal funds/retained earnings) are more common in Albania (76%) and Kosovo\* (62%). Companies from Bosnia and Herzegovina prefer borrowing from local banks (19%) unlike Albanian and Serbian (both at 8%).

The Former Yugoslav Republic of Macedonia (1%), Albania (2%) and Croatia (3%) seldom use foreign banks while this practice is more common in Serbia (8%).

In terms of company size, loans provided by foreign banks are used more frequently by medium (7%) than small companies (4%). In addition, large enterprises (9%) rely on equity more than the other subgroups.

**Figure 44: Has your company taken a loan from a bank in the past 12 months?**

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



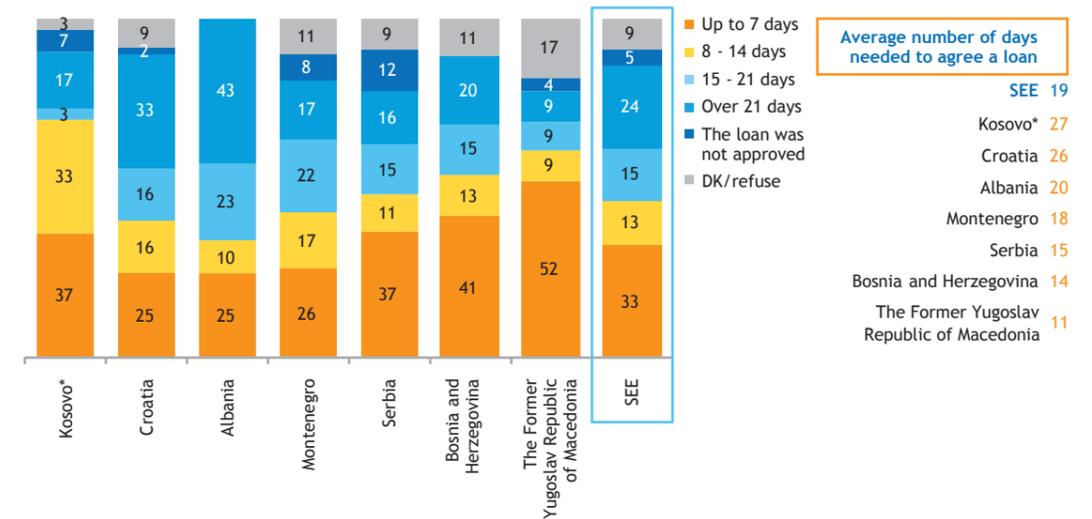
Almost a third of SEE businesses have applied for a bank loan in the past 12 months (31%). This practice is more common in Bosnia and Herzegovina (45%) and Montenegro (44%).

in heavy industry borrow from banks more frequently, as well as those operating in service sectors.

More loan users can be found among bigger companies and exporters. Businesses dealing

**Promeniti u Figure 45: How many days did it take to agree the loan with the bank from the date of application?**

(Respondents who had a loan application - N=449, %)



Average number of days needed to agree a loan	Country
19	SEE
27	Kosovo*
26	Croatia
20	Albania
18	Montenegro
15	Serbia
14	Bosnia and Herzegovina
11	The Former Yugoslav Republic of Macedonia

At the regional level, the loan approval process takes an average of 19 days. The time needed to process loan applications is the longest in Kosovo\* (27 days), followed by

Croatia (26 days). The banks in The Former Yugoslav Republic of Macedonia are the most expeditious (11 days).

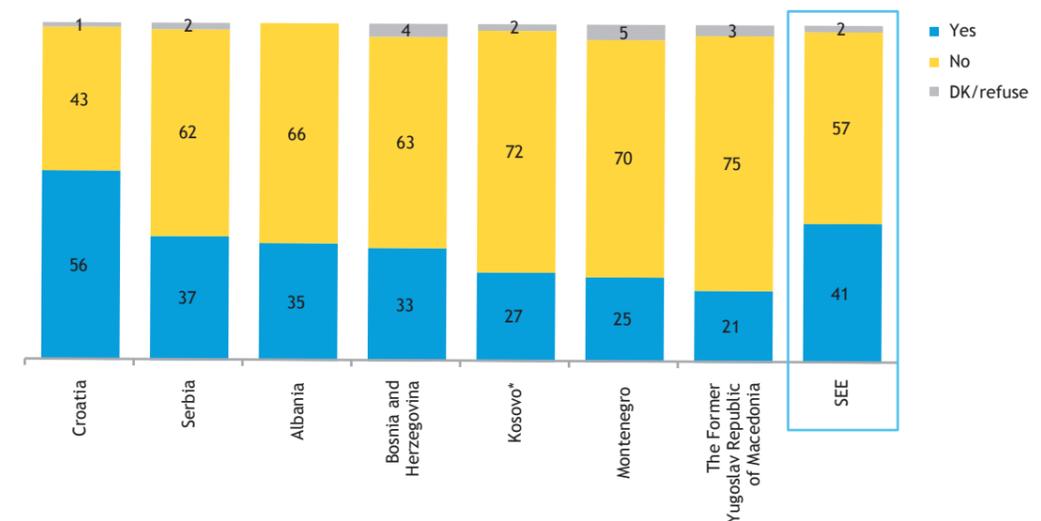
## OVERDUE PAYMENTS

As with access to loans, overdue payments and other crediting problems are more pronounced in economies which have had to go

through a process of deleveraging, of which Croatia is the leading example.

**Figure 46: Have you had to resolve any issues regarding overdue payments in the last 12 months (either as a result of your or another company's responsibility)?**

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

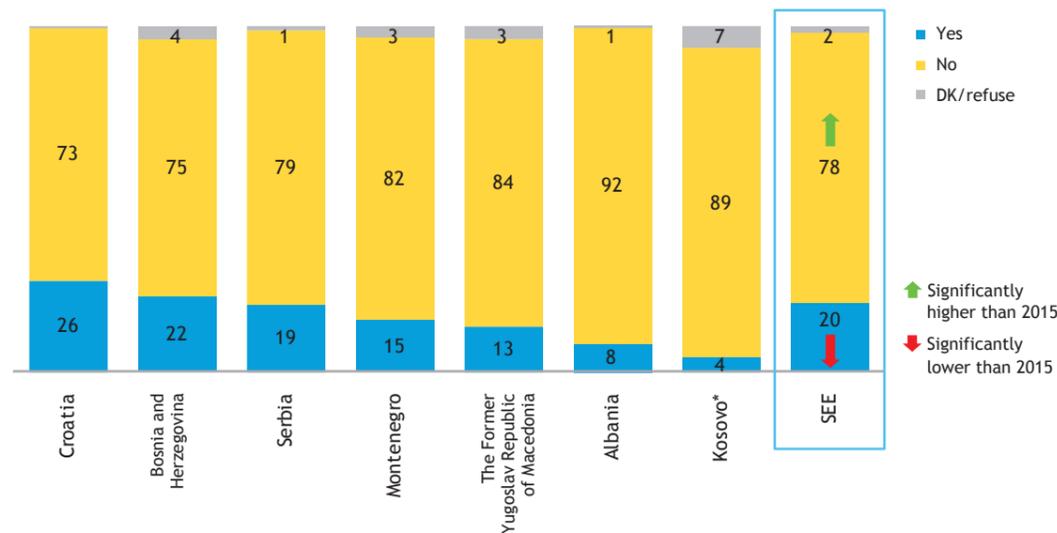


Two out of five business representatives report that their company had to deal with overdue payments in the previous year. The percentage of Croatian companies (56%) which had to resolve this type of issues is significantly above the SEE average (41%) and noticeably higher than in all the other individual economies.

Compared to small firms (32%), medium sized companies (41%) experience these issues more frequently. Late payments are a somewhat larger concern for exporters (40%) and firms in the manufacturing sector (44%).

**Figure 47: Have you had to launch a court action to resolve an overdue payment issue (either as a result of your or another company's responsibility)?**

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

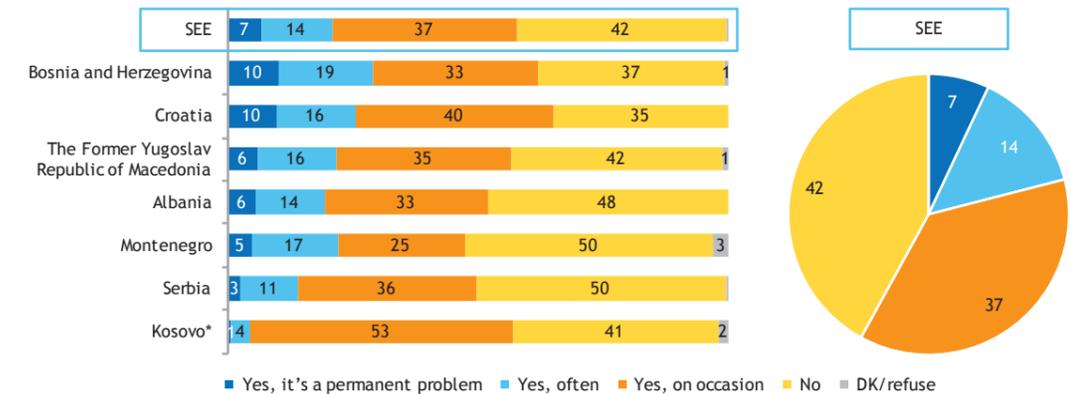


In comparison with the previous wave, a smaller number of SEE businesses had to launch court proceedings in order to settle overdue payments (down to 20% from 25% in 2015). These are significantly more common in Croatia (26%) and Bosnia and Herzegovina (22%).

Further analysis shows that larger firms ask courts to interject more frequently, and so do exporters, businesses with foreign capital and industry/mining/construction companies.

**Figure 48: Has the problem of late payment of other private companies caused your business to experience cash flow problems? (NEW QUESTION)**

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



One out of five companies surveyed experienced cash flow problems as a result of overdue payments by other companies, 37% have faced this problem occasionally while 42% have no experience in this regard.

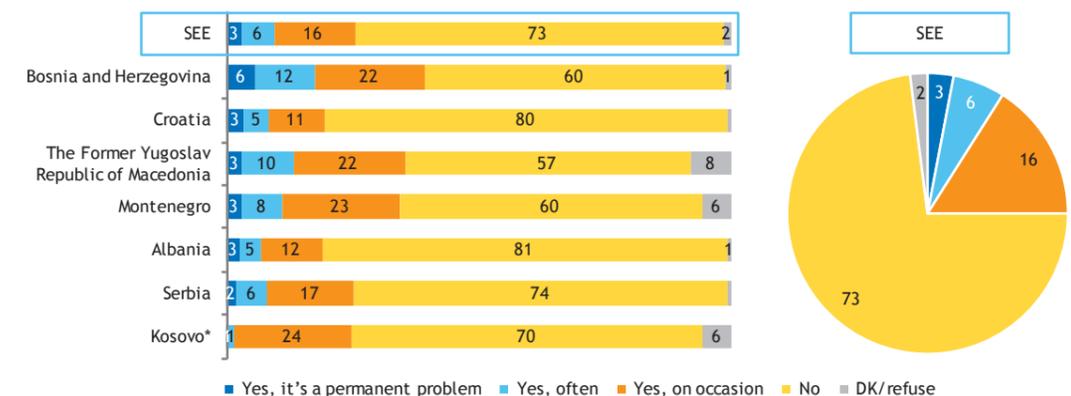
significantly more frequently than those from Kosovo\* (5%) and Serbia (14%).

Cash-flow problems due to late payments are more frequent among companies in industrial manufacturing and service provision, as well as those that are export-oriented and/or rely on domestic capital only.

Businesses from Bosnia and Herzegovina (29%) and Croatia (26%) struggle with late payment

**Figure 49: Has the problem of late payment from government institutions caused your business to experience cash flow problems? (NEW QUESTION)**

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



Responses provided indicate that either the governments in the region are more responsible in settling their commitments or that a

portion of the companies surveyed do not do business with public institutions. Considering the responses provided under Figure 35, where

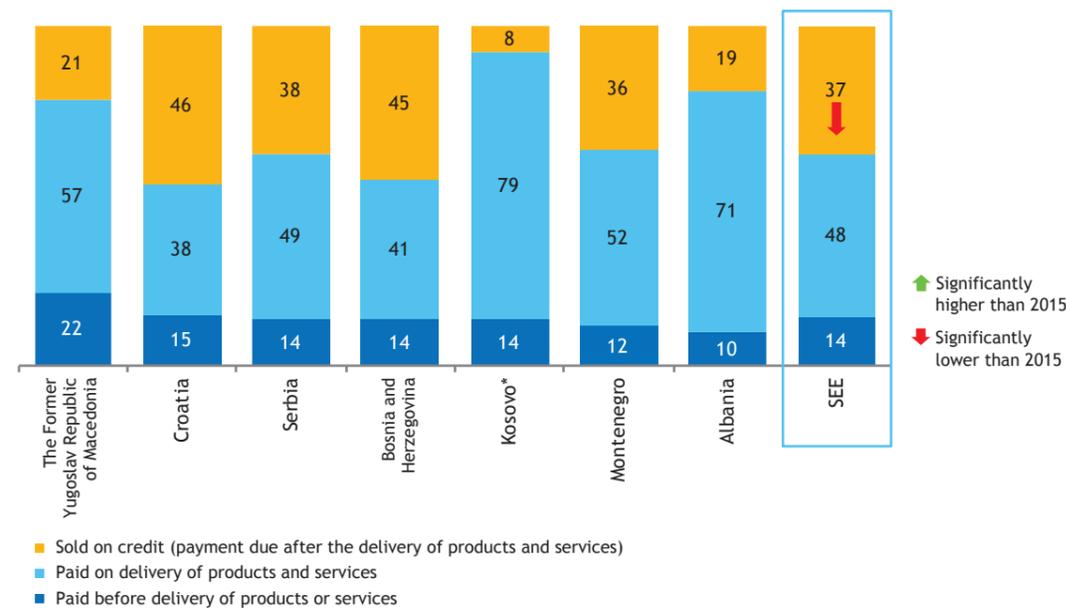
more than a third of respondents indicated that they have not contested a government tender in the past three years, the latter seems more likely.

Nearly three quarters of respondents (73%) have not experienced cash flow difficulties

caused by late payment clients in the public sector. Approximately every sixth respondent has faced them occasionally while 9% cite them as frequent or permanent. Companies from Bosnia and Herzegovina seem to struggle with this issue more than their counterparts in the region (18%).

**Figure 50: What percentage of your company's sales in value terms in the previous 12 months were...?**

(Respondents who did not mark DK/refuse - N=1367, %)



As with the 2015 survey, SEE businesses recorded payment most frequently upon delivery of products and services (48%), with a drop recorded in sales on credit (down to 37% from 43% in 2015).

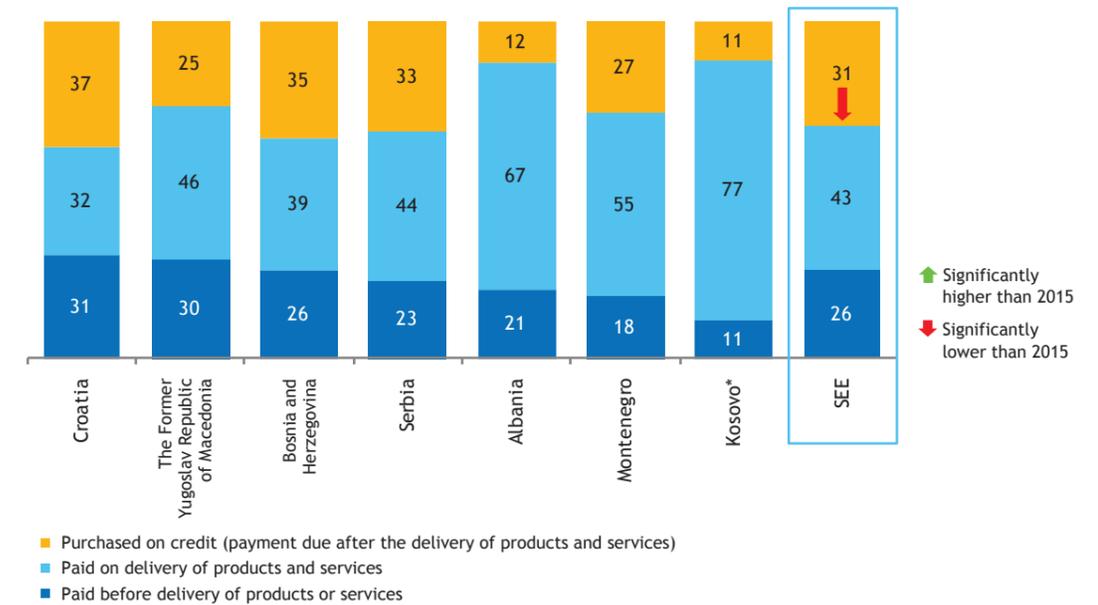
Payment in advance remains the least frequent and was recorded in only 14% of all sales. Payment on delivery is especially prevalent in Kosovo\* (79%) and Albania (71%), which likely accounts for the low rates of unpaid

sales recorded by businesses in the two economies, while customers are credited primarily in Croatia (46%) and Bosnia and Herzegovina (45%), followed by Serbia (38%).

If you look at company subgroups, sale on credit is more common among medium (38%) and large (40%) companies, exporters (37%) and those operating in industry and related fields (39%).

**Figure 51: What percentage of your company's purchases of inputs or services, in value terms, in the previous 12 months were...?**

(Respondents who did not mark DK/refuse - N=1356, %)



The trend here broadly follows the mode of payments received, discussed in the previous section, with some variation. As in 2015, most purchases (43%) in 2016 were paid upon delivery of products and services.

Again, following the trend of payments received, there is a decrease recorded in credit payment (down to 31% from 36% in 2015).

A quarter (26%) of goods/services were paid in advance, with this practice more widespread in Croatia (31%) than in Kosovo\* (11%), Albania (21%) and Serbia (23%). Croatia, Bosnia and

Herzegovina and Serbia tend to credit their suppliers more than others (roughly a third of their supplies are pre-paid). Businesses in Kosovo\* (77%) and Albania (67%) pay for their raw materials and services upon delivery considerably more often than the rest - this can likely be attributed to the make-up of the two economies that consist largely of smaller, service-oriented, companies.

As with sales, medium (33%) and large (36%) companies as well as export-oriented ones (29%) more often pay their purchases on credit.

## CORRUPTION

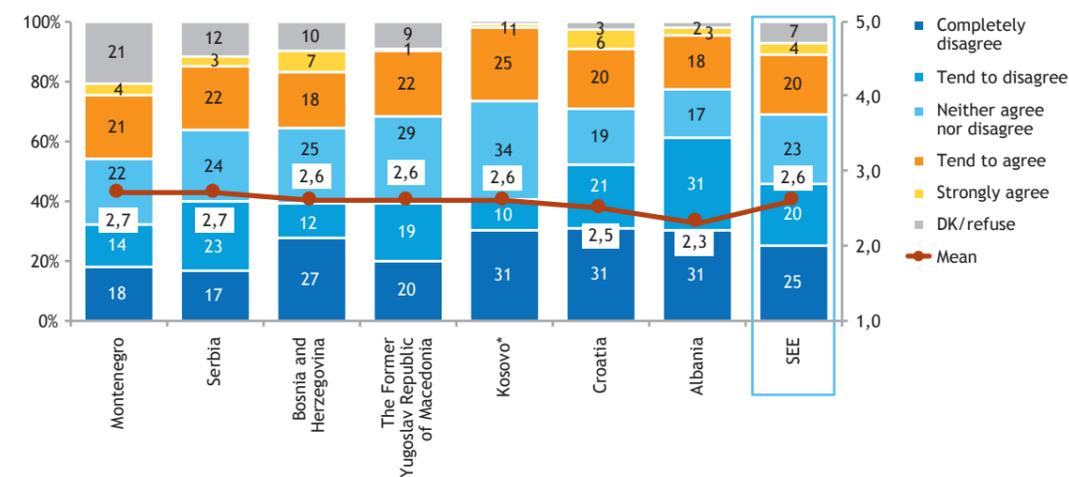
Perceptions of corruption in the region have remained largely unchanged. Respondents feel that private connections, insider information, and bribes of one form or another tend to feature significantly in how the region does

business. A sense of hopelessness that this can be mitigated, or addressed in a meaningful way, permeates the thinking of the region's executives.

**Figure 52: Thinking about officials, to what extent would you agree with the following statements?**

(All respondents - N=1430, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, %, mean)

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



Nearly a quarter of all respondents believe that irregular payments feature prominently in how companies in the region go about their business while roughly the same number is unsure of how prevalent the practice is. The overall average score has remained unchanged since 2015 and it stands at an unfavourable 2.6 signalling that decisive action

is needed by the region's governments to address the crisis of confidence in the integrity of public officials.

Interestingly, there are no significant differences between economies and set company subgroups.

**Figure 53: Thinking about officials, to what extent would you agree with the following statements?**

(All respondents - N=1430, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, %, mean)

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

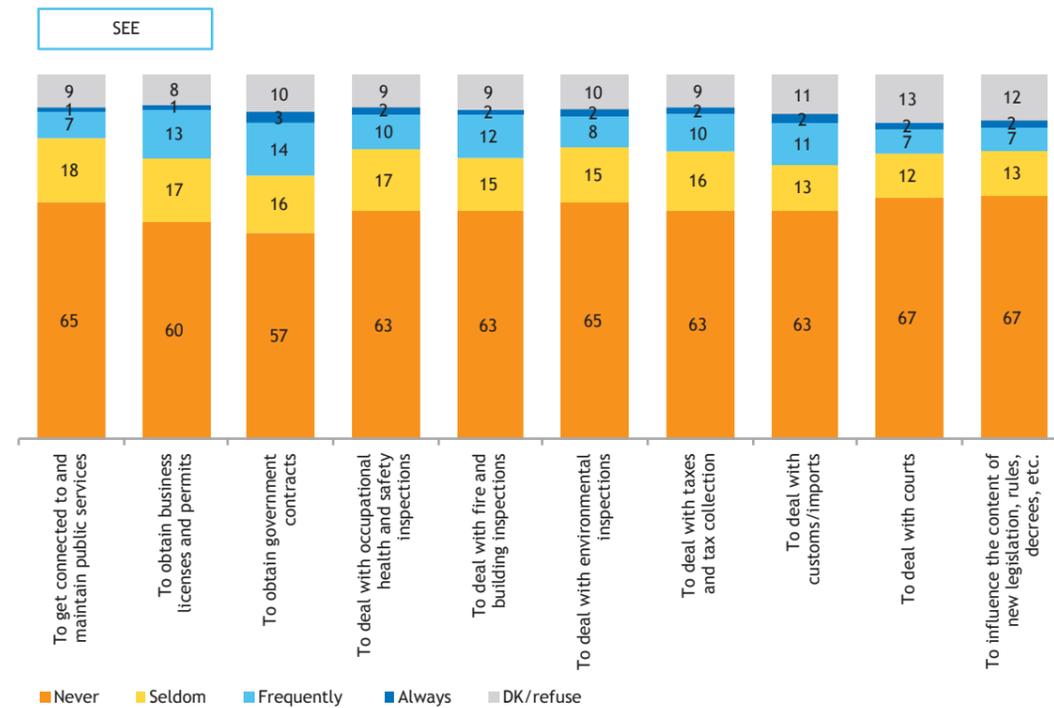


Again, no major changes have happened in this regard compared to 2015. The average regional score is 2.6 with nearly a quarter again indicating that the amount of the irregular payment required tends to be known in advance. Among the economies, the biggest discrepancy is observed between exceedingly poorly ranked Croatia (2.3) and Kosovo\* (3.1). It appears that the heads of small-sized

enterprises (with less than 50 employees) are more familiar (2.7) with the sum for the additional "fee" they need to pay to get things done than the managers of medium companies (2.5).

**Figure 54: Thinking now of unofficial payments/gifts that companies like yours would make in a given year, could you please tell me how often they would make payments/gifts for the following purposes?**

(All respondents - N=1430, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)



While the overall figures for the region have remained steady across all the services, a significant deterioration has been noted with regards to the selected individual economies. The most obvious changes have occurred in Serbia where the number of respondents who feel that companies have to make informal payments for business-related purposes has grown significantly. This is reflective of an overall trend and is not restricted to individual categories where Serbia “leads” the field in negative opinion, such as obtaining business licenses and permits, obtaining government contracts, dealing with fire and building inspections.

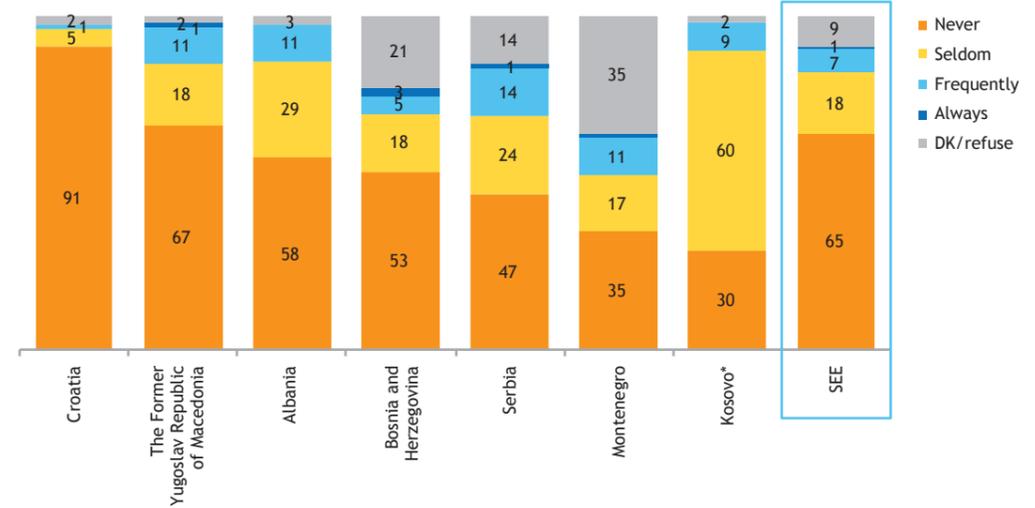
At the other end of the spectrum, Croatia stands out with the highest ranking awarded to authorized institutions and their conduct with regards to businesses. As for the other economies of the region, Montenegro and Kosovo\* are ranked closer to Serbia, while The Former Yugoslav Republic of Macedonia gravitates more towards Croatia. Albania and Bosnia and Herzegovina fall somewhere in between.

Further analysis shows that company size, capital origin, export or main activity do not seriously influence the perception of corruption.

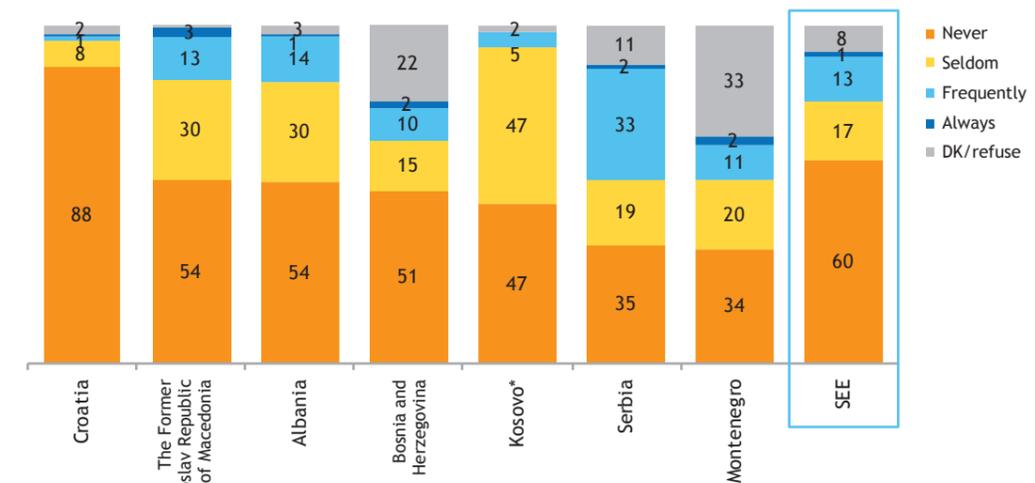
**Figure 55: Thinking now of unofficial payments/gifts that companies like yours would make in a given year, could you please tell me how often they would make payments/gifts for the following purposes? (Results by economies)**

(All respondents - N=1430, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)

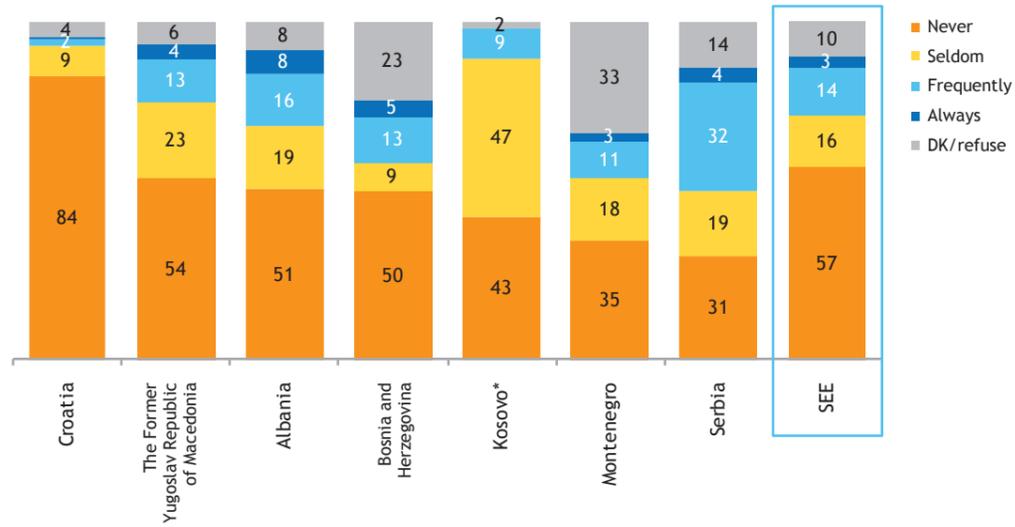
*To get connected to and maintain public services*



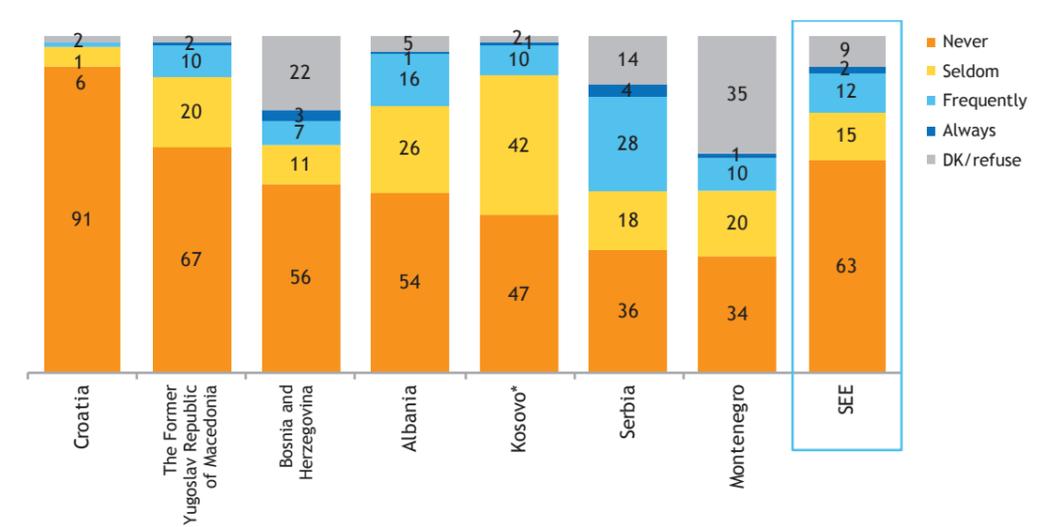
*To obtain business licenses and permits*



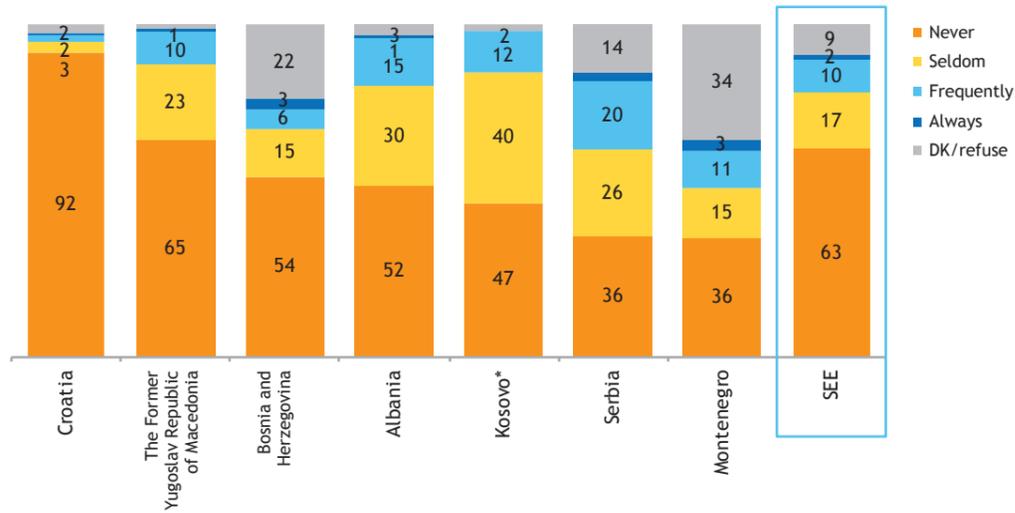
To obtain government contracts



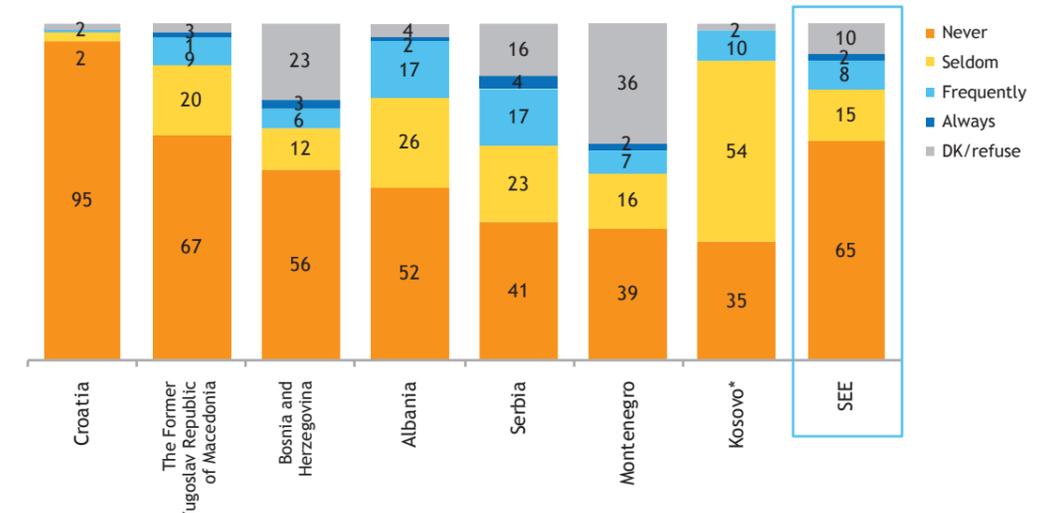
To deal with fire and building inspections



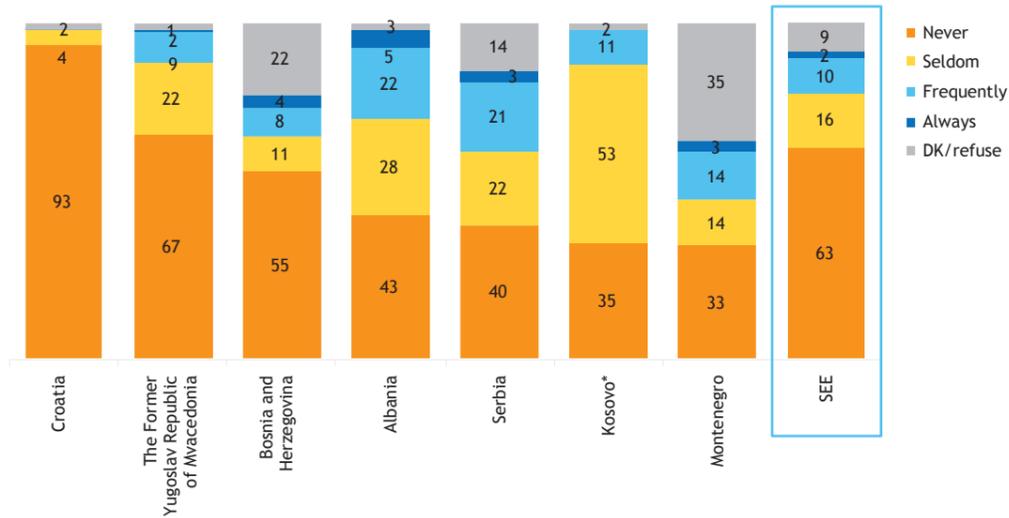
To deal with occupational health and safety inspections



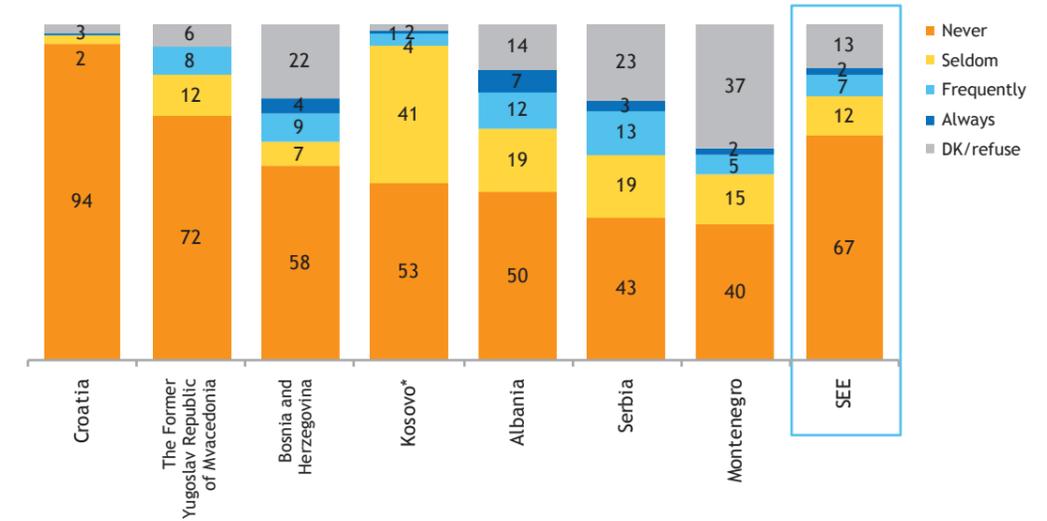
To deal with environmental inspections



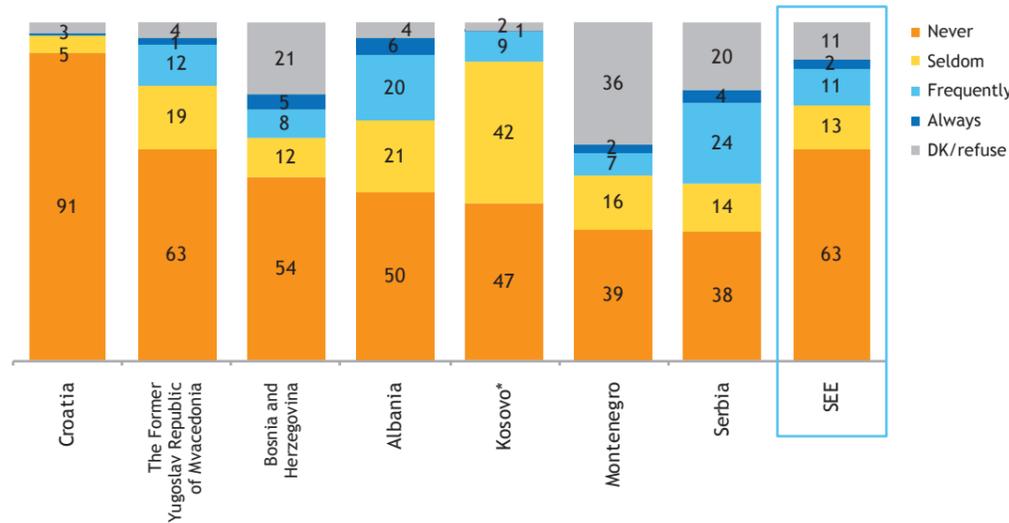
To deal with taxes and tax collection



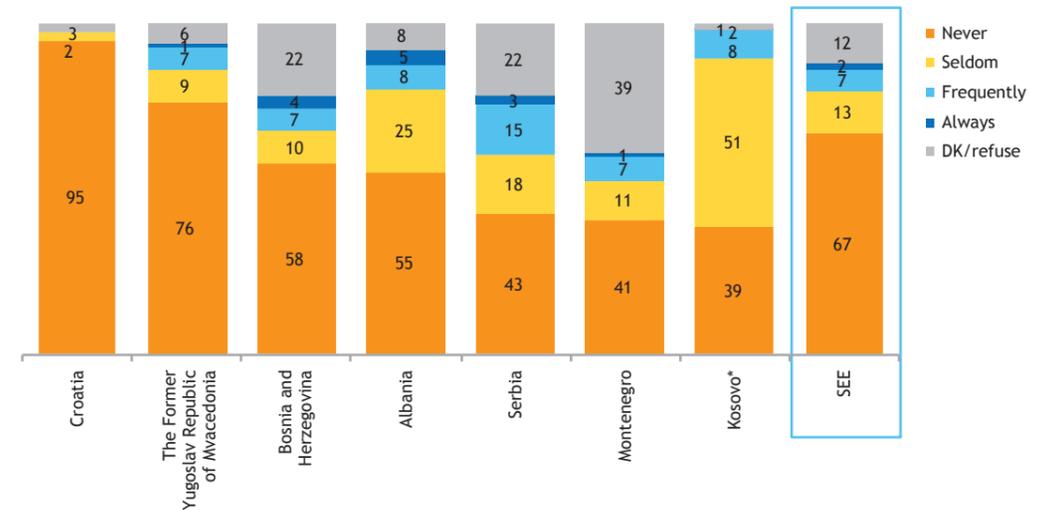
To deal with courts



To deal with customs/imports



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

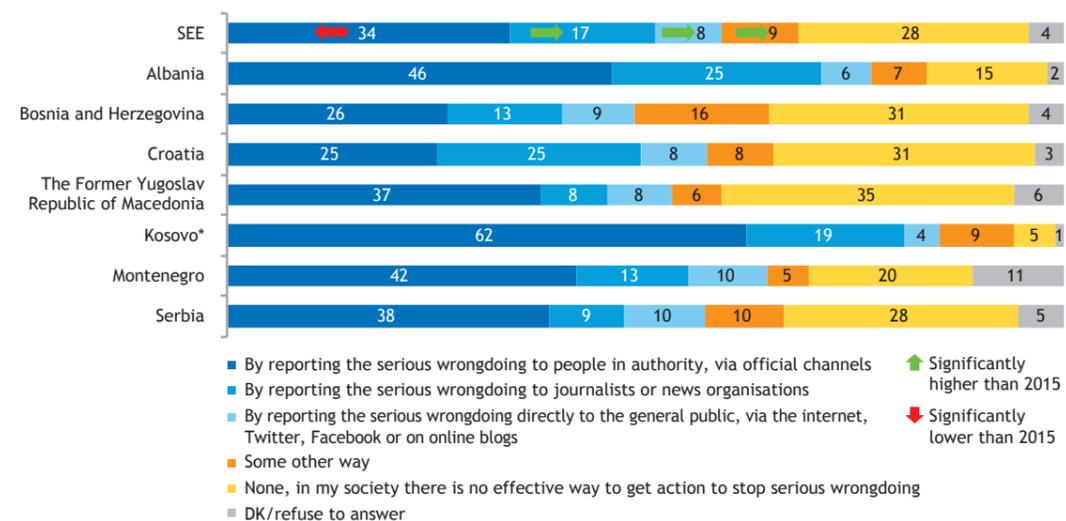


Further analysis shows that exporters face some type of corruption more rarely than non-exporters, with the exception of dealing with customs/imports. In addition, businesses

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

**Figure 56: In different societies, there are different views on the most effective ways to get action to stop serious wrongdoing. Which one of these do you think is the most effective way in your society?**

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



Although to a lesser extent than in 2015 (39%), most SEE managers agree that reporting wrongdoing to people in authority, via official channels, is the most efficient way to combat corruption (34%). Kosovo\* is an absolute leader in this regard with 62%. The idea of reporting wrongdoing to journalists or media, as the second most effective method, has gained traction (up to 17% from 11% in 2015). There is likely a relationship between the two

categories where executives disenchanted by unresponsive governments have now moved on to the media, especially considering that there has been little change across the other two categories. Especially alarming is the fact that some 28% of the respondents feel that there is no recourse to corruption indicating a general sense of disillusionment with the integrity of public institutions.

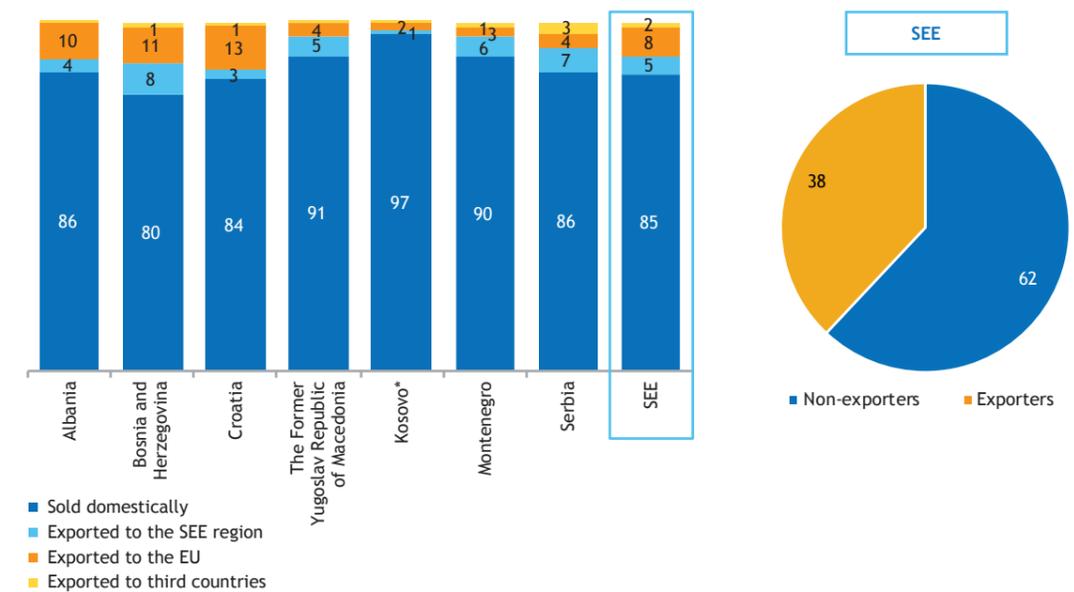
# Export and Import of SEE Businesses

Economies still tend to be rather inward facing, focusing largely on domestic markets. The survey allows for some data distortion through underestimation in this regard as exporters are most commonly larger companies, which means that exporting activities are concentrated in one sector of the economy and possibly not fully represented here. Overall, respondents tend to be confident about their

competitiveness, though they believe that domestic firms should enjoy preferential treatment in product placement. One striking takeaway from this segment is the fact that the majority of companies find export to be easier to the EU rather than to CEFTA countries. Excessive demands for paperwork remain the biggest obstacle to border crossing.

**Figure 57: What percentage of your company's sales are made domestically, exported to the SEE region, to the EU or to the third countries?**

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



The number of SEE companies exporting their goods and services is identical to that in 2015 (38%). About three fifths of all businesses (62%) are still focused exclusively on the domestic market.

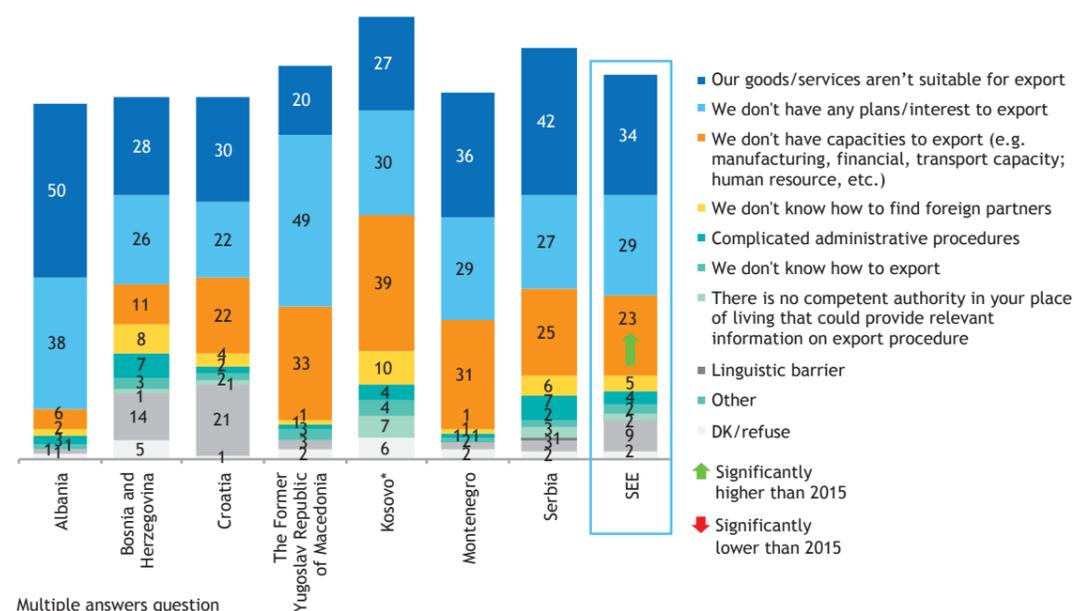
Also, compared to Albania, where export to third markets is not recorded, and Croatia with 1%, Serbia more often collaborates with third countries but is still at only 3% of total sales.

Taking into account total sales by respondents, similar to 2015, 85% happen locally, with exports mainly going to the EU (8%). As may be expected, Croatia, as an EU member, holds the largest share of that particular market with 13%. Kosovo\* is almost entirely oriented towards the domestic market with 97%, while Bosnia and Herzegovina (8%) and Serbia (7%) export to neighbouring SEE economies more than Kosovo\* (1%), Croatia (3%) and Albania (4%).

Predictably, export activity gains in importance in proportion to company size. By sectors, the make-up of exporters shows a vastly higher proportion of industry/mining/construction (70% domestic share) companies compared to the service industry (91% domestic share).

**Figure 58: Why doesn't your company export?**

(Respondents who do not export - N=1007; multiple answer, %)



The main obstacle to export remains the perceived inferiority of goods and services on offer, a view held by a third of respondents. In Albania, this view is held by half of all respondents with Serbia's 42% coming in second.

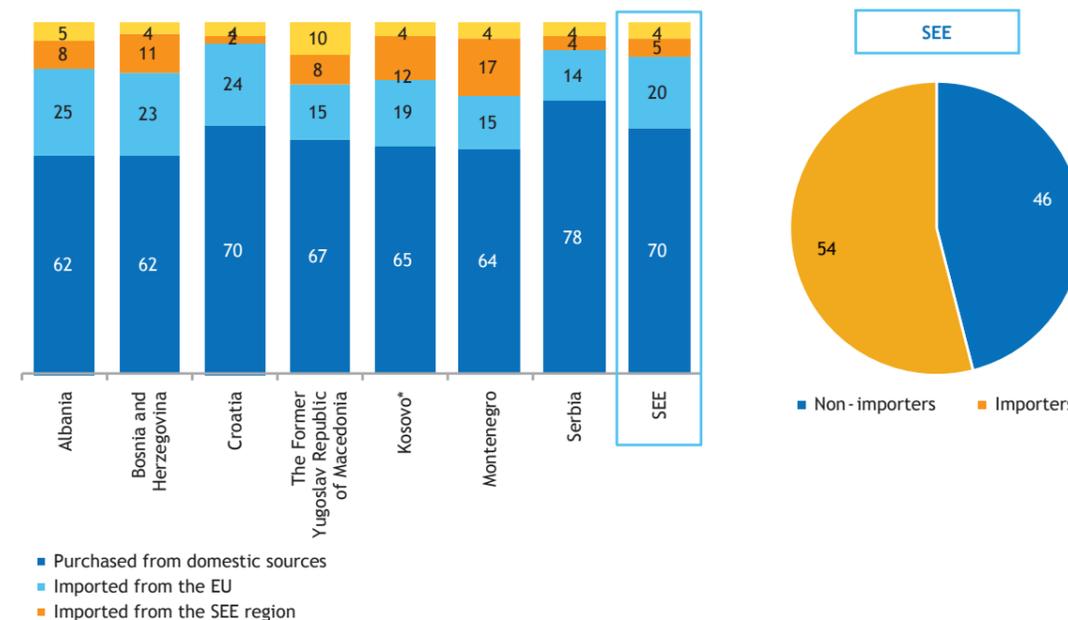
Lack of interest/plans is the second most common reason, cited by 29% of managers. This view is most common in The Former Yugoslav Republic Macedonia (49%) and Albania (38%).

Almost a quarter (23%) cite issues with capacities as a barrier to export, up from 18% in 2015. Companies in Kosovo\* (39%) seem to be especially representative of this problem.

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

**Figure 59: What percentage of your company's inputs and supplies are...?**

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



Much along the statistics from 2015, 54% of all surveyed companies report imports of their inputs and supplies.

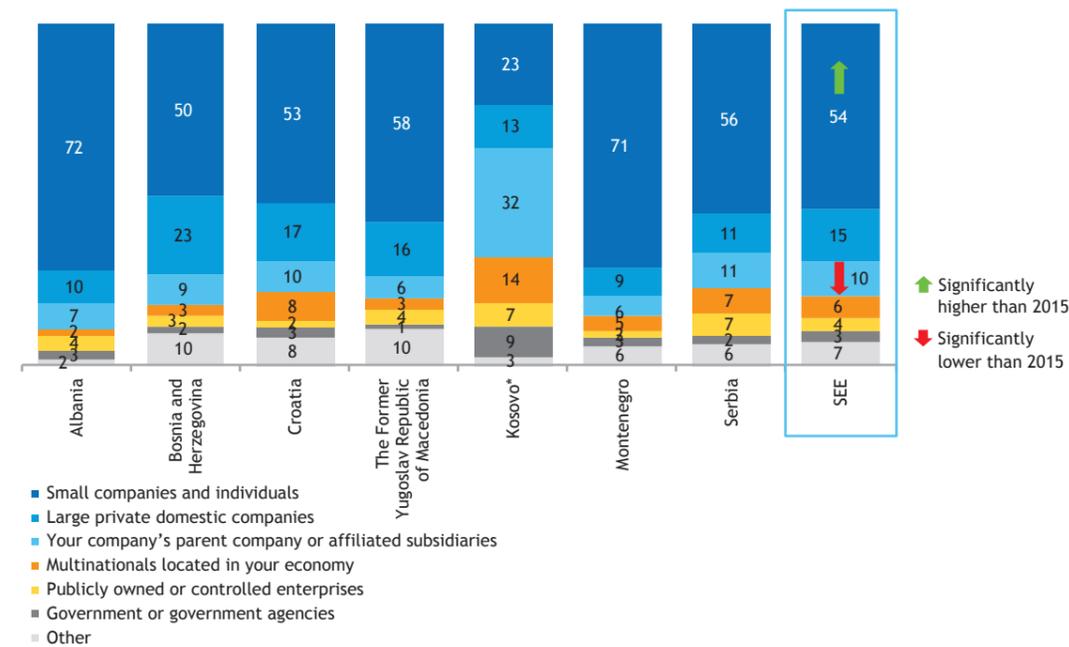
often than others. Montenegro is the main importer from the SEE region (17%), while Albania (25%), Croatia (24%) and Bosnia and Herzegovina (23%) stand out in terms of supply from EU countries.

As with the 2015 survey, 70% of SEE inputs and supplies are purchased from domestic sources. A fifth is imported from the EU, while the rest is divided between SEE (5%) and third-country sources (4%). Representatives of Serbian companies (78%) claim they buy locally more

Exporters purchase from the EU and third countries more often than non-exporters.

**Figure 60: What percentage of your domestic sales are made to...?**

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



While a major portion of total domestic sales are still made to small firms and individuals, the share is now down to 54% from 63% in 2015. Large privately-owned domestic firms are identified as the second biggest purchaser with 15%, while sales to parent companies or affiliated subsidiaries record a significant increase and come in third (up to 10% from 4% in 2015). The latter practice is especially widespread in Kosovo\* (32%).

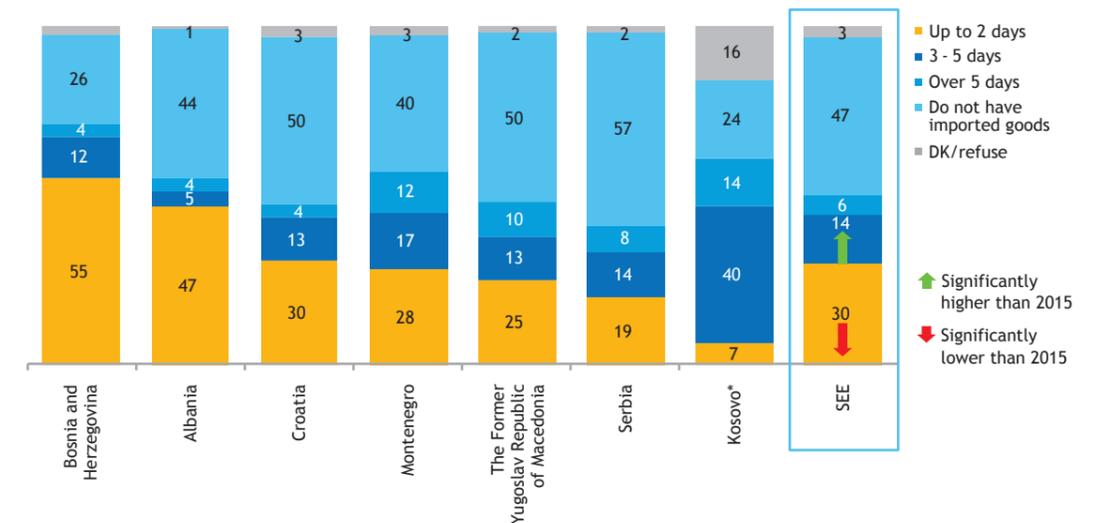
Compared to other economies in the region, Kosovo\* has a significantly higher number of government buyers (9%). Companies from Albania (72%) and Montenegro (71%) supply small firms and individuals more often than the rest of the region while in Bosnia and Herzegovina companies record the highest volume of sales to large privately-owned domestic firms (23%).

Companies hiring more than 250 people (23%) and those primarily in export (22%) enjoy a closer relationship with large, private domestic firms.

Large private companies (9%) sell to multinationals located in their economy more than non-exporters (5%). Small firms and individuals are the preferred purchasers for enterprises with up to 49 employees (57%), those oriented solely towards a local market (61%) or established with domestic capital only (56%), as well as for service providers (57%) and educational/scientific/arts institutions (61%).

**Figure 61: If you have imported goods in the past 12 months, what is the average number of days to clear imports through customs?**

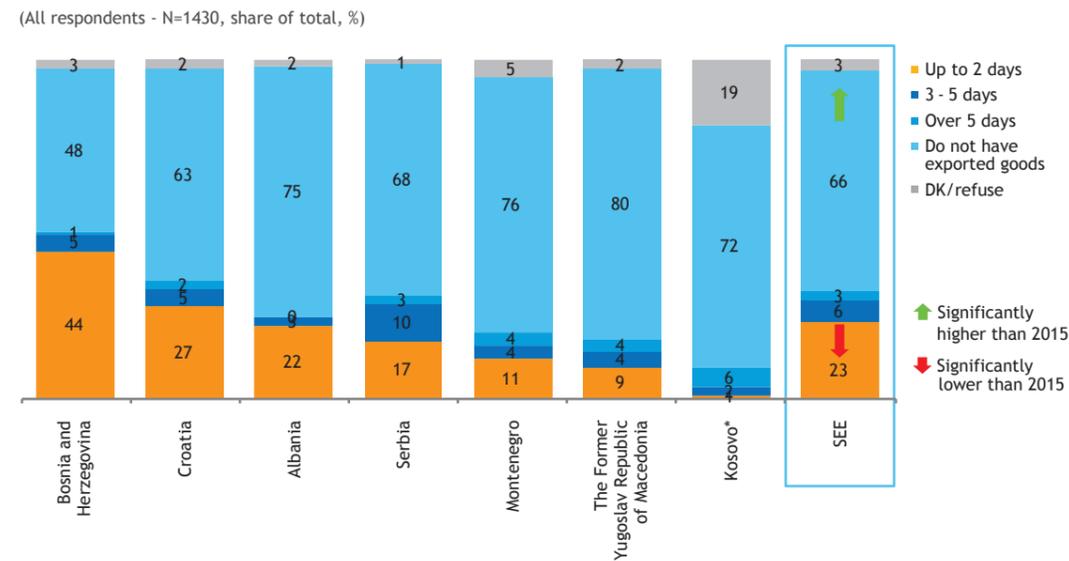
(All respondents - N=1430, share of total, %)



The change, although minor, has been for the worse with import-related customs procedures taking longer than in 2015; 30% of the companies surveyed report completion of customs procedures in two days, down from 34% in 2015, while 14% say the process takes between three and five days (11% in 2015). It seems that customs clearance takes less time in Bosnia and Herzegovina and Croatia than in other economies. In addition, the number of those who have not imported goods over the past year is significantly higher in Serbia (57%) than in other economies.

As with 2015, the largest companies have the most difficulties with import - their representatives most frequently cite an average clearance procedure lasting over 5 days. Export firms and the ones with foreign capital complete customs clearance more quickly. The same is true for the industry/mining/construction companies compared to the other sectors.

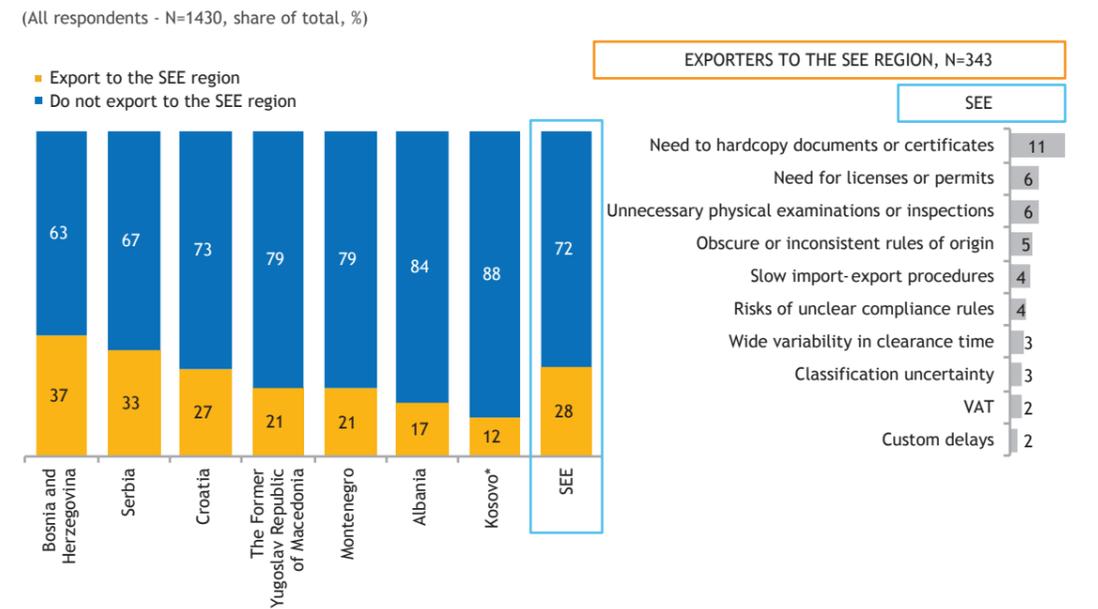
**Figure 62: If you have exported goods in the past 12 months, what is the average number of days to clear exports through customs?**



Compared to 2015, there is an increase in the number of companies that have not exported their goods over the previous year (up to 66% from 61% in 2015). This is especially evident in The Former Yugoslav Republic of Macedonia where 80% record lack of export activity over the previous period. The majority of exporters across the region (23%) still require up to two days to complete customs procedures. In terms of discrepancies among economies, companies in Bosnia and Herzegovina spend significantly less time to clear customs - 44% of their exporters claim that procedures take up to two days.

As with import, customs issues concerning export grow proportionally more complex with the size of the company. Larger-sized companies (over 49 employees) more frequently state that the average time for customs clearance is more than three days. Firms operating in industrial and related sectors cite a shorter duration of export procedures.

**Figure 63: If your company exports to the SEE region, what are the main obstacles to your exports?**



The percentage of SEE companies exporting to other economies in the region has remained unchanged from 2015 (28%). The number of regionally active firms is significantly lower in Kosovo\* (12%) and Albania (17%), than in Bosnia and Herzegovina (37%), Serbia (33%) and Croatia (27%).

(11%). This is followed by the need for licenses or permits (6%) and physical examinations or inspections (6%). Obscure or inconsistent rules of origin come in third (5%). Considering the prevalence of the trends stated, there may be need to examine available avenues for process simplification when it comes to customs requirements.

The key barriers to regional export have likewise remained unchanged. Thus, the insistence on hardcopy documents or certifications is still recognized as the most problematic

**Table 4: Obstacles for exporting to the SEE region (for each economy)**

(Respondents who export to the SEE region - N=343, %)

N	343	33	72	55	24	43	44	72
	SEE	Albania	Bosnia and Herzegovina	Croatia	Kosovo*	The Former Yugoslav Republic of Macedonia	Montenegro	Serbia
Need to hardcopy documents or certificates	11	4	15	11	1	5	10	16
Need for licenses or permits	6	3	10	4	1	4	5	10
Unnecessary physical examinations or inspections	6	11	8	5	1	5	2	7
Obscure or inconsistent rules of origin	5	6	6	3	3	2	3	6
Slow import-export procedures	4	3	3	3	6	6	5	5
Risks of unclear compliance rules	4	1	3	6	1	1	3	3
Wide variability in clearance time	3	0	3	4	1	1	2	4
Classification uncertainty	3	1	2	4	0	1	0	3
VAT	2	1	4	1	4	2	2	4
Custom delays	2	2	1	1	2	5	1	1

Question requires two answers

Small base for valid conclusions Main obstacles

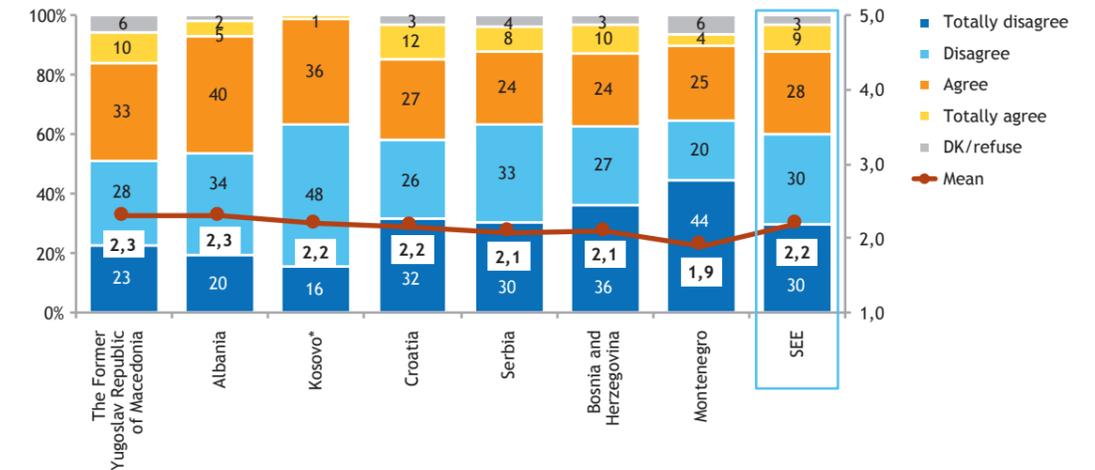
The analysis excludes Kosovo\* as the export base is not substantial enough to extract representative conclusions. With the exception of Albania and The Former Yugoslav Republic of Macedonia, the major obstacle to exporting to the SEE region is the need to hardcopy documents or certifications, highlighting once again the perceived excessive focus on paperwork. This issue is perceived as most problematic in Serbia (15.8%). Together with Bosnia and Herzegovina (10.4), Serbia's businesses also feel the most burdened by mandatory licenses and permits (9.5). Unnecessary physical examinations or inspections create

most difficulties for companies in Albania (10.5), which are, together with those in Serbia, less worried about the risks of unclear compliance rules than firms in Croatia (5.9). Managers from The Former Yugoslav Republic of Macedonia find slow import-export procedures as the biggest problem (5.9).

This analysis reaffirms the findings of the customs clearance assessment. Different import-export issues are more problematic for larger companies as is the case for firms producing goods (agricultural, industrial and related ones) compared to other fields.

**Figure 64: To what extent do you agree that your company is threatened by global competition?**

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

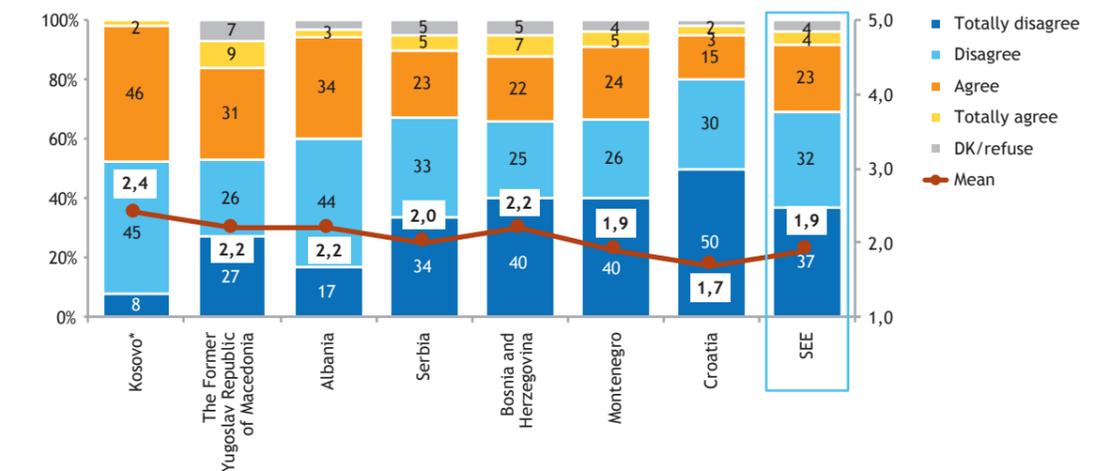


As in 2015, SEE companies display a significant degree of confidence with 60% not threatened by international competition. There are no significant differences between the economies which are convinced of their own superiority to a fairly equal extent.

Probably due to their familiarity with foreign markets and the scope of competition faced, exporters perceive global competitors as more of a threat (2.4) than non-exporters (2.1). The same can be said for companies in industrial manufacturing and those employing between 50 and 249 workers.

**Figure 65: To what extent do you agree that your company is threatened by competition from the SEE region?**

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



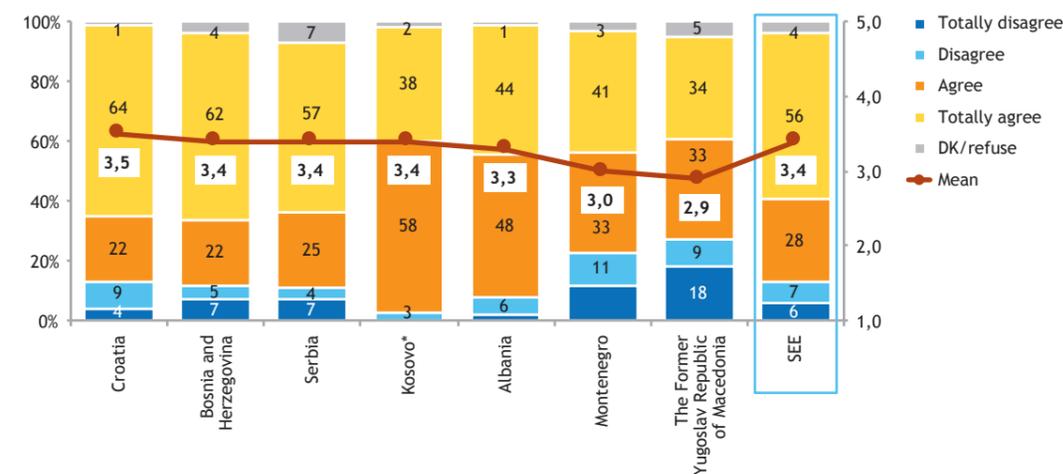
Nearly 70% of SEE businesses do not recognize market rivals from neighbouring economies as a threat. The most self-assured companies are found in Croatia (1.7%). At the other end of the spectrum is Kosovo\* with almost half of managers surveyed sceptical

about their competitiveness against regional businesses (2.4).

Exporters (2.2) and industry/mining/construction firms (2.2) once again seem to be more concerned.

**Figure 66: To what extent do you agree with the following statements - My company's products, goods and services can compete well with products, goods and services from SEE?**

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



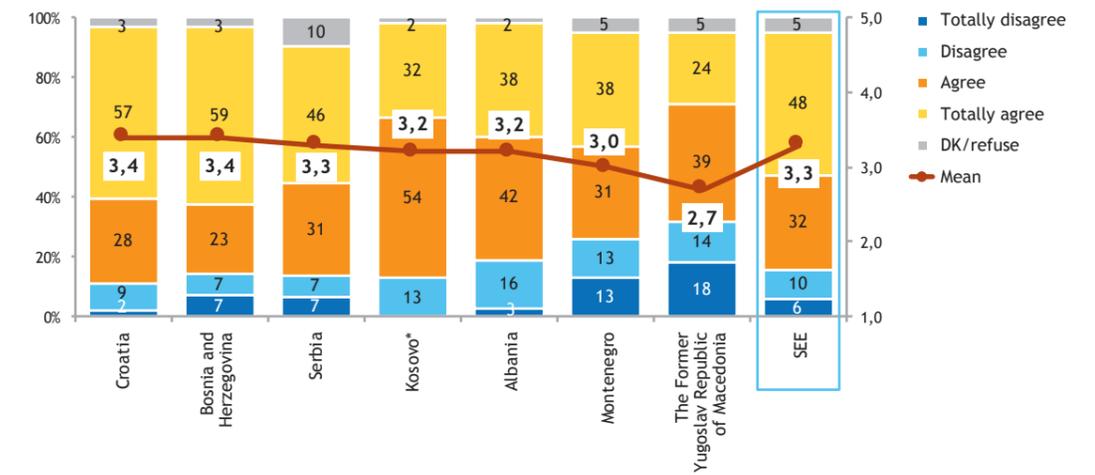
Similar to last year, the majority of executives (84%) believe that their products measure up against goods made in other SEE economies. The Former Yugoslav Republic of Macedonia is notable for a decline in own product confidence, down to 2.9 from 3.4 in 2015.

In terms of type of company, enterprises in industrial and manufacturing sectors (3.5) are more confident that those in the service industry (3.3), and/or education (3.1).

Exporters are more confident (3.5) than those not active internationally (3.2) which is also true for medium-sized firms (3.4) in comparison with small ones (3.3).

**Figure 67: To what extent do you agree with the following statements - My company's products, goods and services can compete well with products, goods and services from other EU countries?**

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



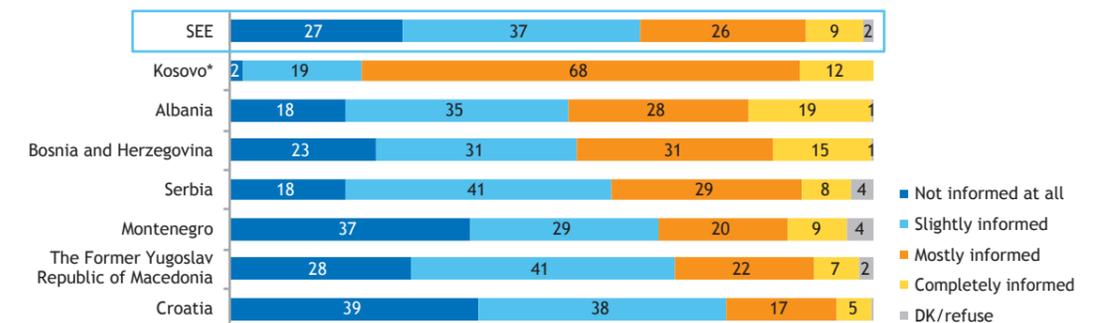
Four fifths of SEE businesses are confident that domestic products can adequately compete with those coming from the EU (the regional average score is 3.3). The number of companies completely convinced of the competitiveness of their products and services has somewhat declined, but it is still quite substantial (down to 48% from 54% in 2015). The level of faith in their own products is especially high in Croatia (3.4) and Bosnia and Herzegovina

(3.4), while The Former Yugoslav Republic of Macedonia again stands out as the economy with the lowest confidence in their own goods (2.7).

The heads of firms operating abroad (3.4) and in manufacturing (3.4) more often emphasize the positive placement of their products, as do managers of medium companies (3.4) and those with foreign capital (3.4).

**Figure 68: To what extent do you think that you are informed about the regional free trade agreement (CEFTA 2006)?**

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

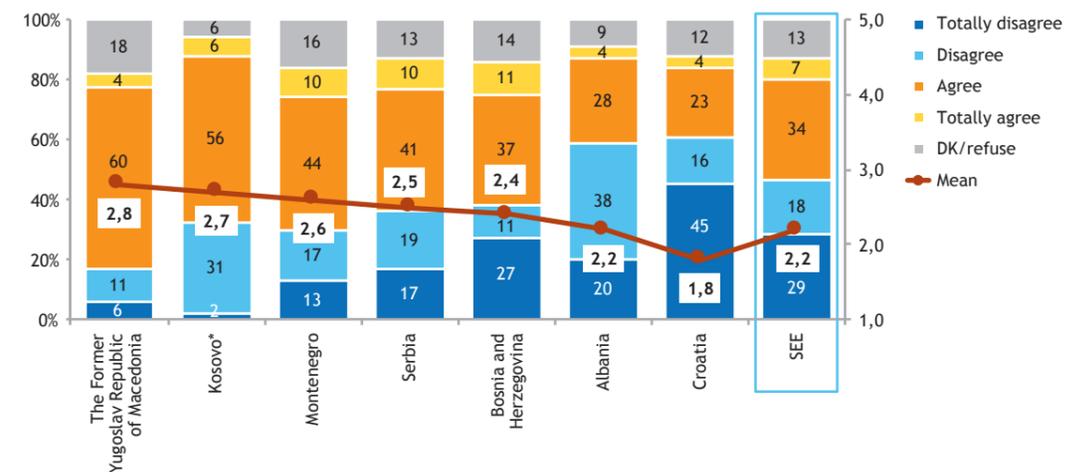


Slightly more than a third (35%) of SEE business leaders consider themselves to be informed about the Central European Free Trade Agreement (CEFTA 2006). A slightly higher proportion (37%) admit that they are not familiar enough with CEFTA, while about a quarter have no knowledge of the Agreement. Business leaders from Kosovo\* perceive themselves to be the best informed in the region, with 80% at least somewhat knowledgeable about the Agreement. As may be expected, due to exiting CEFTA after joining the EU, Croatia is significantly less educated (22%) in this regard.

As in 2015, interest in CEFTA, its aims, and the benefits it can provide grows in proportion to company size. Exporters are much better informed (50%) than non-exporters (37%), and so are companies with activities suitable for exchange, e.g. industry (51%), trade (41%) and similar. The same can be inferred for companies that possess some foreign capital (56%) in comparison with those using only domestic financial resources (41%).

**Figure 69: To what extent do you agree with the statement - My company has benefited from the regional free trade agreement (CEFTA 2006)?**

(Respondents who export and import - N=885, scores are on a scale of 1 to 4 where 1 means totally disagree and 4 totally agree, %, mean)



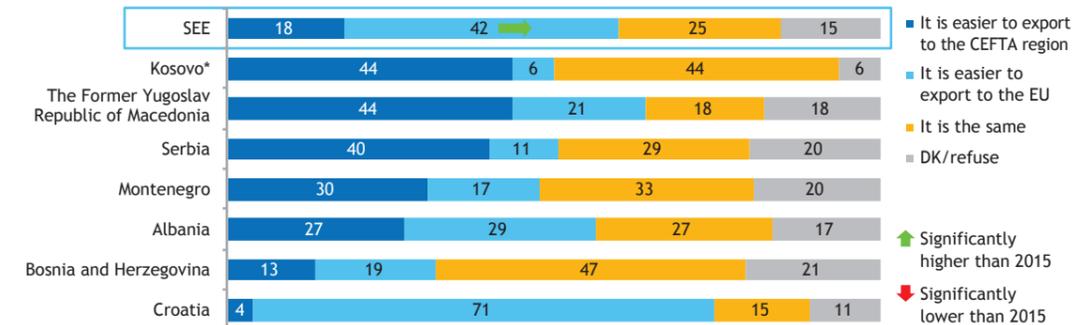
The number of managers (41%) who agree that their company has benefited from the regional free trade agreement has remained the same (the regional mean is 2.2). Compared to average scores, businesses from The Former Yugoslav Republic of Macedonia benefit the most from CEFTA (2.8), while respondents in

Croatia, due to the previously stated reasons, consider it to be less important (1.8).

There is no influence in terms of company size, export or main activity as well as capital origin on the perception of the benefits obtained due to CEFTA existence.

**Figure 70: If your company is an exporter, can you tell us whether it is easier to export to the CEFTA region, or to the EU?**

(Respondents who export - N=423, %)



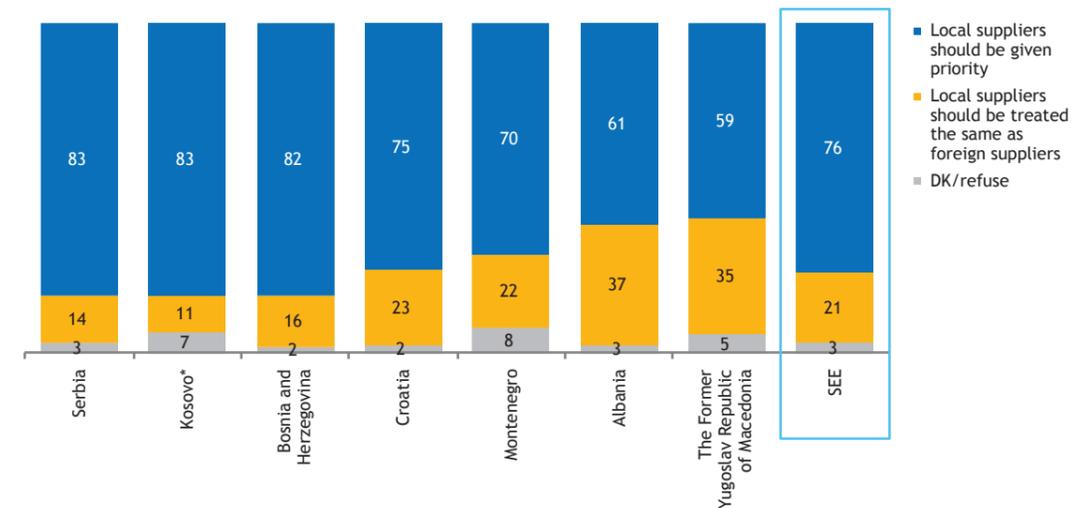
When asked to compare ease of export into the CEFTA region or to the EU, two out of five exporters opted for the latter option. That number has noticeably increased compared to the previous wave (up to 42% from 32% in 2015). As last year, however, this indicator should be viewed with caution as the data includes a member of the EU, Croatia. Close to a fifth of all respondents prefer CEFTA in terms of ease of export (18%), while a quarter do not

see any differences. Among the latter group, respondents from Bosnia and Herzegovina are the most numerous (47%).

Representatives of companies with domestic capital prioritize export to CEFTA economies significantly more frequently (25%) than their colleagues managing firms with foreign capital (8%).

**Figure 71: In your opinion, when procuring products and services, should the governments in the region give priority to local suppliers, or should they be treated the same as all other suppliers (provided price and quality is equal)?**

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



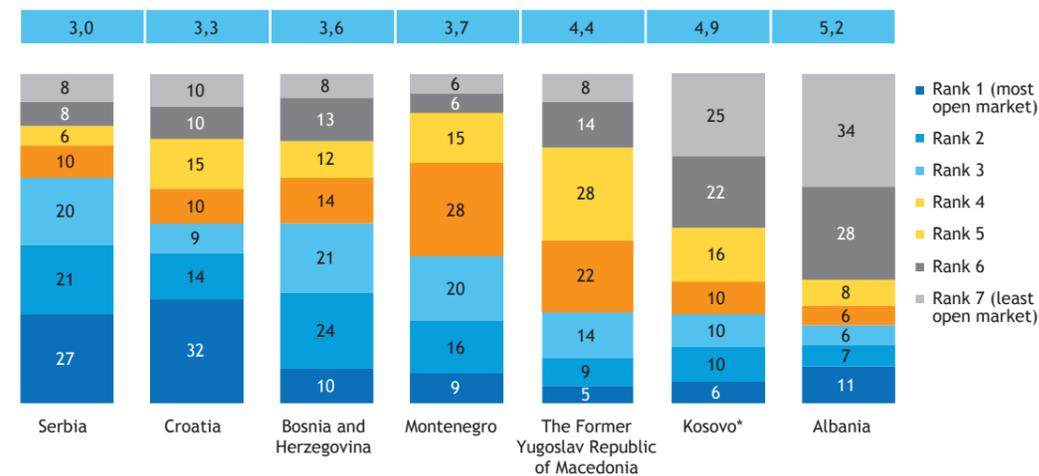
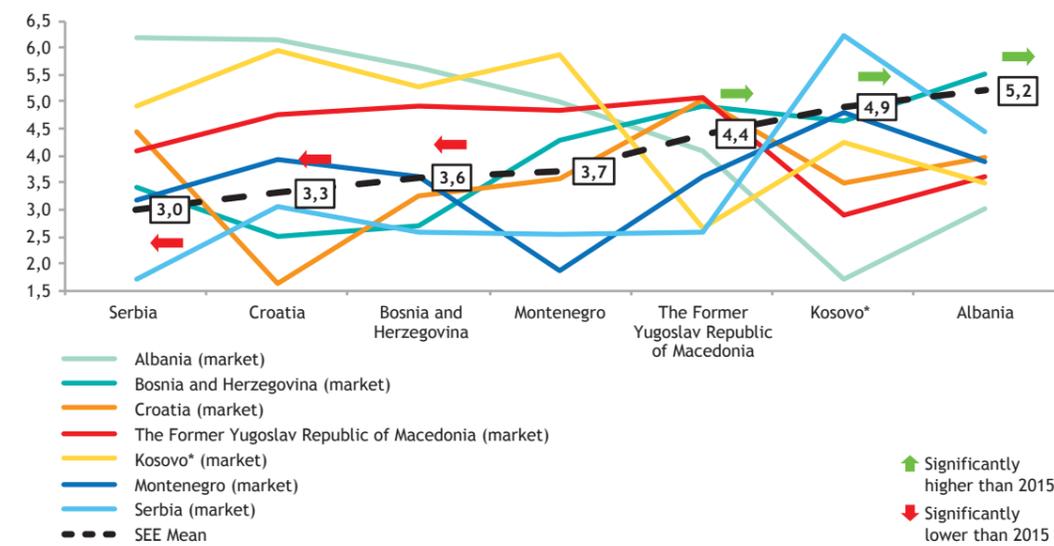
The tendency to actively seek protectionism for locally sourced goods and services continues in 2016; three quarters of SEE company leaders support prioritizing local suppliers in public procurement while a fifth disagree. There is a remarkable discrepancy among the economies; more than a third of firms in Albania (37%) and The Former Yugoslav

Republic of Macedonia (35%) do not believe in differentiating between local and foreign suppliers.

This thinking tends to be more prevalent among firms dealing with industrial manufacturing and service provision, as well as those with foreign capital.

**Figure 72: According to your opinion, which market in the SEE region is the most open one? Please give us your opinion no matter whether you/your company had direct experience with it.**

(Respondents who can rank - N=615, rank is on a scale of 1 to 7 where 1 means most open and 7 least open, %, mean)

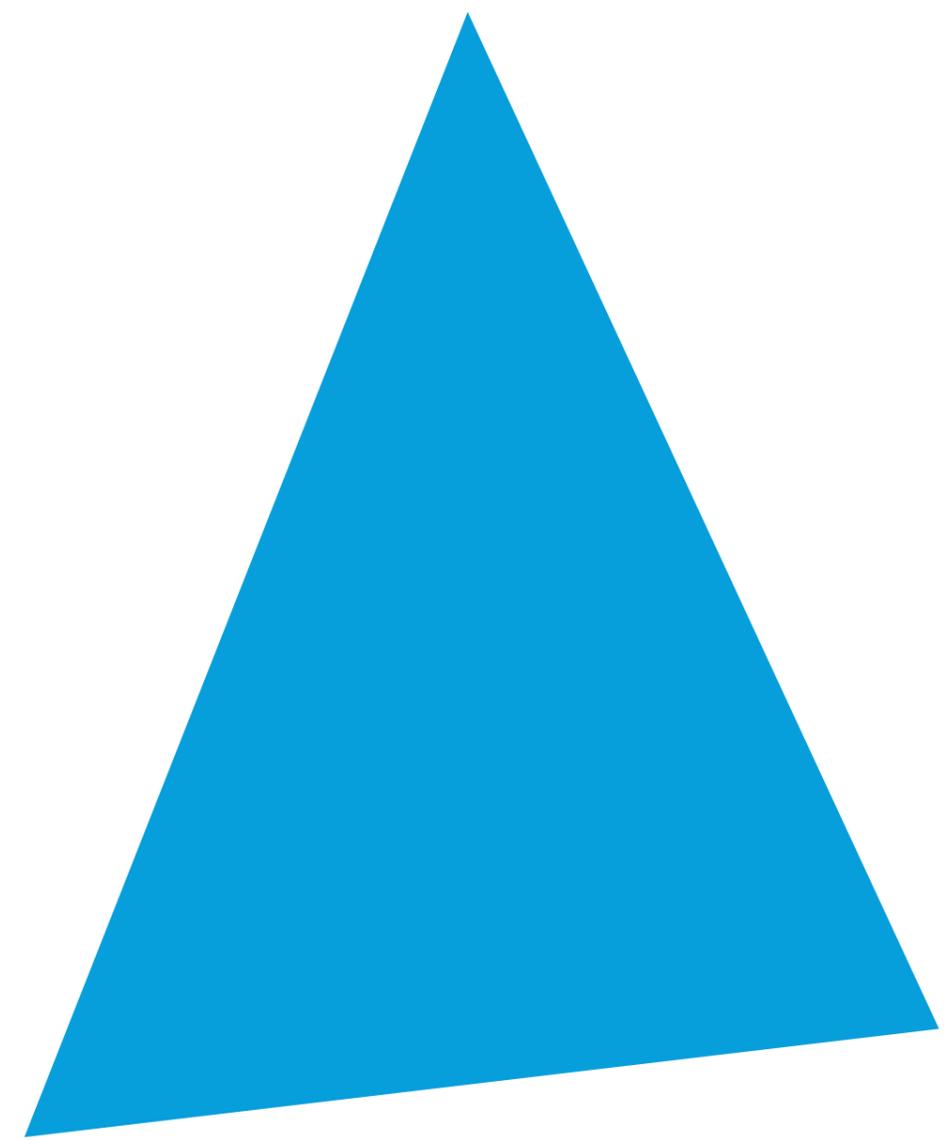


Interestingly, compared to the previous year, all economies except Montenegro, have recorded changes in terms of their openness. Therefore, the larger SEE economies are perceived as more open, while the smaller markets have become more closed, according to the SEE business community. Despite these changes, Serbia remains top with an improved average score (down to 3.0 from 3.4 in 2015 where 1 is most open) and almost half of the respondents (48%) who think it comes in first or second.

At the same time, Albania again holds the poorest regional score, up to 5.2 from 4.8 in 2015. Other economies have made headway

with Bosnia and Herzegovina moving up from sixth to third (down to 3.6 from 4.5 in 2015). Croatia also boasts an improved score compared to last year (down to 3.3 from 4.0 in 2015).

At the level of individual economies, Bosnia and Herzegovina and Albania are much more closed towards each other than they are towards the rest of the region. Companies from Serbia and Croatia share Bosnia and Herzegovina's experience of the Albanian market. Business people from Kosovo\* have the poorest cooperation with Serbia, while their economy is recognized as the most closed by Montenegro.



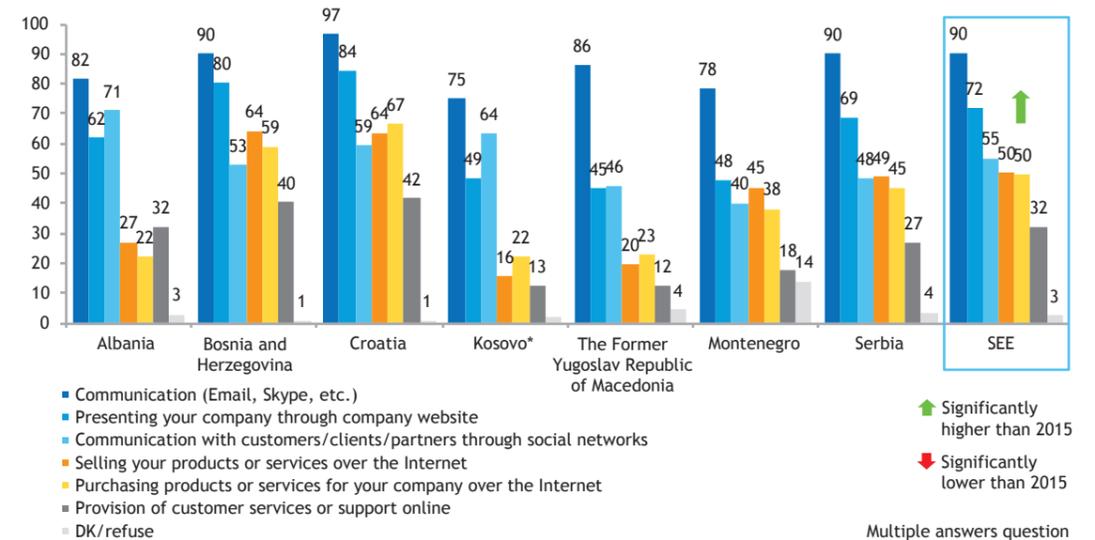
# Innovation and Technology

Innovations are less about the development of new products or processes, but rather about the introduction of new technology and products. This is more consistent with

technology and product transfer than with innovation proper. This is underscored by limited cooperation with universities and research institutions.

**Figure 73: Does your company use the Internet for...**

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



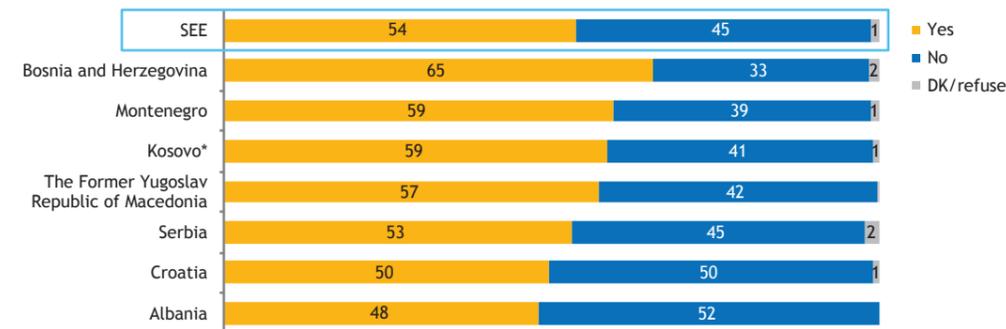
According to the vast majority of companies surveyed (90%), the main form of Internet usage is for communication via e-mail, Skype, etc. The company website comes in second and it is utilized by 72% of businesses. Compared to 2015, communication with customers and partners through social networks has gained in importance (up to 55% from 50% in 2015).

Selling and purchasing products/services online is used by half of all companies surveyed.

The Internet is used significantly more by exporters and companies with 50 and more employees, with firms in the industrial and related sectors more likely to build and maintain their own websites.

**Figure 74: Have you introduced new or significantly improved products and/or services in the past twelve months?**

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



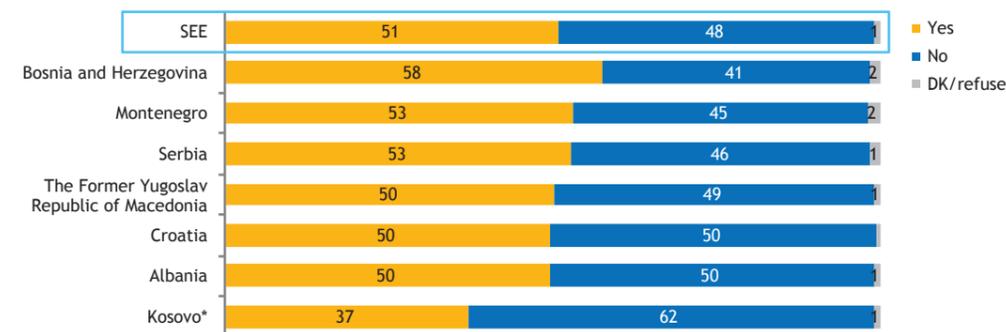
Similar to 2015, more than half of SEE business leaders (54%) report that their company has made efforts to introduce new products or services or upgrade existing ones. In Bosnia and Herzegovina, two thirds of companies have improved existing outputs or brought something new to the market. Businesses in Albania (48%), Croatia (50%) and Serbia (53%)

have made substantially fewer product innovations over the past year.

The tendency towards product innovation increases with company size. Companies that export their products or services pursue modernization more strongly (66%), as well as those dealing with manufacturing (63%).

**Figure 75: Have you introduced new or significantly improved production and/or service delivery processes in the last twelve months?**

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

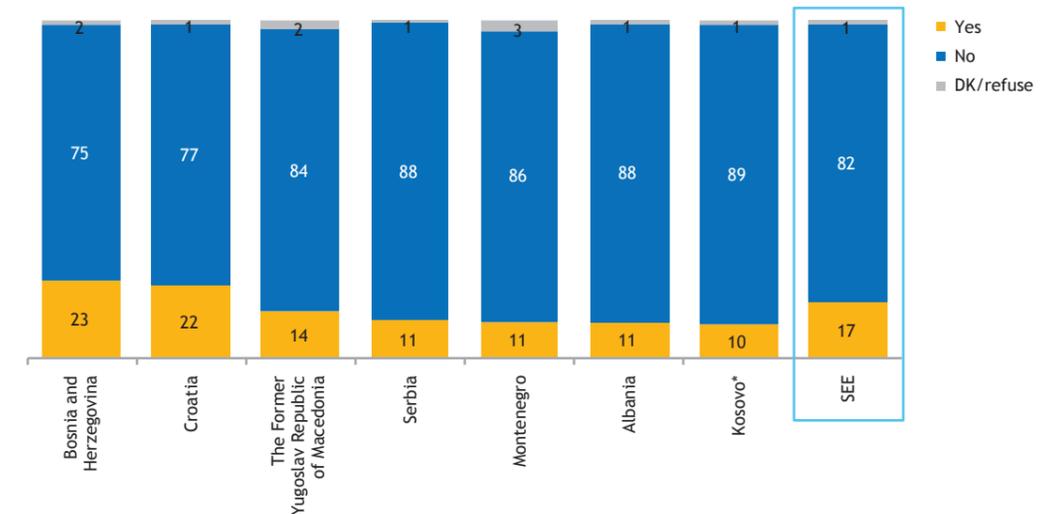


As with the previous year, every second SEE company has improved production and/or service delivery processes over the past year. Again, Bosnia and Herzegovina (58%) stands out as the economy that has progressed the most. At the same time, 62% of business people in Kosovo\* admit that they have not taken any steps to upgrade delivery procedures.

Once more, the largest (86%) and export-oriented (65%) companies tend to innovate more. Interestingly, it seems that firms operating in transport, trade or tourism (45%) are interested in modernization less than others.

**Figure 76: In the past 3 years, did you cooperate with any of the universities on research and development (R&D) or technology development projects to help develop new products or services?**

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



There has been no boost in cooperation between businesses and institutions of higher learning compared to last year. A mere 17% of managers developed new products or services in cooperation with research institutions. Those numbers are higher in Bosnia and Herzegovina (23%) and Croatia (22%) while Kosovo\* (10%), Albania (11%) and Serbia (11%) form the back of the line.

When it comes to the company size, the largest enterprises are again the most ambitious - 55% confirm they have some cooperation with universities. Likewise, exporters (26%) and firms supported by foreign capital (30%) are more likely to reach out to the research community while companies operating in the service industry are less likely to collaborate (12%) with universities for innovation purposes.

# Human Resources: Needs and Practices

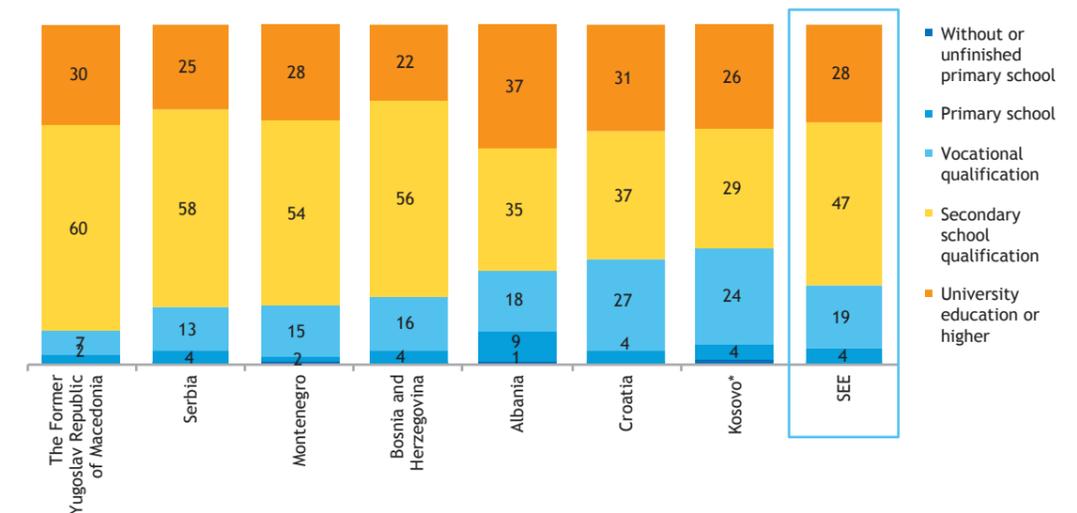
## SKILLS NEEDS

More advanced economies, such as Croatia, encounter skill mismatches more often than others in the region. There does not appear to be an aversion towards employing foreigners, while, regrettably, there is overt discrimination towards hiring Roma and women. Overall,

skill shortages tend to be felt more in open and more developed economies. In the case of Bosnia and Herzegovina, outward migration likely accounts for some of the skill shortages identified.

**Figure 77: What percentage of the workforce at your company has the following education levels?**

(Respondents who did not mark DK/refuse - N=1389, %)

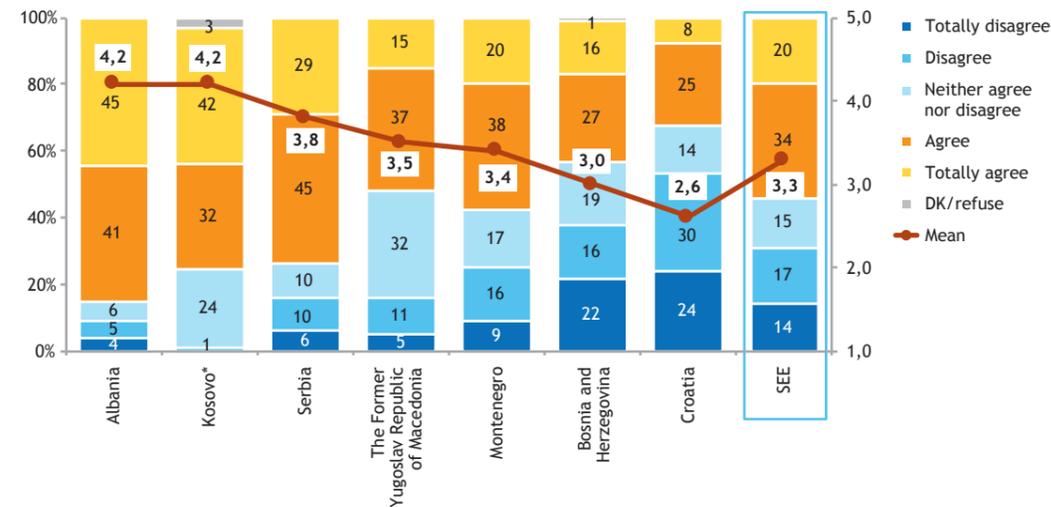


In terms of the educational structure of employees of surveyed companies, most employees hold a secondary school qualification (47%)

whereas 28% of employees hold university degrees. The highest proportion of the latter group is found in Albania (37%)

**Figure 78: Would you agree that the skills taught in the education system of your economy meet the needs of your company?**

(All respondents - N=1430, scores are on a scale of 1 to 5 where 1 means totally disagree and 5 totally agree, %, mean)



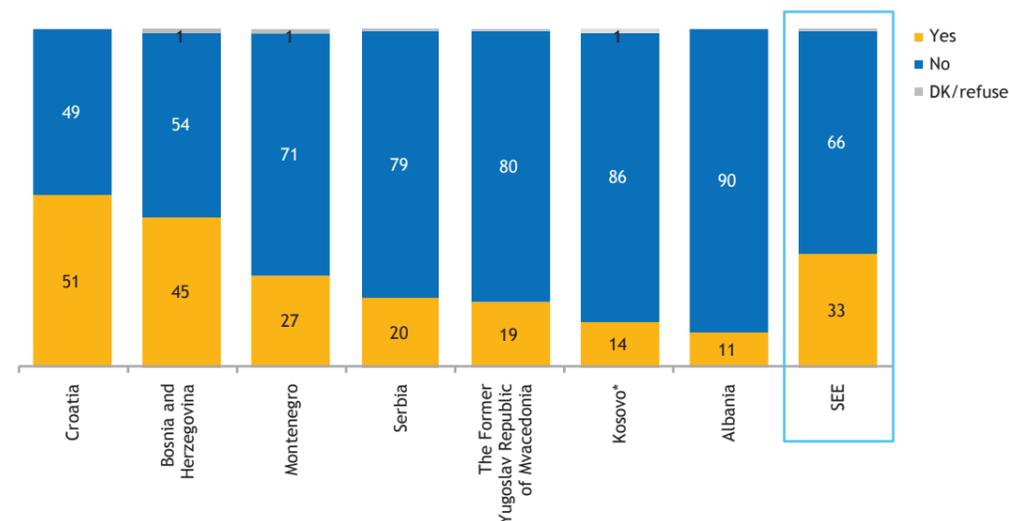
There is hardly any change in the results from last year. At regional level, more than half of respondents (54%) are satisfied that the education system is meeting the needs of their enterprise (the average score is 3.3). In contrast, 31% consider the present schooling system as inadequate (14% hold this view strongly). Kosovo\* (4.2) and Albania (4.2) are the most satisfied with the knowledge and

skills acquired through the education system in their economy.

As previously, companies active internationally are significantly less happy (the average score is 3.2) with how their needs are met by the education system in their place of living. This opinion is also prevalent among businesses from industrial and related sectors (3.1).

**Figure 79: Did you have vacancies over the past 12 months that have proved hard to fill?**

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

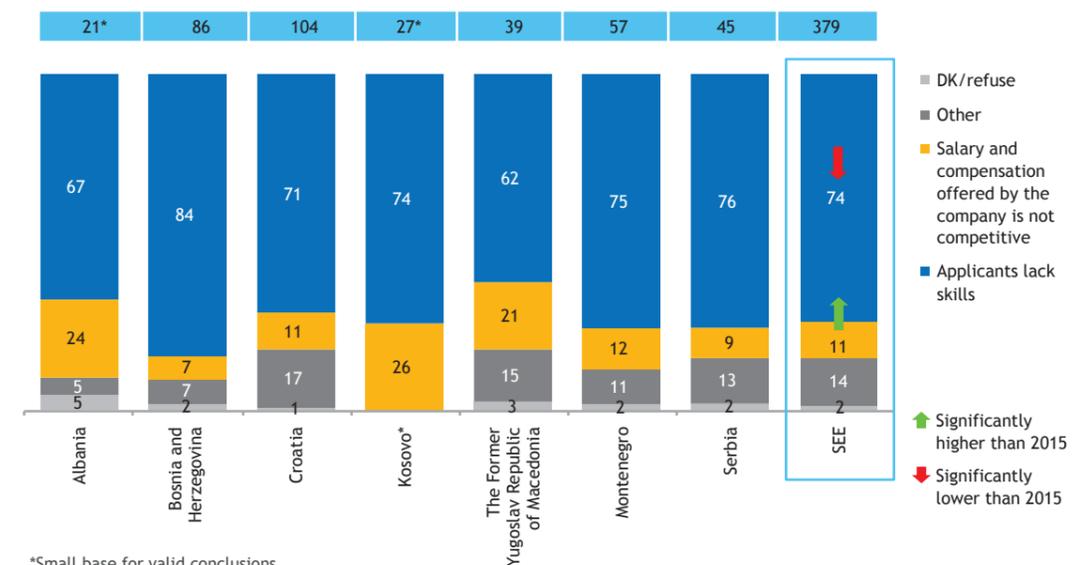


A third of company leaders in the region report hard-to-fill vacancies over the past 12 months, in keeping with the results for 2015. Whether as an indicator of an increasingly complex economy, or due to higher expectations, businesses from Croatia (51%) and Bosnia and Herzegovina (45%) face this problem more frequently.

Difficulties in finding suitable personnel grow proportionally to company size. Exporters (42%), firms with foreign capital (42%) and industrial, mining and construction companies (39%) tend to struggle more with filling vacancies.

**Figure 80: Why do you think this is the case?**

(Respondents who had difficulty in filling vacancies - N=379, %)



\*Small base for valid conclusions

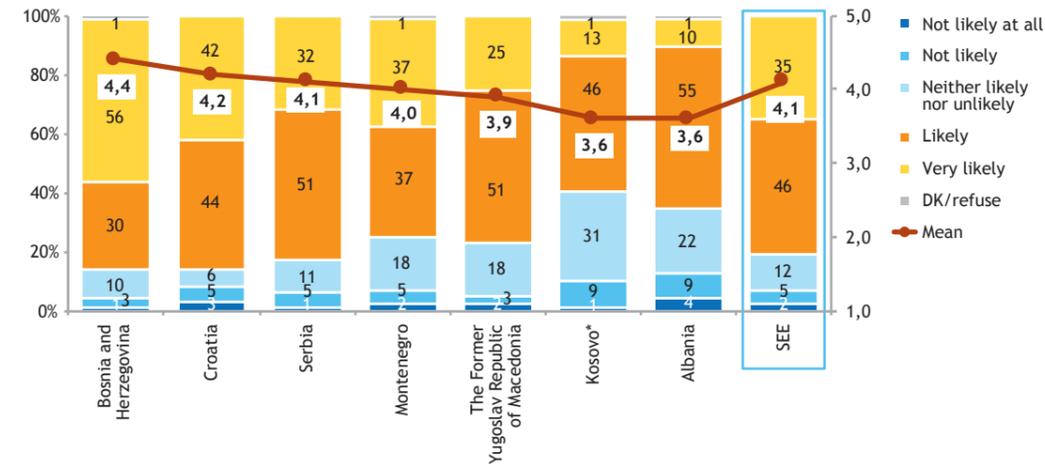
Most managers point to inadequate applicant qualifications (74%), although this number is down compared to last year. Bosnia and Herzegovina seems to struggle with applicant qualifications (84%) more than the rest of the region while companies from The Former Yugoslav Republic of Macedonia (62%) experience this problem the least. The awareness that the terms on offer are not sufficiently

competitive to attract skilled applicants has grown to 11% from 5% in 2015, showing an increased mindfulness by the employers of their limitations.

Looking at company subgroups, there are no differences in perception of the main obstacles to hiring qualified staff.

**Figure 81: How likely would you hire a young person whose educational profile completely meets the needs of your business, but without work experience?**

(All respondents - N=1430, scores are on a scale of 1 to 5 where 1 means not likely at all and 5 totally agree, %, mean)

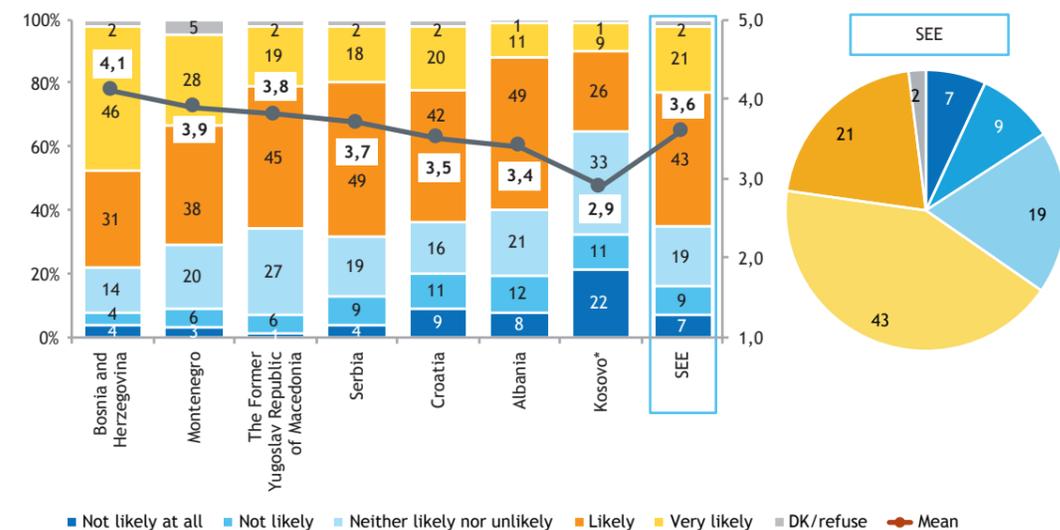


The vast majority of companies (80%) in the region are happy to recruit young people with appropriate education, but without any work experience. Firms in Bosnia and Herzegovina (the average score 4.4) are the most open to hiring youth - 86% are likely to give them an opportunity. At the same time, Albania and Kosovo\* seem to be the least welcoming to young people only starting their careers (in both average score is 3.6).

As in the previous wave, exporters (the average score is 4.1) are more inclined to see what young people could offer i.e. they are more convinced that an inexperienced but educated workforce can contribute more to their business.

**Figure 82: How likely would you hire a Roma person whose educational profile and experience completely meet the needs of your business? (NEW QUESTION)**

(All respondents - N=1430, scores are on a scale of 1 to 5 where 1 means not likely at all and 5 totally agree, %, mean)



Some 16% of SEE business leaders would not hire a Roma person regardless of job qualifications while another 19% are unsure either way - a reminder that there is much work to do in the region to combat prejudice against the Roma community. Bosnia and Herzegovina (4.1) once again leads the way with the vast majority of businesses polled - 77% likely to open their doors to hiring Roma. At the same

time, Kosovo\* businesses are the least likely to recruit Roma.

A detailed analysis shows that larger companies (50 and more employees), export and industry oriented, as well as those with foreign capital are significantly more willing to recruit Roma.

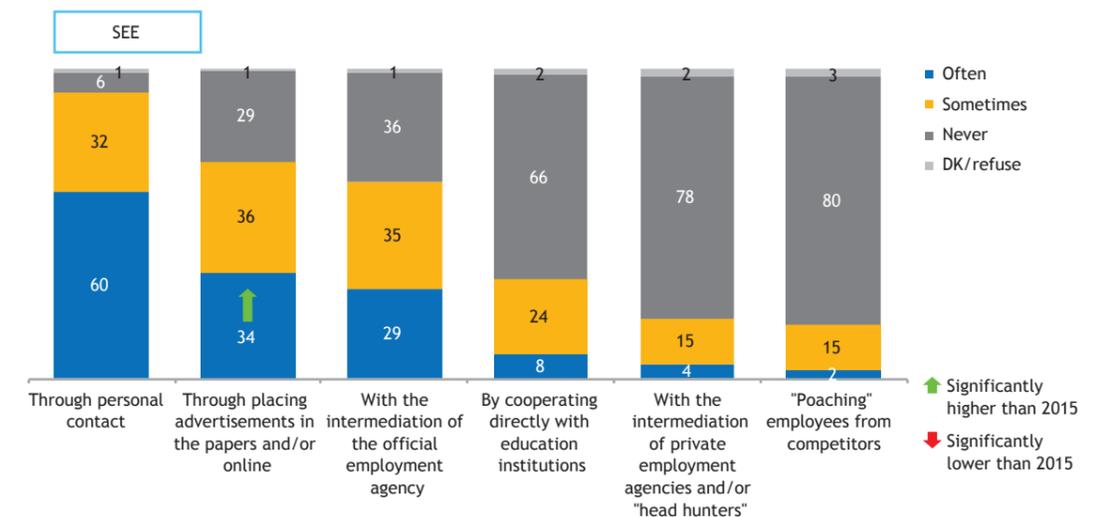
## EMPLOYMENT PRACTICES

Consistent with other findings in this survey, and in the Public Opinion Survey, the formal labour market is underdeveloped and relies on personal contacts and recommendations. The market is more open in economies where the supply of skills is more limited, e.g. Kosovo\*

and Albania. People with disabilities and in some case refugees are less discriminated against than women and Roma. Foreign workers are less welcome in The Former Yugoslav Republic of Macedonia and Kosovo\*.

**Figure 83: How often do you use the following when hiring new employees? Please mark each of the following methods with 1 often, 2 sometimes or 3 never (Results at the SEE level).**

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



Word-of-mouth recommendation is still the preferred method of identifying new hires for most SEE companies (60%). The level of trust in personal contacts is especially high in The Former Yugoslav Republic of Macedonia (72%),

Albania (71%) and Montenegro (69%). Attempts to find relevant staff through printed or on-line advertisement come in second with 70% of firms using this practice sometimes and 34% using it often (up from 27% in 2015). The

latter indicates a growing if incremental formalization of the labour market. Companies in Kosovo\* most frequently employ this method with 95% using advertisement to attract qualified candidates at least occasionally.

Working through an official employment agency is the third most common method of recruitment. Enterprises in Croatia use the agencies' services most frequently of all with 75% reporting it as standard practice.

Other approaches on offer are used rather infrequently. For instance, 80% of companies surveyed in The Former Yugoslav Republic of Macedonia have never contacted an education institution to help identify potential

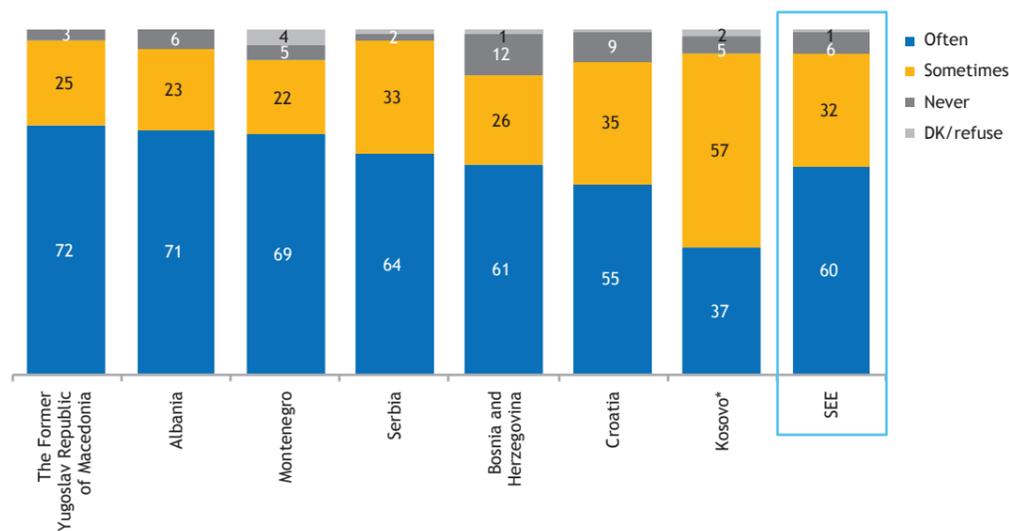
recruits. Cooperation with "head-hunters" and the practice of "poaching" workers from competitors are more widespread in Albania and Kosovo\* where there is a clear shortage of skilled labour, as evidenced repeatedly through the survey.

Analysis by company size confirms last year's findings - when hiring, larger companies more often post advertisements and use services of government-owned or private employment agencies. Exporters as well place more trust in the competency of the institutions specialized in providing hiring assistance. Both bigger firms and internationally oriented ones have also established a closer cooperation with universities in this context.

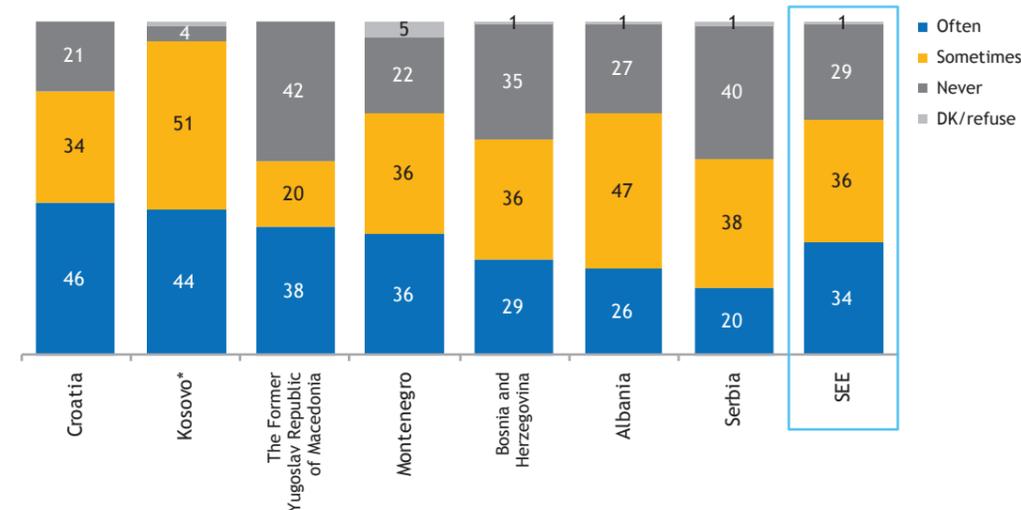
**Figure 84: How often do you use the following when hiring new employees? Please mark each of the following methods with 1 often, 2 sometimes or 3 never (Results by economies)**

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

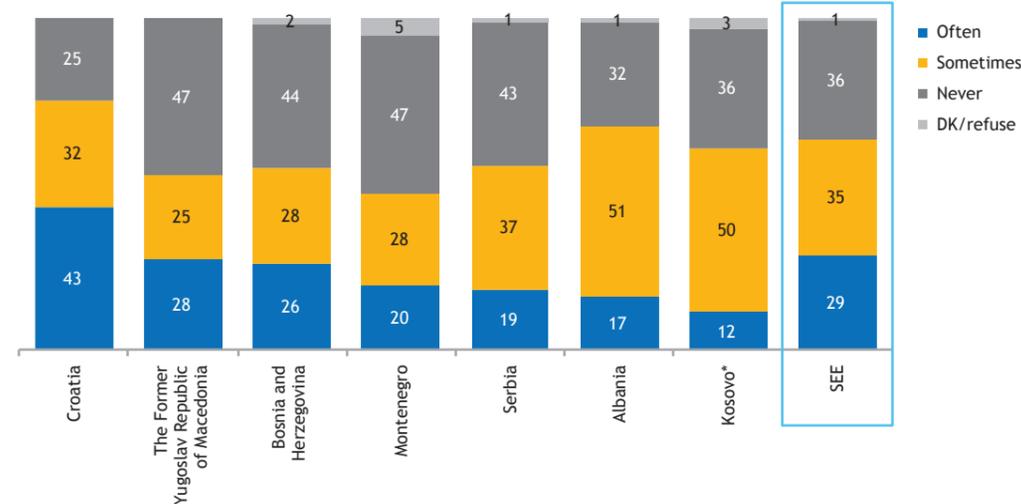
*Through personal contact (following recommendations of friends and colleagues)*



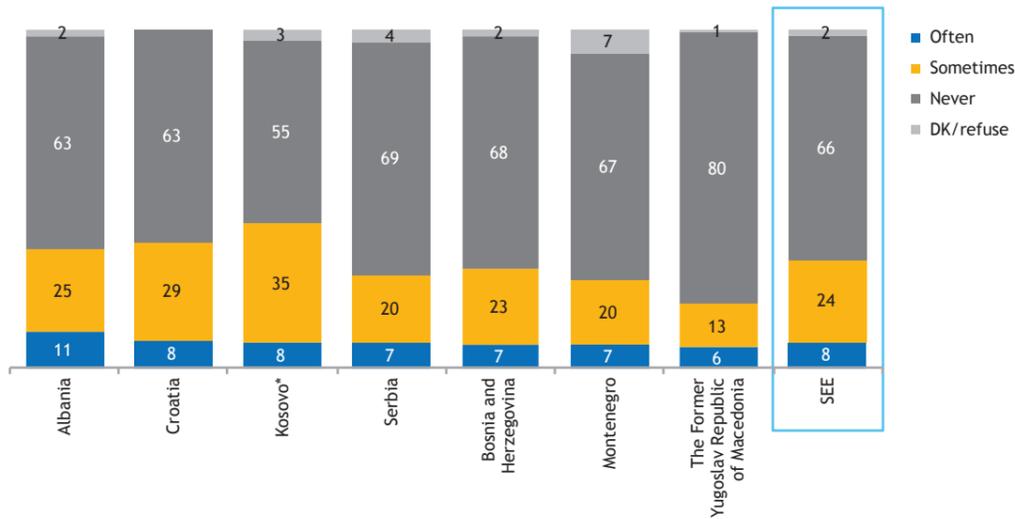
*Through placing advertisements in the papers and/or online*



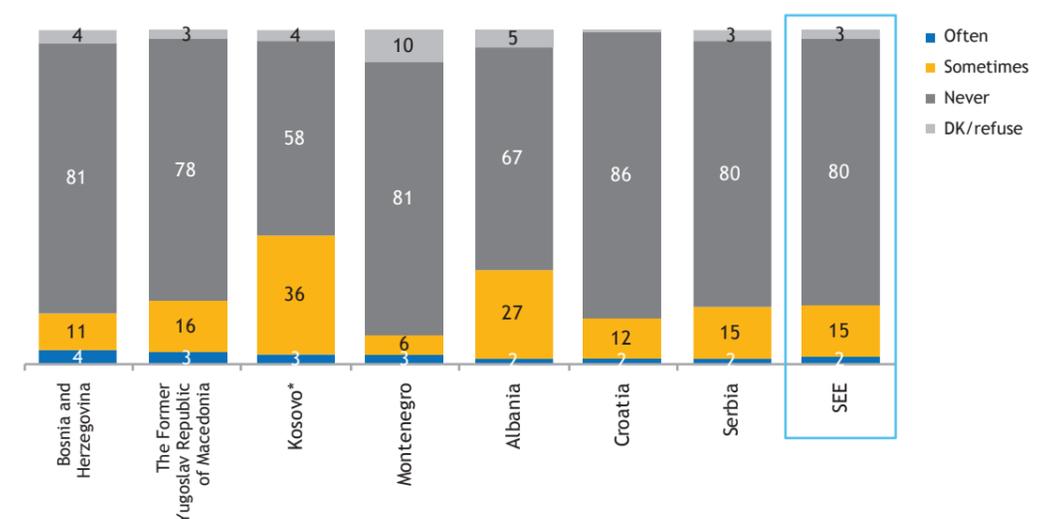
*With the intermediation of the official employment agency*



By cooperating directly with education institutions



"Poaching" employees from the competitors



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

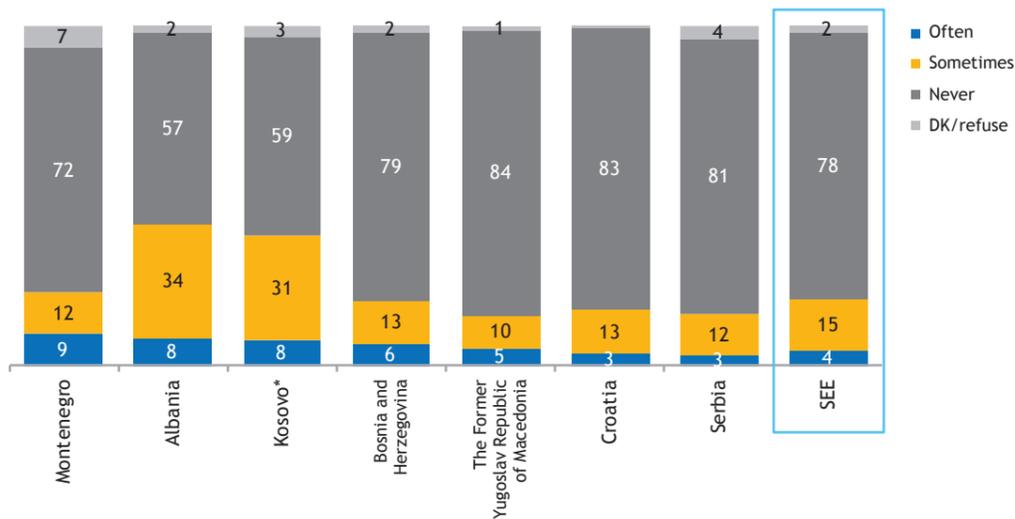
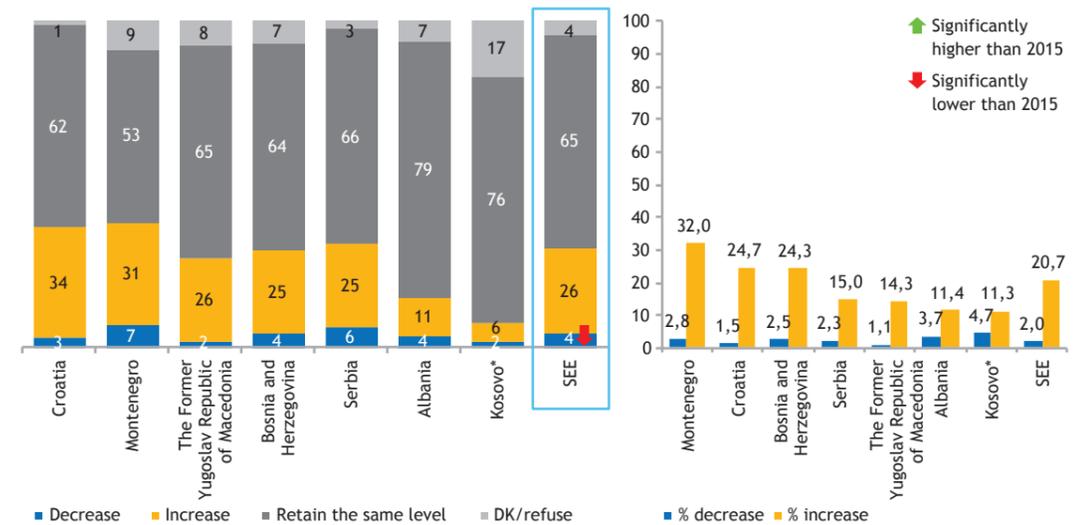


Figure 85: If you could change the number of full-time workers your company currently employs without any restrictions, what would be your optimal level of employment as a percent of your existing workforce? Would you decrease, increase or retain the same level of employees?

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



Taking away all restrictions, 65% of SEE business respondents would retain the same number of employees, 26% would like to see it

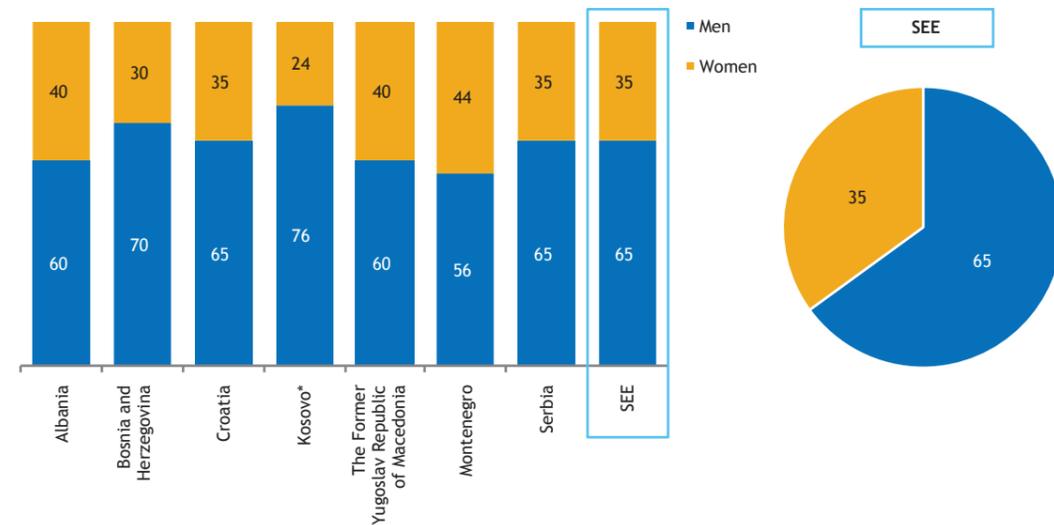
increased, while half as many businesses from last year are considering staff reduction (down to 4% from 8% in 2015). At the regional level,

the average percentage of preferred employment growth is 20.7%. A larger proportion of Croatian employers would consider an increase to the current workforce (34%), while their Montenegrin counterparts would increase it by the highest relative percentage (32%).

An analysis by main business area shows that those companies in education, arts, scientific or related activities (31%) are more inclined to increase employment than those in the service industry (20%).

**Figure 86: Out of the total number, how many of your employees are men and how many women?**

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



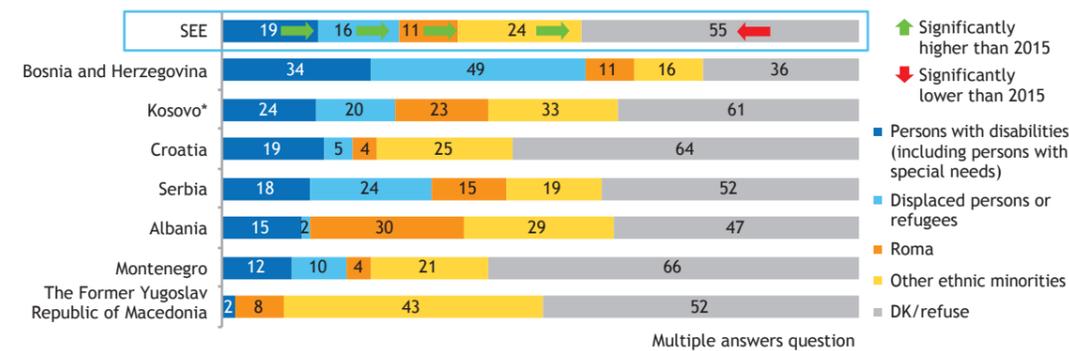
The gender discrepancy among employees in private companies covered by this survey is still substantial; at the regional level, as many as two thirds of staff members are men. It seems that women are in a somewhat better position when job seeking in Montenegro (44%),

The Former Yugoslav Republic of Macedonia (40%) and Albania (40%).

Likewise, companies from education, arts, science or related sectors employ women more often than others (46%).

**Figure 87: Do you have somebody from the below mentioned vulnerable groups working in your company?**

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



Compared to last year, a higher proportion of respondents are able to indicate whether their company hires individuals from vulnerable groups (those that answered negatively are down to 55% from 64% in 2015).

influx of migrants from the Middle East, North Africa and Asia), and every tenth respondent reports a Roma community employee. As with the survey for 2015, the highest percentage of disabled employees (34%) as well as those displaced (49%) is found in Bosnia and Herzegovina, a direct result of the 1990's war. According to survey results, Roma have a much better chance of securing employment in Albania (30%) and Kosovo\* (23%). This, however, is somewhat at odds with the results of Question 81, where Kosovo\* respondents were the least likely to recruit Roma hires.

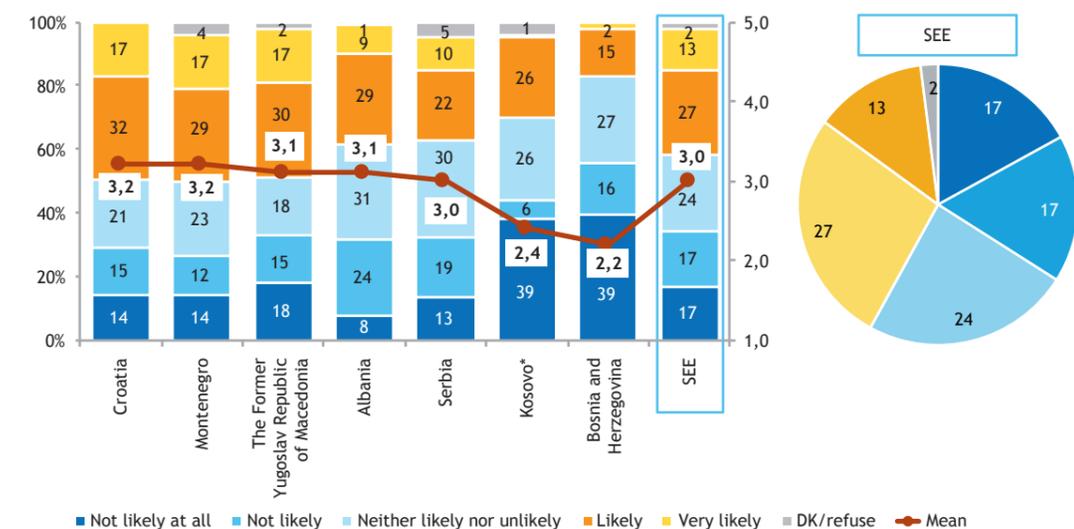
This is encouraging as it may indicate a growing awareness by top management of this important issue. Another positive trend is related to an increase in the number of employees coming from the vulnerable communities. This is especially relevant for ethnic minority hires. A quarter of managers now report that their companies currently have minorities on the payroll (up from 15% in 2015).

Larger companies have a greater understanding and display more empathy towards socially vulnerable groups. Firms in industrial fields, those active outside the borders of their own economy or supported by foreign capital are also more open to hiring from within the ranks of the vulnerable communities.

A fifth report hiring employees with disabilities, 16% know that displaced persons or refugees work in their firm (although respondents are much more likely to refer to the refugees and persons displaced during the 1990's wars in ex-Yugoslavia, rather than a more recent

**Figure 88: How likely would you employ workers from abroad in your company?**

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

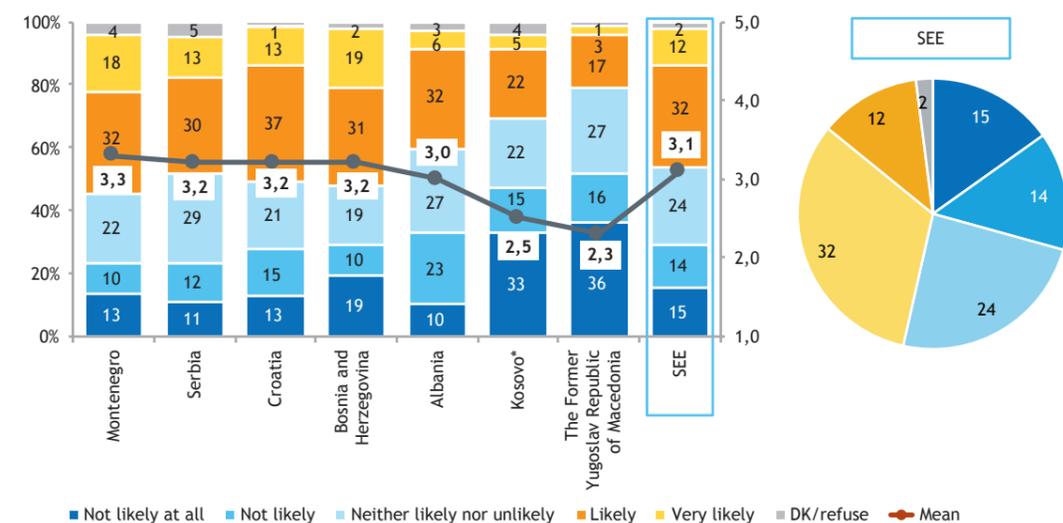


In comparison to last year, the level of trust in the foreign labour force among SEE business leaders has remained the same (the average score is 3.0). Two fifths are likely to employ workers from abroad, a third admit that they are not open to foreign hires, while a quarter are undecided. The Former Yugoslav Republic Macedonia and Kosovo\* are the least open to foreign hires which for the latter can be especially problematic considering the problems encountered by Kosovo\* businesses in identifying qualified employees.

Results for this year conform broadly to those of 2015 - readiness to reinforce staff with foreign hires increases with company size as well as export activity (understandably, companies active in international markets need international expertise and knowledge). Furthermore, heavy industry leaders (3.2) as well as those with foreign capital (3.8) are more willing to hire foreigners.

**Figure 89: How likely would you employ workers from the SEE region in your company?**

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

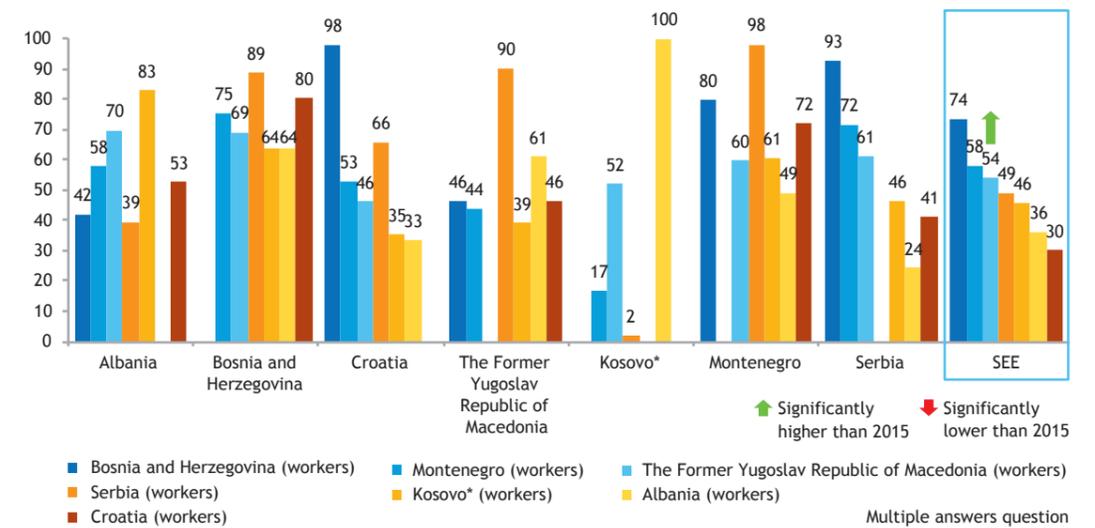


Although not to a notable degree, company leaders are still more likely to hire people from neighbouring economies than those coming from third countries (the average score is 3.1). Overall, 44% agree it would be good for their business to hire regionally while 29% disagree. Once again, The Former Yugoslav Republic of Macedonia (52%) and Kosovo\* (48%) are the least open to external hiring.

Larger companies, exporters, firms dealing with industrial manufacturing and with foreign assets display a more welcoming attitude towards the SEE workforce.

**Figure 90: You said that you would employ workers from the SEE region in your company, from which economy/economies exactly?**

(Respondents who would likely employ workers from the region - N=569, %)

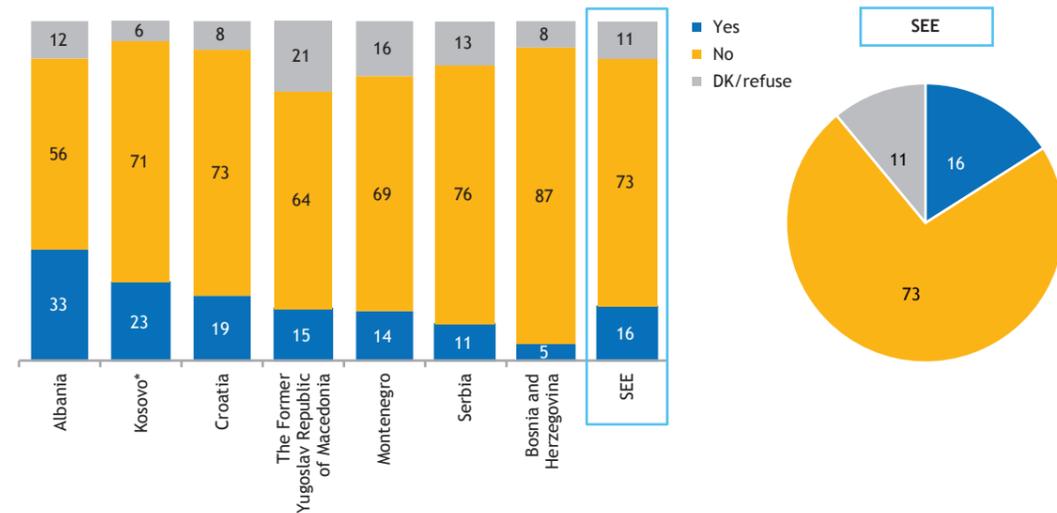


As noted above, more than two fifths of surveyed companies (44%) are likely to employ from the region. In particular, interest in prospective employees from The Former Yugoslav Republic of Macedonia has significantly increased (up to 54% from 37% in 2015), but employees from Bosnia and Herzegovina are still the preferred SEE hires (74%), likely due to the fact that employers from Serbia and Croatia, as the two largest economies in the region, give them an advantage over all others.

At the same time, companies from Bosnia and Herzegovina particularly appreciate workers from Serbia and Croatia. The Serbian hires are also most frequently recruited by firms from Montenegro and The Former Yugoslav Republic of Macedonia. As in the 2015 survey, Albania and Kosovo\* would rather cooperate with each other when it comes to the regional labour force due to the two sharing a common language and culture.

**Figure 91: Do you think that employing Roma persons affects/would affect your selling of goods and services? (NEW QUESTION)**

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



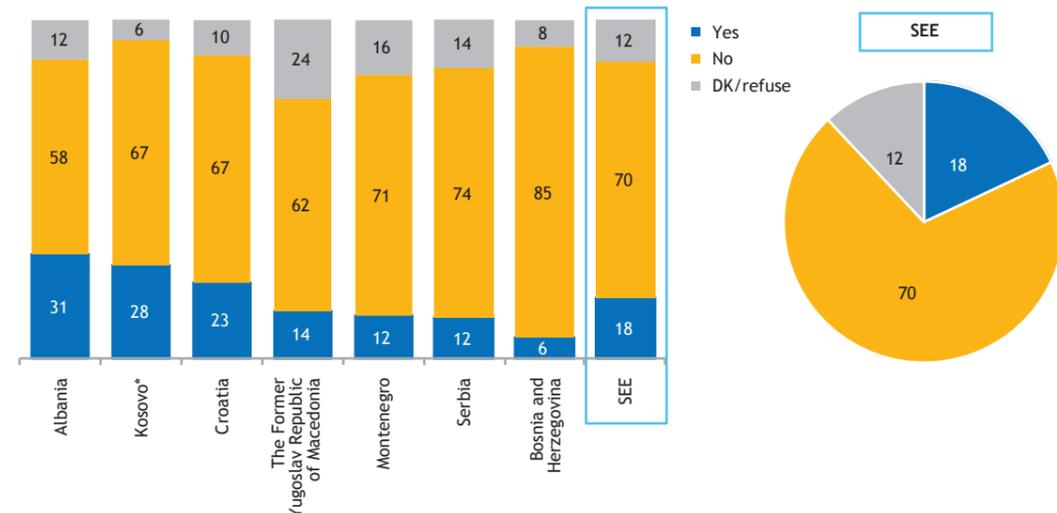
The majority of SEE business representatives (73%) feel that employing Roma does not impact their ability to sell goods or services. Approximately every sixth respondent disagrees (16%). Albania (33%) and Kosovo\* (23%) businesses feel that hiring Roma will impact their operations more than others in the region. Respondents in Bosnia and Herzegovina

(87%) are by far the most numerous in their view that hiring Roma would not impact their business prospects.

The influence of Roma employees on company sales is more often stressed by representatives of small firms (up to 49 employees) and those oriented solely on domestic markets.

**Figure 92: Do you think that employing Roma persons affects/would affect the working atmosphere in your company? (NEW QUESTION)**

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

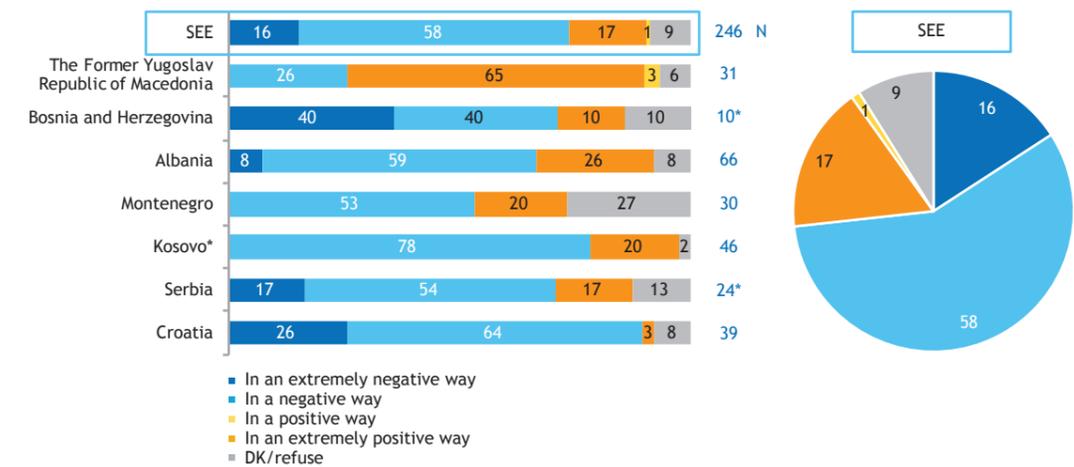


The results here are broadly in line with the previous section; some 18% of respondents feel that Roma employees would affect the work environment while the majority disagrees. Again, Albania stands out with 31%, while businesses from Bosnia and Herzegovina see no impact on the work environment (85%).

Once again, the Roma impact is more frequently pointed out by those managing small enterprises and firms not dealing with export.

**Figure 93: In what way does/would it affect selling of goods and services of your company? (NEW QUESTION)**

(Respondents who think that employing Roma persons affects/would affect sales - N=246, scores are on a scale of 1 to 4 where 1 means in an extremely negative way and 5 in an extremely positive way, %)



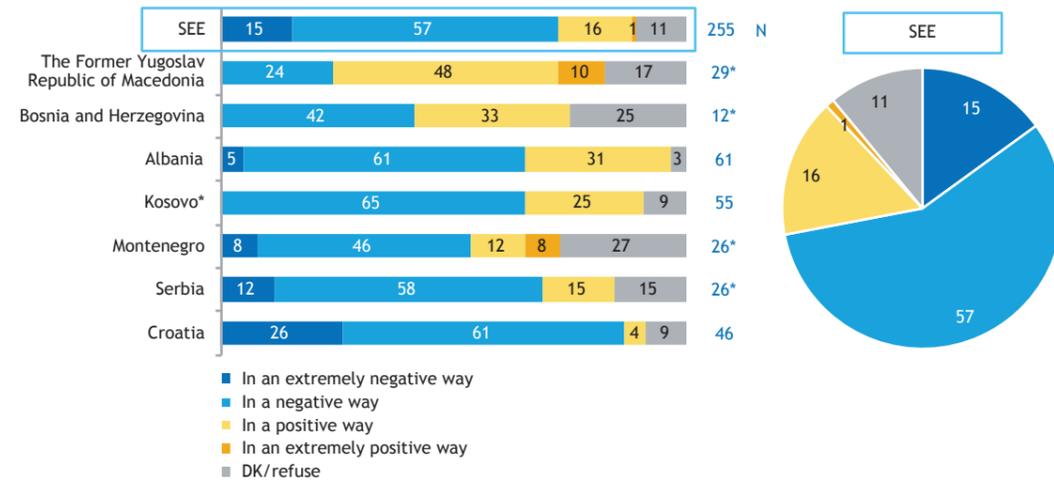
The majority of businesses who feel that hiring Roma would impact their business operations see that influence as overwhelmingly negative (74%). A mere 18% feel that the practice would affect company sales in a positive manner. This is indicative of lingering and widespread prejudice against the Roma community in the region and explains in part why their economic integration has been so fraught with difficulty.

The Former Yugoslav Republic of Macedonia is a positive trendsetter here with two thirds of businesses valuing Roma employee contributions as positive.

Compared to internationally inactive companies (the average score is 2.1), exporters (2.5) are more convinced of a positive impact of this ethnic minority on the movement of their goods and/or services.

**Figure 94: In what way does/would it affect the working atmosphere in your company? (NEW QUESTION)**

(Respondents who think that employing Roma persons affects/would affect working atmosphere - N=255, scores are on a scale of 1 to 4 where 1 means in an extremely negative way and 5 in an extremely positive way, %)



Once again indicative of a broader trend, the vast majority of respondents (72%) see the Roma influence on their work environment as inherently negative. This attitude is more prevalent in Croatia (87%) than in Albania (66%) and Kosovo\* (65%).

Again, export companies tend to be more progressive in this regard and are more open to Roma (their average score is 2.8).

## INVESTMENT IN EMPLOYEES

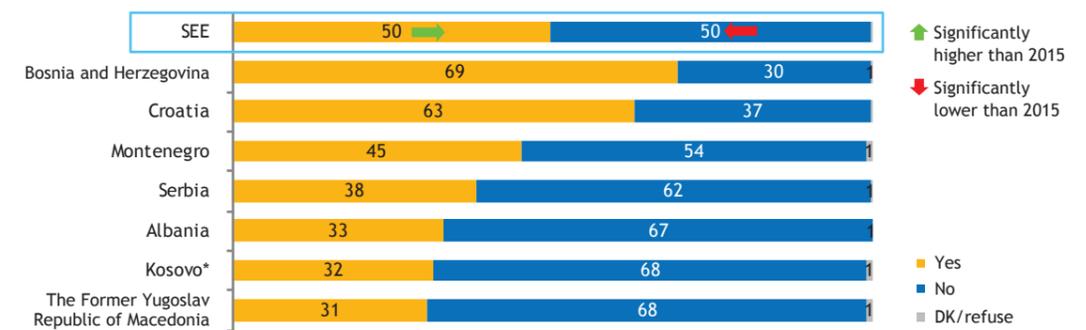
With skills significantly influencing the probability of employment, individual interest in adult learning as well as the willingness of employers to invest in training and development are on the up. However, the survey indicates that individual interest is much more pronounced than corporate. In line with findings from previous years, jobs in the public

sector are preferred for their security while the private sector offers better opportunities for advancement and remuneration.

Finally, employees like to be consulted and to participate in decision making, a finding likely influenced by the overrepresentation of small firms in the sample.

**Figure 95: Over the past 12 months, has your business funded or arranged any training and development for staff in the organization, including any informal on-the-job training, except training required by the law?**

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



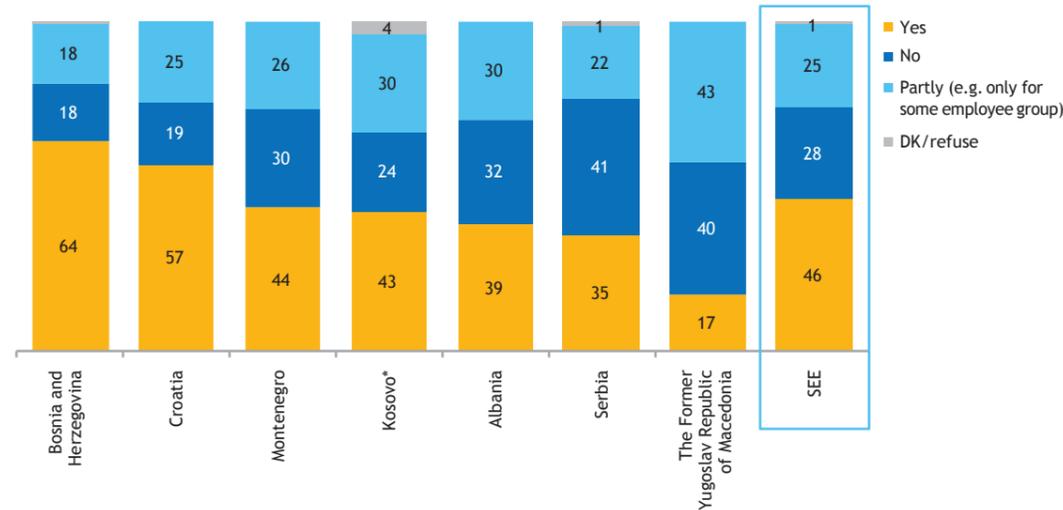
Although indicating an increase of 4% compared to last year, the proportion of businesses who have organized supplementary training for their employees is still only 50%.

The importance placed on continuous learning and development tends to follow company size. Internationally active firms seem much more interested in improving their performance through investment in innovation, as already illustrated, as well as through staff training and development. A similar conclusion can be drawn with regards to enterprises with foreign capital, as well as for the companies involved in heavy industry.

As has been the trend, companies in Bosnia and Herzegovina find staff development especially important (69%), along with Croatia where 63% of managers have provided additional training opportunities for their staff.

**Figure 96: Thinking about skills requirements in your company, does your company regularly review the skill and training needs of individual employees?**

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

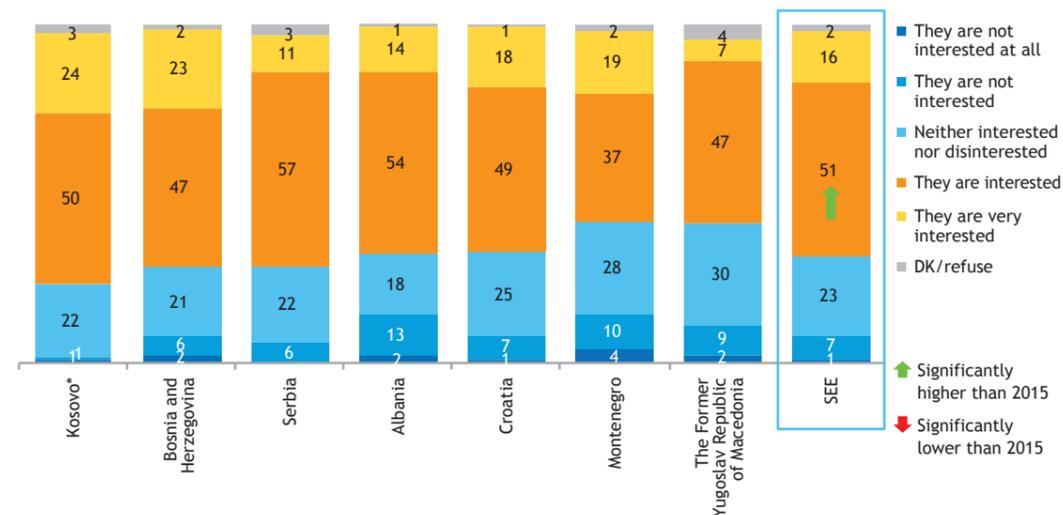


The results have remained unchanged since 2015 - 46% of SEE companies regularly review the skills and training needs of individual employees; 28% do not, while 25% evaluate only a select group of employees. Businesses from Bosnia and Herzegovina seem to be most focused on identifying employee skill gaps (64%), along with their counterparts in Croatia (57%).

Reviewing employees' skills and training needs is more frequent among larger enterprises. It is also implemented more often by exporters and manufacturing companies.

**Figure 97: How would you assess the readiness of employees in your company to acquire additional qualifications in order to advance and get promoted?**

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



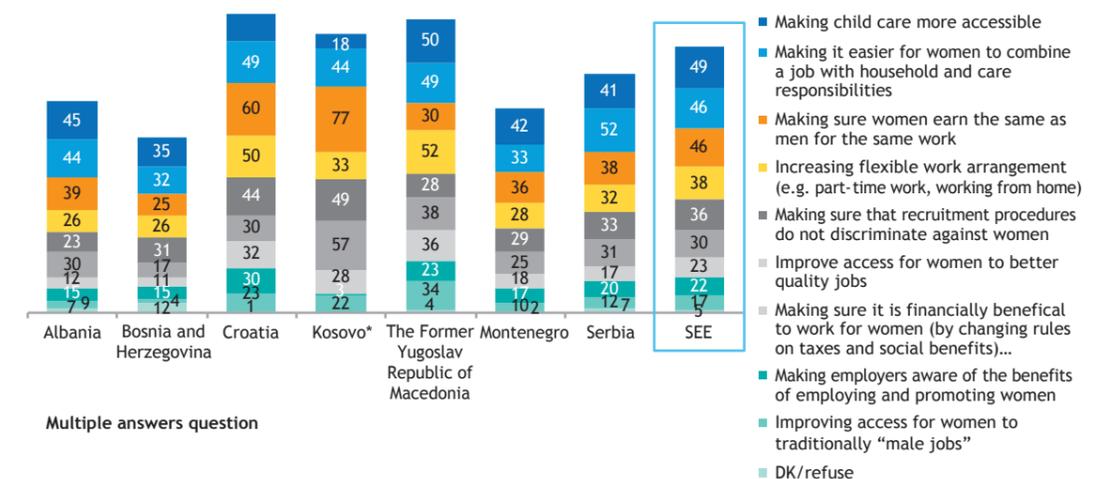
Compared to the 2015 survey, SEE managers are more convinced of their employees' ambition to acquire additional qualifications in order to advance, up to 67% from 60% in 2015. About a quarter (23%) are undecided, while 8% assess employee interest as unsatisfactory. The Former Yugoslav Republic of Macedonia boasts the lowest number of employees interested in professional development or, alternatively, the highest proportion of

demanding executives. Kosovo\* and Bosnia and Herzegovina lead at the other end of the spectrum.

In addition, employees of large companies (4.2) as well as of those operating outside of their primary market (3.8) are better motivated to advance. The same can be said for staff of educational/scientific/arts institutions (3.8).

**Figure 98: In your opinion, what are the most effective ways to increase the number of women in the labour market? (NEW QUESTION)**

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



When asked to prioritize measures to increase the number of women in the labour market, half of the SEE business representatives highlight the need to make child care more accessible. Slightly fewer executives (46%) note the need to enable women to reconcile their role in the household, and the family, with their professional duties. The same number of respondents think that pursuing income equality with men is the best course of action.

Flexible working arrangements (38%) and anti-discrimination rules (36%) are also supported by a significant number of managers. The

results indicate that Croatian companies seem to be the most interested in improving the position of women in the workplace across all categories.

Firms in Kosovo\* are like minded with equity in compensation, access to better jobs and safeguards against discrimination particularly noteworthy as suggested mitigation strategies.

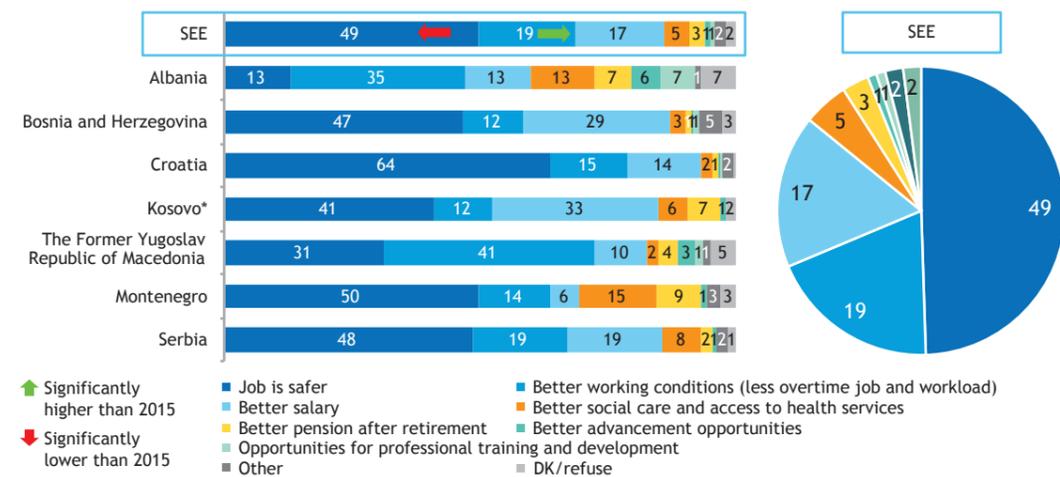
Companies in The Former Yugoslav Republic of Macedonia more often cite the importance of flexible work arrangements as well as allowing women into traditionally "male" jobs.

Representatives of the largest companies (57%) consider equality in compensation to be the most effective (the statistic for medium-sized firms is 33%). This attitude is also

voiced more frequently by non-exporters (46%) and companies outside of the industrial sectors.

**Figure 99: In your opinion, what is the main reason why people prefer to work in the public sector?**

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



Job security remains the chief reason for the relative popularity of public sector jobs, at least for half of the executives interviewed. Another 19% cite better working conditions while only 17% think the salary is the main motivation.

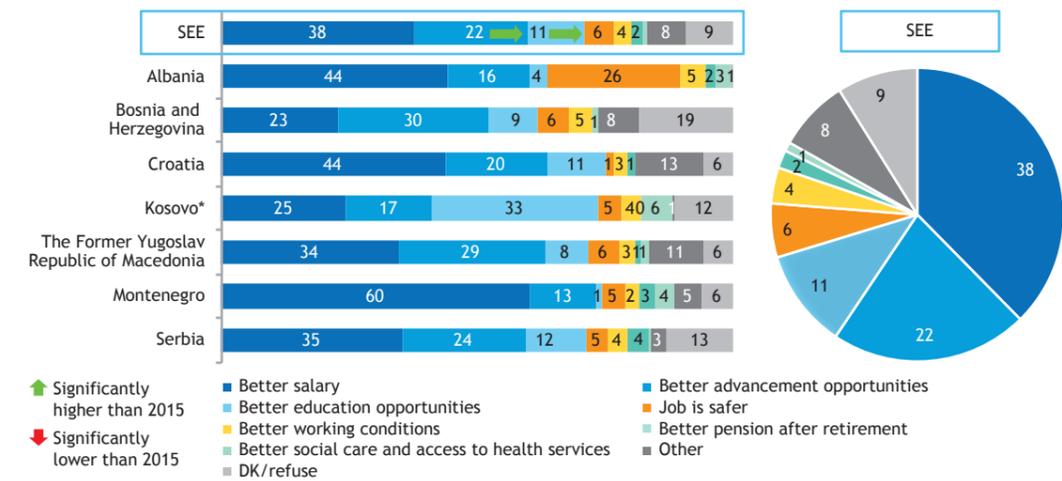
Job security is valued the most in Croatia (64%), as in the previous wave, while companies from The Former Yugoslav Republic of Macedonia (41%) and Albania (35%) prioritize favourable working conditions as the principle and those in Kosovo\* (33%) and Bosnia and Herzegovina (29%) underline better remuneration.

While the general order of preference remains unchanged, the number of executives prioritizing better working conditions has declined (from 26% in 2015) with the size of remuneration growing in importance (up from 11% in 2015).

Bearing in mind primary company activity, representatives of industrial (23%) and service sectors (17%) prioritize better wages, while those in education and related fields (52%) more often emphasize job security.

**Figure 100: Why does someone rather choose to work in the private sector?**

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



According to the SEE business community, a better salary is still the key motive for employment in the private sector with an upswing in opinion from last year up to 38% from 34% in 2015. Better career advancement opportunities stay in second (22%), while chances for additional education and development remain third with a marked increase since 2015 (from 8% to 11% in 2016).

Albanian firms most often prioritize job security as the selling point for the private sector (26%).

Managers of companies employing more than 250 people (38%) are more prevalent in the group that prioritizes better career advancement as the chief motivator.

Montenegrin businesspeople report higher remuneration as the chief motivator more often than any other group (60%). Interestingly,

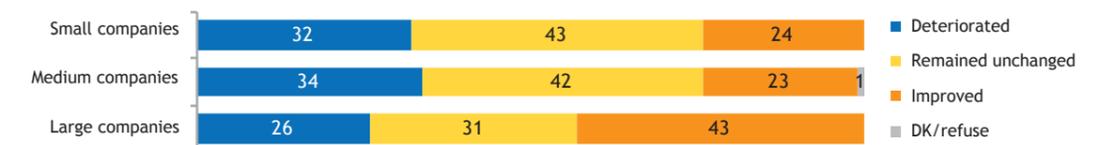
# Focus on Large Companies

## PERCEPTIONS OF THE GENERAL BUSINESS ENVIRONMENT AND ECONOMIC TRENDS

Executives of large companies are overwhelmingly positive in their appraisal of how their economies have developed over the past 12 months - more than two fifths see an

improvement, a significantly higher proportion than with their counterparts managing smaller businesses.

### General economic situation over the past year



In addition, they have a brighter outlook for the future (52%) while only 7% made a pessimistic forecast for next year.

When they were asked to estimate the recent development of their own business, there was similar enthusiasm. In contrast to smaller sized firms, a significant majority (62%) is quite satisfied in this respect:

### Own business situation over the past year



Three quarters of executives representing larger companies emphasize the importance of regional stability and cooperation. As with

the 2015 survey, respondents prioritize good neighbourly relations over those with the EU.

## BUSINESS TRENDS IN SEE

Likely encouraged by high demand for their goods in the previous period, 76% of large companies expect to see further growth in demand over the next 12 months:

### General economic situation over the past year

	Decreased	Mostly unchanged	Increased	DK/refuse
Demand in past 12 months	12	21	67	0
Demand in next 12 months	10	12	76	2

Accordingly, half of the large companies surveyed also report increased hiring of new staff to deal with rising demand for their products. In terms of investment and changes in cost over the past year, there is no discernible difference between large companies and SMEs.

Large companies, however, are much more environmentally aware with 90% of respondents from this group reporting some attempt to mitigate their business' harmful effects on their surroundings.

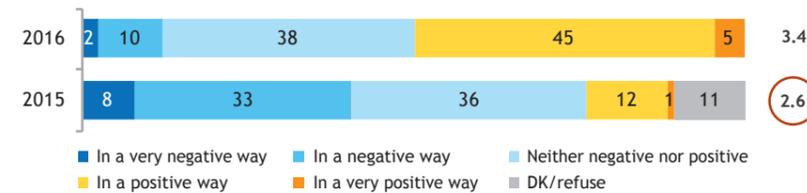
	Deteriorated	Remained unchanged	Improved	DK/refuse
General economic situation in next 12 months	7	36	52	5

## BUSINESS ENVIRONMENT IN SEE IN DETAIL

Two thirds of the largest market players faced some difficulties in running their businesses. The following issues are felt most acutely by this group: taxation problems, lack of a skilled and educated workforce, macroeconomic instability and cumbersome labour regulations. Their concerns broadly conform to those of smaller-sized enterprises, but anxieties regarding street crime, theft and violent crime grow in proportion to company size.

Compared to previous years, significant improvements in the region's overall infrastructure have been noted. Although there is ample room for further upgrades, big corporations are somewhat more satisfied with available transport modes (the average score is up to 3.2 from 2.8 in 2015). Also, their satisfaction with different types of infrastructure supply is quite high - 3.8 vs. 3.2 in 2015. The general sense of growth and development is evident in the perceived impact of infrastructure on business, which is far more positive than last year:

### Infrastructure impact



Businesses with the most employees identify improvements to telecommunications and railroad transport capabilities as substantially more beneficial than smaller firms. In terms of

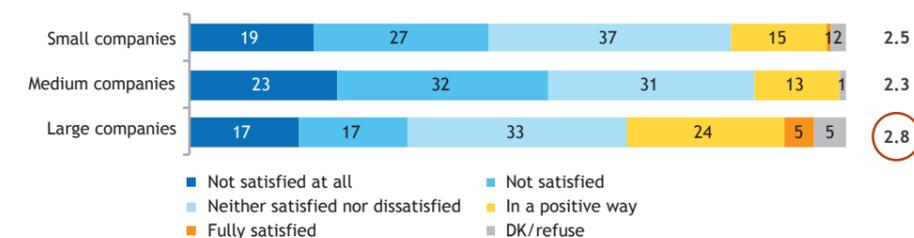
potential elimination of roaming costs within the region, there is no difference between companies of various sizes.

## LEGAL AND REGULATORY FRAMEWORK

Representatives of larger-sized companies are on average more convinced that firms in their economy conscientiously fulfil their tax obligations related to both total annual sales and the actual wage bill. Although the majority (76%) think that the authorities should pay much more attention to issues facing businesses, they are more positive in their appraisal of the government's efficiency than their colleagues in small-to-medium sized enterprises. The latter are in general less satisfied with the general performance of public administration when it comes to their relationship with the private sector (average score is 3.1).

The percentage of large firms that have withdrawn from a tender or a public procurement exercise during the past three years is approximate to the regional average, or about a third (31%). The opinion of the government's policy and legislative making processes is divided but with the majority of respondents calling for closer cooperation with the private sector. Larger companies are, however, less critical than the regional average:

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



The vast majority of large enterprises (93%) face legal or regulatory obstacles. As most other respondents, executives in this category see taxation problems as the most significant barrier to success (43%). As last year, employment regulations come in second (31%), while

trading standards have now grown in significance and are in third place (17%). There is no significant difference in perception of legal acts as barriers to business development between respondents representing companies of various sizes.

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

	Tax-related	Employment regulations	Trading standards	Planning/building/development	No specific regulations/all regulations	Minimum wage regulations	Working time	Health and safety regulations	Providing information/record-keeping	Environmental regulations	Pensions
Large companies	43	31	17	12	14	14	7	7	7	5	5
Medium companies	46	29	13	17	14	10	2	6	10	10	5
Small companies	45	24	12	12	19	14	4	8	9	6	4

Question requires two answers

Main obstacles

Nearly half of all big companies (48%) covered by the survey have attempted to resolve disputes through arbitration courts in the past three years. As with last year's findings, bigger

companies are much more likely than their small and medium sized counterparts to pursue this avenue of dispute resolution.

### ACCESSIBILITY OF LOANS

Similar to SMEs, a major portion of the working capital and new fixed investments in large companies comes from internal funds i.e. from retained earnings. A bank loan is the second most cited source, covering 17% of their needs. Compared to SMEs, they rely more on equity (9%). In general, businesses hiring 50

and more people borrow from banks more frequently than those with a smaller-sized staff. 43% of respondents who manage the biggest firms surveyed confirm that they have applied for a bank loan recently and, just like in 2015, all of them were approved.

### OVERDUE PAYMENTS

Two fifths of surveyed executives cite that they have had complications caused by overdue payments in the last 12 months and approximately one third (31%) have tried to resolve them through the courts. Firms with 50 and more employees are still more inclined

to pursue assistance from authorities in order to resolve overdue payment. There is a broad consensus across all categories that government institutions are more responsive in the settlement of their liabilities than private firms.

No matter if they sell or purchase, large companies prefer deferred payment. Thus, 40% of their total sales were sold on credit, while 36% of their purchases were implemented in this

way. Generally, compared to the smallest, this method is more common among bigger firms (over 49 employees).

### CORRUPTION

Company size does not seem to affect perceptions of corruption, as in previous years. Although a certain number of respondents from the largest companies withheld their opinions, a majority of respondents stated they do not subscribe to "additional payments" and their predetermined amounts. A similar conclusion can be made for questions about improper actions for different purposes.

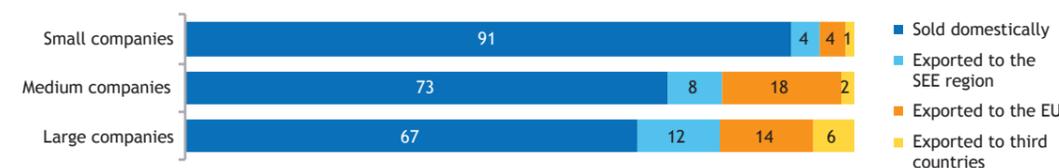
The majority of respondents say that irregular payments/gifts are never made for any reason. Most respondents feel that corruption can be hindered with almost half of all respondents from this group (48%) consider reporting to the relevant authorities the most efficient way to do this. Only 14% feel that there is no way to curb corruption in their societies, versus a regional average of 24%.

### EXPORT AND IMPORT OF SEE BUSINESSES

As anticipated, most of the largest companies interviewed (69%) are present in foreign markets. With more than a third of their goods

produced for foreign markets, large companies are the export leaders in the region:

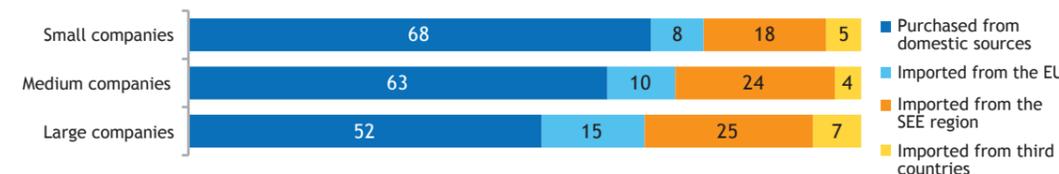
*What percentage of your firm's sales are...?*



Although large companies source most raw material domestically (52%), they import

necessary production inputs more frequently than others:

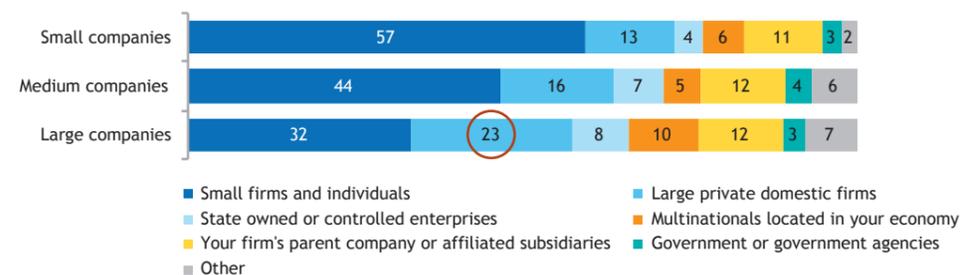
*What percentage of your firm's material inputs and supplies are...?*



Similar to other types of firms, large companies mostly sell to small firms and individuals (32%), followed by large private domestic

companies (23%). Large companies are also most likely to sell their goods to large private domestic firms.

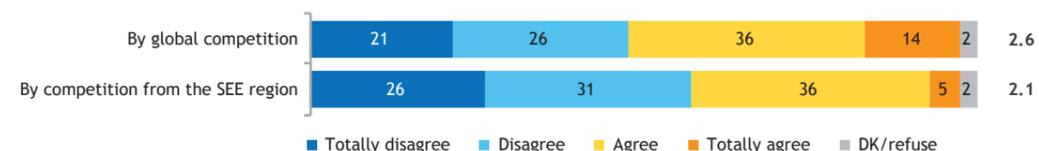
*What percentage of your domestic sales are to...?*



As with the previous wave, duration of customs procedures related to both exported and imported goods increases in proportion to company size.

Generally, those managing large companies do not feel threatened by foreign market rivals no matter where they come from. In fact, more than 85% are convinced that they are able to compete very well with competitors from abroad.

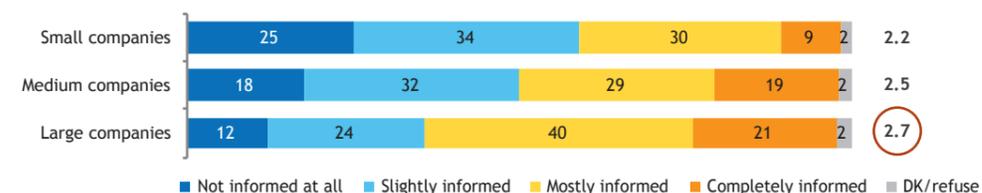
*My company's products, goods and services can compete well with products, goods and services ...*



Results of this year's survey broadly conform to last year's. Large companies are significantly

more informed about, and interested in, CEFTA than their smaller counterparts:

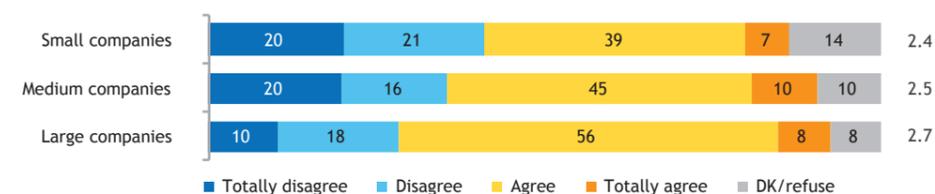
*To what extent do you think that you are informed about the regional free trade agreement (CEFTA 2006)?*



In addition, almost two thirds of large companies (64%) feel that they have benefited from the regional free trade agreement, and

a third sees no difference between exporting to the CEFTA region and the EU.

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



Overall, there is consensus among companies of all sizes that government and other public

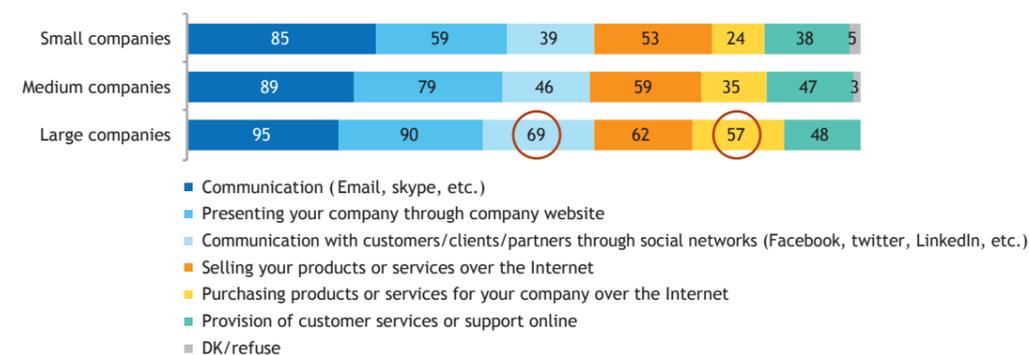
sector buyers should prioritize purchasing from domestic suppliers.

## INNOVATION AND TECHNOLOGY

Overall, the proportion of companies innovating and successfully acquiring and deploying new technology grows with their size.

In terms of large businesses, they tend to use the Internet for sales and customer support much more frequently than their smaller sized counterparts in the SME group.

*Internet usage*



Multiple answers question

Large companies also cooperate with universities to a much higher degree (55%) in the process of developing new products and/or services.

Compared to smaller businesses, large companies have, to a much higher degree, attempted to improve existing products and services (83%) as well as production or delivery processes (86%).

	Yes	No
<b>Collaboration with universities</b>		
Small companies	11	88
Medium companies	27	71
Large companies	55	40
<b>Introducing new or improving products/services</b>		
Small companies	54	45
Medium companies	62	38
Large companies	83	14
<b>Introducing new or improving production/delivery processes</b>		
Small companies	46	53
Medium companies	66	34
Large companies	86	14

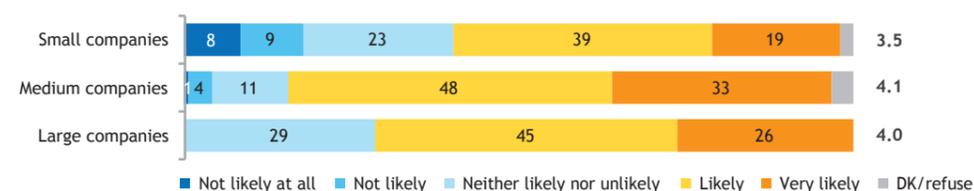
### SKILL NEEDS

As in 2015, company size does not seem to impact the educational structure of their staff. Executives in charge of enterprises with 50 employees and more are on the average unhappier with the education system in their economy (the average score is 3.4 compared to 3.6 recorded among smaller firms). This is likely linked to recruitment problems experienced by 48% of the largest companies over the past 12 months where open vacancies have not been filled.

Larger companies are also much more likely to hire educated but inexperienced young professionals with 80% of respondents in favour for an average score of 4.1.

The difference in hiring practices between different sized companies is especially striking when polled on the likelihood of hiring Roma - once again, larger firms are much more likely to recruit employees from within the Roma community:

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



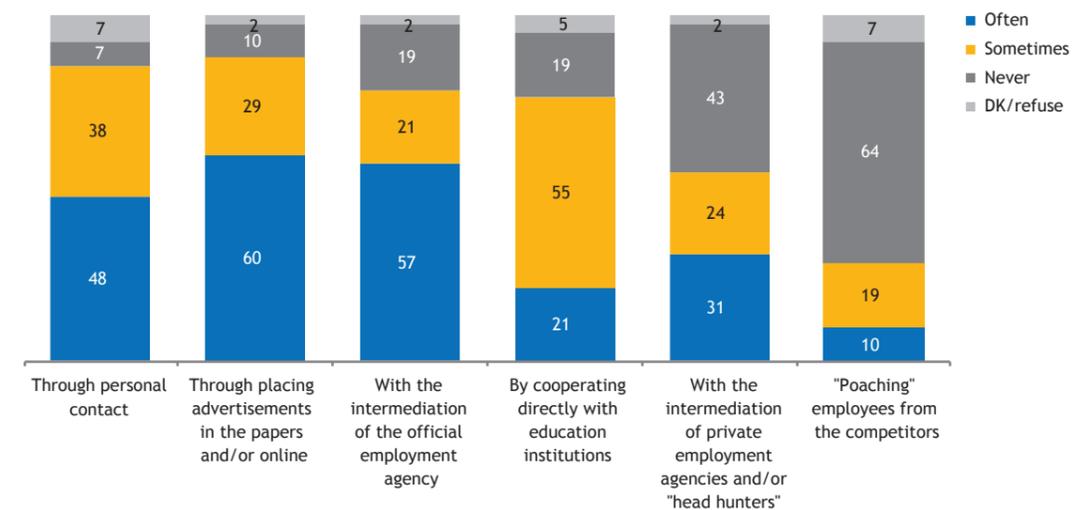
### EMPLOYMENT PRACTICES

There is a noticeable shift in how the largest companies go about hiring staff with nine out of ten executives placing public advertisements at least some of the time (60% report doing it frequently).

by 86% of respondents). Finding prospective employees through personal contact and using employment intermediaries seem to be the second most frequent method for hiring. Large companies are the most likely to cooperate with education institutions and employment agencies, while also more frequently "poaching" staff from competitors.

The second most common method of identifying prospective staff is through referral by a trusted source (occasionally employed

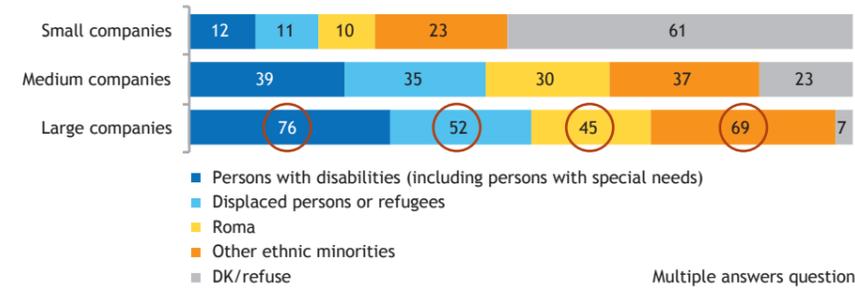
*How often do you use the following when hiring new employees?*



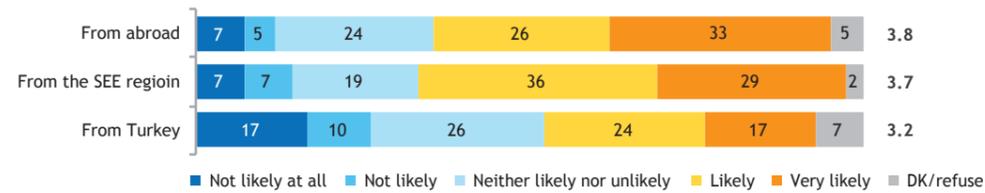
When asked about optimal workforce size, 55% of large business executives would retain the current number of employees, a fifth would increase it, while 12% admit that they would consider staff reductions.

Members of vulnerable groups have by far a better chance of employment in larger companies, especially ones with more than 250 people. The same is true for foreign workers.

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



How likely would you employ workers?

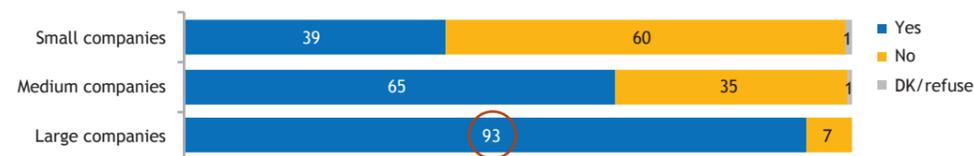


## INVESTMENT IN EMPLOYEES

In contrast to SMEs, the vast majority (93%) of large companies invest in their staff through different trainings and courses. All of them

regularly review the skills and training needs of at least some group of employees while most (74%) do it across the entire organisation.

Providing trainings and development for staff in organization



At the same time, investments in training are reciprocated by employee interest in

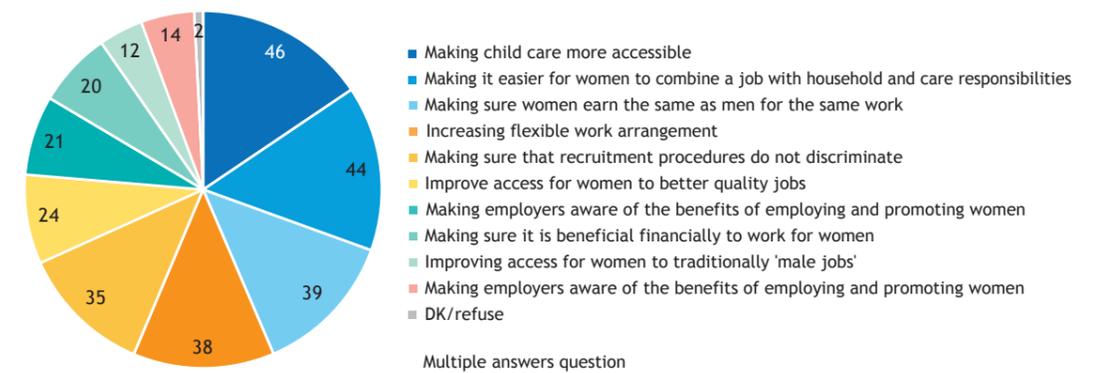
acquiring additional qualifications, according to employers (the average score is 4.2).

Readiness of employees to acquire new qualifications



When asked about the most efficient ways to increase the number of women in the workforce, representatives of the largest companies primarily emphasize the need to pay men

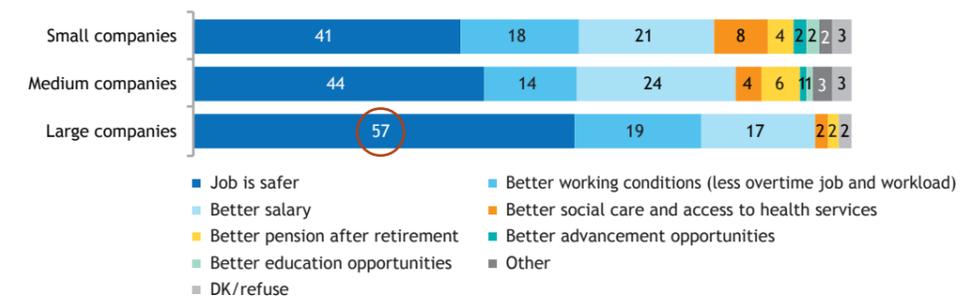
and women equally for the same work (57%) as well as more accessible child care (55%). Wage equality is much more relevant for large companies than for those medium-sized (33%).



In keeping with the overall trend, albeit to a higher extent, leaders of large companies cite

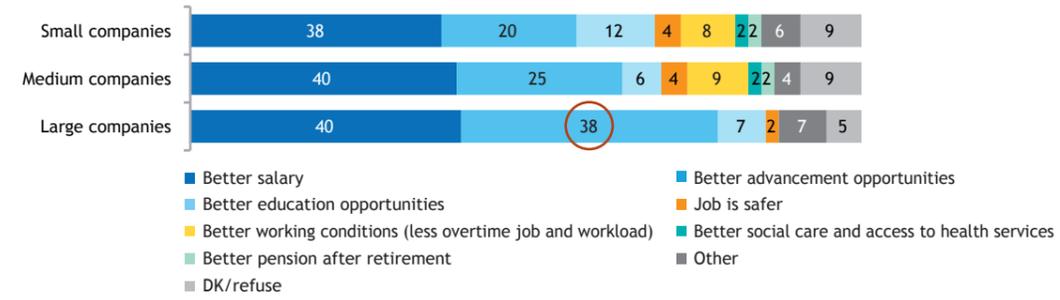
job security as the primary driver for employment in the public sector (57%):

Reasons for choosing public sector



Salary seems to be identified most commonly as the main incentive for employment in the private sector (40%), along with greater opportunities for career advancement (38%):

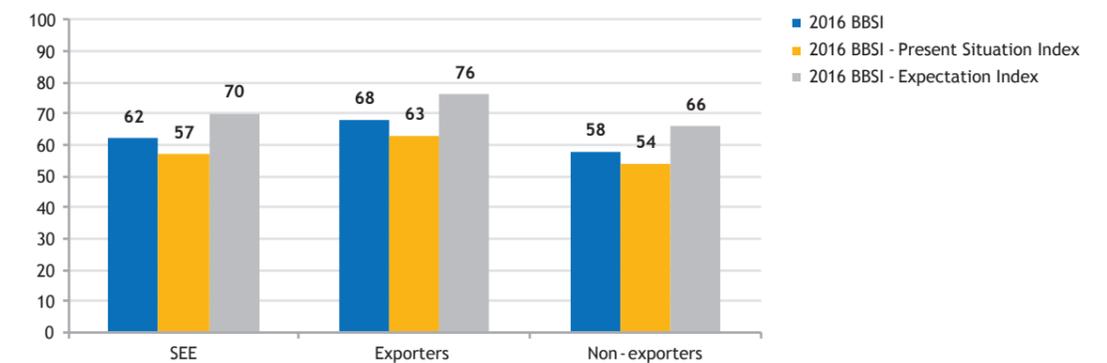
*Reasons for choosing private sector*



# Focus on Exporters

## PERCEPTION OF THE GENERAL BUSINESS ENVIRONMENT AND ECONOMIC TRENDS

As with the previous wave, 38% of interviewed companies export their products and services. Internationally active companies remain more positive in their outlook compared to non-exporters. As the chart illustrates, both the present situation index and expectation index are higher with exporters:



More than two fifths of respondents in this group (44%) do not see any change in terms of the general economic situation over the past

year, while the same number is optimistic in terms of the immediate future:

	Deteriorated	Remained unchanged	Improved	DK/refuse
General economic situation in past 12 months	29	44	27	1
General economic situation in next 12 months	12	41	44	3

In terms of their appraisal of their own business, half report improvement, a markedly higher number than among non-exporters (37%):

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



Having in mind the increased expectations regarding their future sales, as well as their satisfaction with recent business developments, 42% of respondents managing export-oriented companies expect an increase in employment over the next 12 months:

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



Executives from export-oriented companies are, predictably, more supportive of regional cooperation (77%), a much higher proportion than with firms oriented solely on the domestic market (53%). The same is true regarding EU access - 68% of exporters consider it a good idea versus 58% of non-exporters.

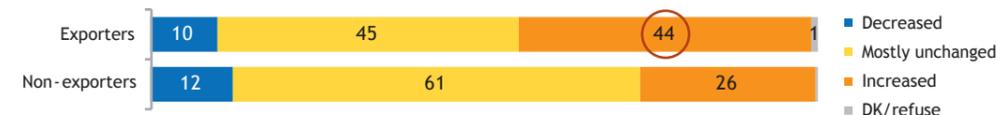
BUSINESS TRENDS IN SEE

54% of export-oriented enterprises have recorded growth in demand over the past year and this likely accounts for the positive outlook and improved results reported previously. Moreover, two thirds expect further improvements over the next 12 months:

	Deteriorated	Remained unchanged	Improved	DK/refuse
Demand over the past 12 months	11	35	54	0
Demand over the next 12 months	4	28	65	3

Growth in demand is expected to directly result in a boost in employment, with 44% recording an increase in the company workforce. This number is significantly lower among non-exporters (26%):

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



In terms of total investments recorded in 2016, exporters were focused on property, plant and equipment (45%) and intangible assets (15%); in both instances to a larger extent than companies operating in their own market only. At the same time, non-exporters had more long term financial investments.

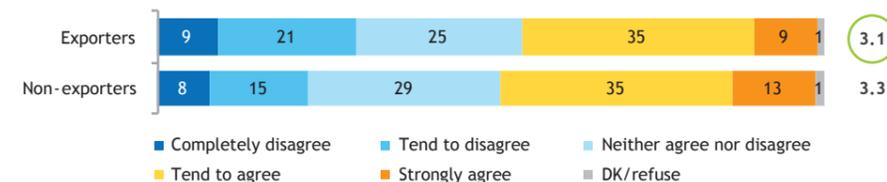
Exporters are more environmentally aware - 83% have taken at least some steps to mitigate their impact, while a third claim they are very active in protecting the environment.

LEGAL AND REGULATORY FRAMEWORK

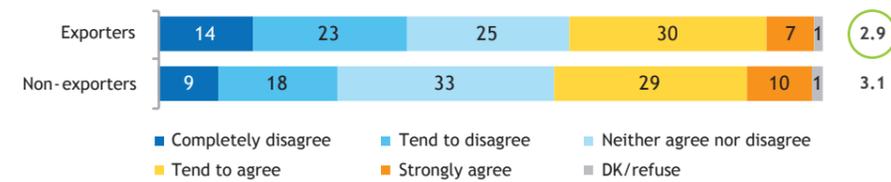
Companies active in foreign markets describe the relationship between the government and the private sector as lacking. Four fifths of all respondents in this group feel the authorities do not take the concerns of businesses seriously enough, while five out of six respondents find the process of making legislation and policy inadequate. There is broad agreement on both issues between exporters and businesses only active in the domestic market. Furthermore, both survey groups have shared estimates on the amount of annual sales and wage bill costs reported for tax purposes.

There is some discrepancy between the two groups in their appraisal of government bureaucracy and its performance. Exporters are particularly unhappy with inconsistencies and ambiguities in the legal framework as well as in its interpretation by competent authorities while also voicing dissatisfaction with the quality of business support services provided by the government.

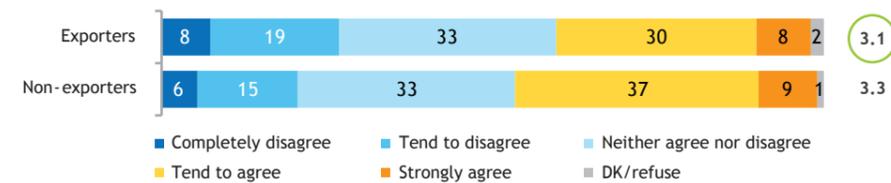
Information on the laws and regulations affecting my company is easy to obtain from the authorities



*The state administration's interpretations of the laws and regulations affecting my company are consistent and predictable*



*The information provided is pertinent and complete*



Over the past three years, 36% of exporters have at one point decided against bidding on a public tender - some 63% explain their decision with claims of criteria tailored to unduly favour selected bidders.

The vast majority of respondents (92%) claim that the success of their business is impeded by legislation. As anticipated, taxation is the

most problematic (46%), followed by employment regulations (25%). Almost a fifth (18%) believe that all laws and regulations represent a threat to their business' operations and growth. Compared to non-exporters, export-oriented companies are more concerned about planning/building/development regulation, but less worried about minimum wage restrictions.

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

	Tax-related regulations	Employment regulations	No specific regulations/all regulations	Planning/building/development	Trading standards	Providing information/record-keeping	Minimum wage regulations	Environmental regulations	None - no regulations an obstacle	Health and safety regulations	Pensions	Working time	DK/refuse
Exporters	46	25	18	17	12	10	9	8	8	7	4	4	2
Non-exporters	45	24	18	11	12	9	15	6	11	8	4	4	3

Question requires two answers

Main obstacles

As in 2015, a third of exporters report arbitration proceedings over the past three years

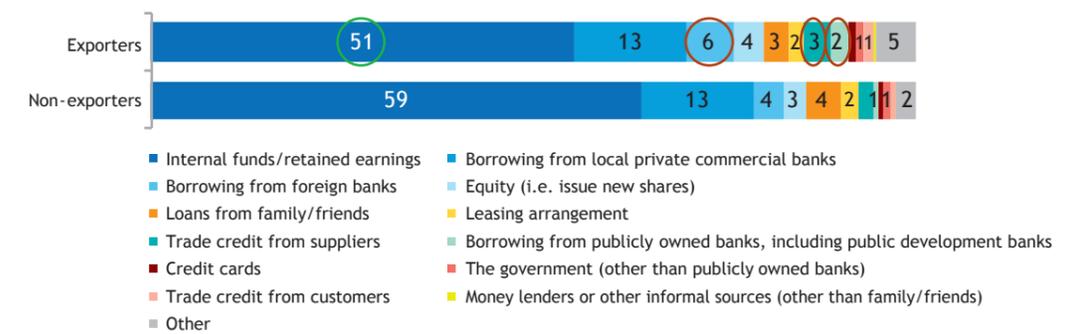
- a significantly higher of proportion than with non-exporters (17%).

## ACCESSIBILITY OF LOANS

When it comes to court cases, one third of exporters say that they had some cases before arbitration courts in last 36 months, which is significantly higher than the number of firms. Businesses operating outside of their own economy rely primarily on internal funds i.e.

retained earnings (51%) but to a lesser extent than firms focused on the domestic market. This can likely be attributed to a greater readiness by exporters to seek commercial loans, which do not operate in foreign markets (22%).

### Sources of financing



This is corroborated by 38% of export companies (noticeably more than non-exporters) reportedly applying for a bank loan over the last year; only 4% report their application was

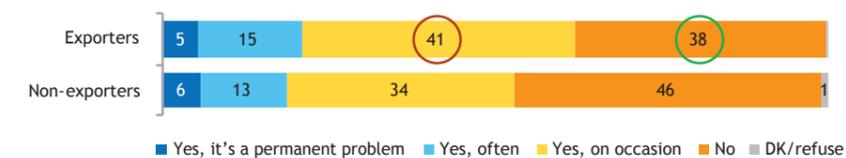
rejected. According to the respondents, the loan process takes 20 days on average.

## OVERDUE PAYMENTS

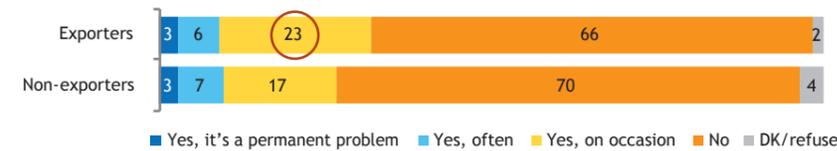
There is no change in this regard since 2015. Two out of five representatives of export companies confirm having to deal with overdue payments during the previous 12 months, while approximately one out of four were launching court action to collect.

Overdue payments, and litigation to expedite collection, are much more common among exporters. Exporters also experience more cash flow problems caused by late payment from both private and public clients.

*Has the problem of late payment of other private companies caused your business to experience cash flow problems?*



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



Most of the time, exporters collect payment on delivery (40%), closely followed by selling on credit (37%). The latter method is significantly more common than among non-exporters (26%), and likely contributes significantly to cash flow problems experienced more frequently by exporters. Similarly, when

purchasing, exporters are more frequently forced to pay in advance (28% vs. 19% for non-exporters). Still, a major portion of their supplies are paid for on delivery (38%), while deferred payment is used almost as frequently as payment in advance (29%).

## CORRUPTION

More than two fifths of export-oriented businesses do not feel as if informal payments “to get things done” are common in their society, while slightly more than a third disagree. There is no influence of company export activity on the perception of these two issues. When asked to comment on the occurrence of corruption in certain fields, most respondents (ranging from 51% to 59%) claim that it does not happen.

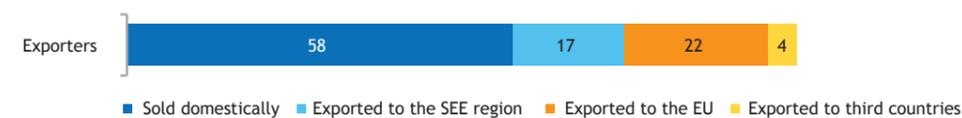
A third of exporters (33%) find that reporting corruption to the relevant authorities via official channels is the most effective way to combat it. This is followed by informing journalists (17%) with a quarter still unsure whether there is a viable strategy to combat graft.

## EXPORT AND IMPORT OF SEE BUSINESSES

Exporters, on average, sell 58% of their goods domestically, 22% is exported to the EU, 17% goes to SEE economies and 4% is sold in third

countries. Compared to 2015, there is a marked increase in export to neighbouring economies (up to 17% from 13% in 2015).

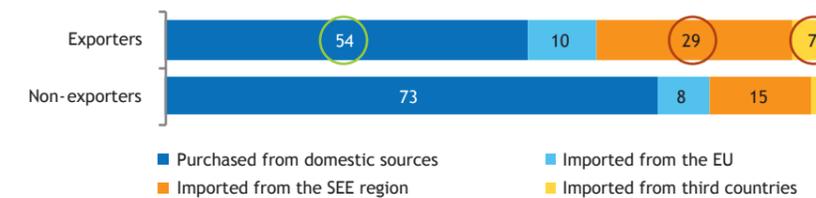
What percentage of your firm's sales are...?



In comparison to companies limited to a single market, exporters also tend to import more: 54% of inputs are supplied from domestic

sources, 29% are imported from the EU, 10% are purchased in neighbouring markets, and 7% come from third countries.

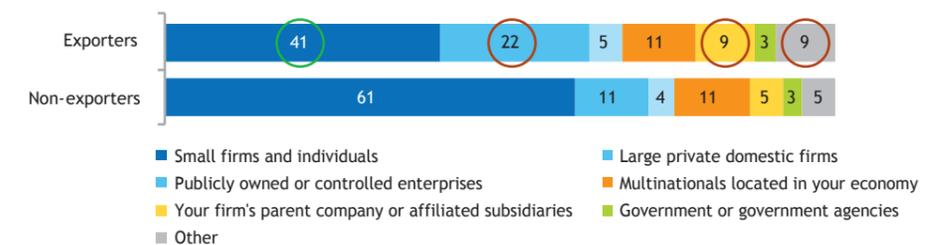
What percentage of your firm's material inputs and supplies are...?



Although the main buyers of both exporters and non-exporters in the domestic market are small firms and individuals, their share in exporters' sales is considerably lower.

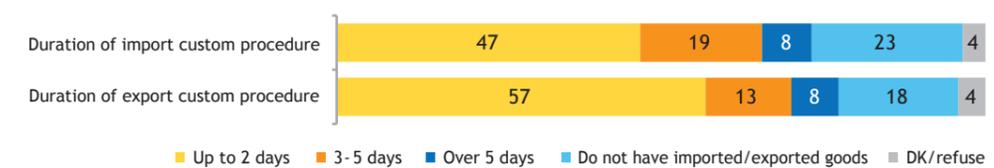
Exporters sell to large, private domestic firms (22%), multinationals located in their economy (9%) and other customers (9%) more than non-exporters.

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



As in 2015, exporters seem to be happier with the average duration of the export custom

process, as opposed to the length of the import clearance procedure.



Two thirds of export companies interviewed (26%), followed by unnecessary physical examinations or inspections (17%) and the need for licenses or permits (13%).

are concerned by the requirement to provide hardcopy documents and/or certifications

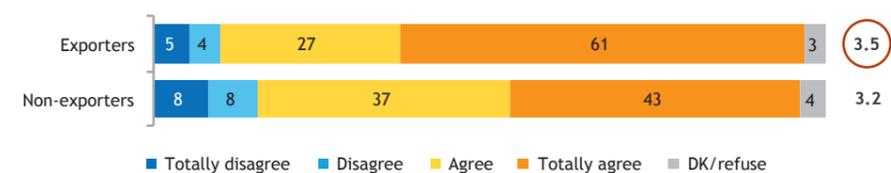
Although most do not feel threatened by global (50%) and SEE competitors (60%), exporters still feel more vulnerable than their non-exporting counterparts with two thirds of the latter category confident in their ability to fend off the competition.

community as well as confidence in their market share by non-exporters at home.

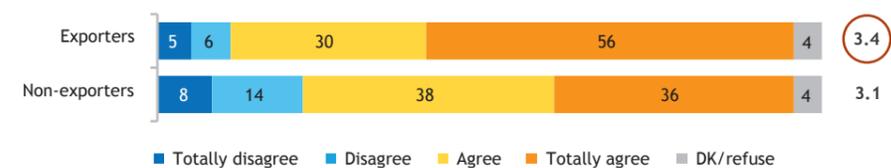
Nonetheless, a convincing majority of exporters believe that their products and services can compete with those from the SEE region as well as the EU.

This can likely be attributed to a better awareness of the competition by the exporter

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



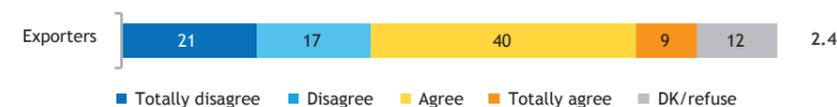
*My company's products, goods and services can compete well with products, goods and services from other EU countries*



As expected, exporters are significantly more familiar with CEFTA than non-exporters. Still, about a half admit they are not sufficiently informed about its provisions. The same number,

likely the half who would assess themselves as familiar, claim that their company has benefited from the agreement.

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



Interestingly, regardless of their operations in foreign markets, exporters agree with non-exporters that local suppliers should have a privileged position in public procurements (70%)

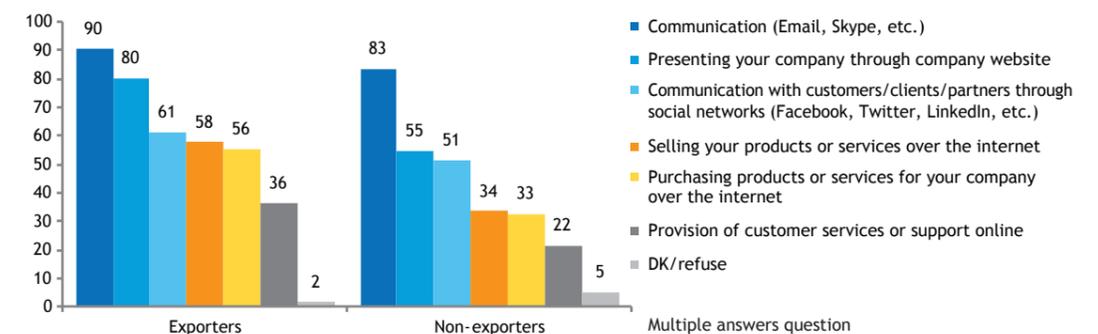
at home. In terms of market openness within SEE, they put Serbia first, while Albania is perceived as the least open economy.

## INNOVATION AND TECHNOLOGY

This year's results confirm that companies which are internationally active use all

aspects of the Internet considerably more than non-exporters.

*Internet usage*



In addition to greater use of the Internet, exporters are also more inclined to introduce innovations in their products and services.

significantly improved production and delivery processes in the past year, again out-investing much more than non-exporters. In fact, exporter investment in innovation and technology exceeds any made by all other categories of business surveyed.

Exporters cooperate with universities on their R&D or technology development projects while introducing new or substantially improved products or services to a much greater extent than non-exporters over the past 12 months. They also introduced new or

	Yes	No	DK/refuse
<b>Collaboration with universities</b>			
Exporters	26	72	1
Non-exporters	9	89	2
SEE	17	82	1
<b>Introducing new or improving products/services</b>			
Exporters	66	33	1
Non-exporters	52	47	1
SEE	54	45	1
<b>Introducing new or improving production/delivery processes</b>			
Exporters	65	34	1
Non-exporters	44	55	1
SEE	51	48	1

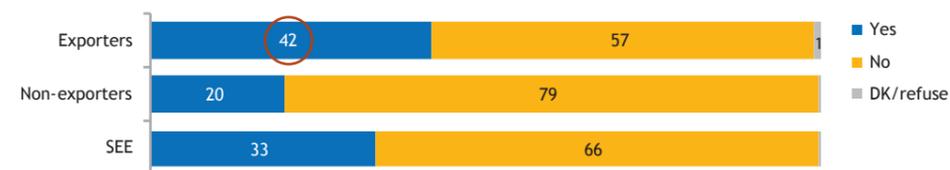
## SKILLS NEEDS

There is no notable statistical difference between exporters and non-exporters in terms of the education level of their workforce. Exporters, however, tend to be less satisfied with how the education system in their respective economy meets the needs of their

business (the average score is 3.2 vs. 3.7 for non-exporters).

On average, exporters tend to struggle much more with hard-to-fill vacancies (77%) largely due to a small pool of qualified candidates.

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

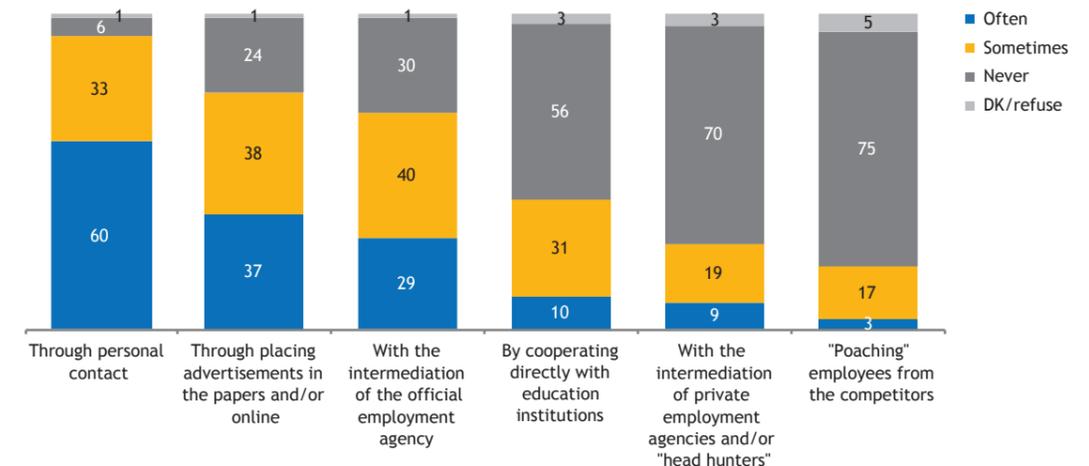


## EMPLOYMENT PRACTICES

When recruiting new employees, managers of export companies overwhelmingly trust personal referrals - 93% rely on them at least sometimes while 60% use them frequently. The second most common recruitment method is public advertisement through newspaper

or online ads, occasionally employed by three quarters of all firms. Compared to non-exporters, exporters more often cooperate directly with universities and use services of official and private employment agencies.

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

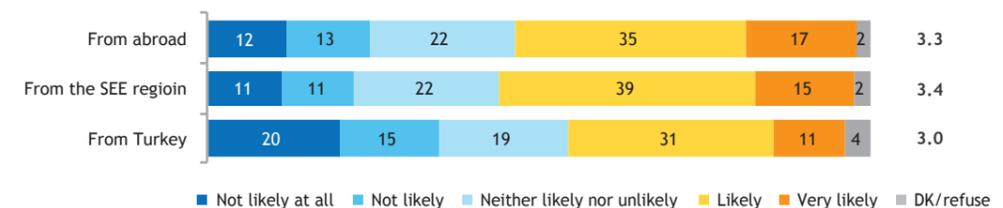


If given the choice, some three fifths of exporters (62%) would not change their current staffing level, a quarter would bring more employees on while only 5% would downsize. This shows that most companies are optimally staffed with an employee structure in line with their needs.

a far better chance of being employed by an export company than in one focused domestically. Furthermore, internationally oriented firms are not only more open to socially vulnerable groups and inexperienced youth, but also to foreign employees. Regardless of whether they come from SEE, Turkey or anywhere else in the world, prospective employees are much more likely to be hired by export-oriented companies.

A detailed analysis shows that persons with disabilities, refugees as well as Roma have

*How likely would you employ workers?*



Despite their stated openness to Roma hiring, exporters are not overwhelmingly confident of the positive effect Roma would have on sales

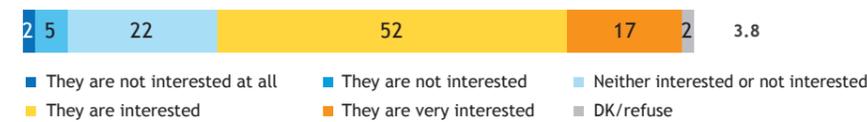
or the working environment. Nonetheless, they are still more positive than their non-exporting counterparts.

## INVESTMENT IN EMPLOYEES

As with innovations in technology, export companies are also markedly more committed to better human resource management compared to non-exporters; 63% have organized additional trainings for staff (36% for non-exporters), while 53% regularly review the skills

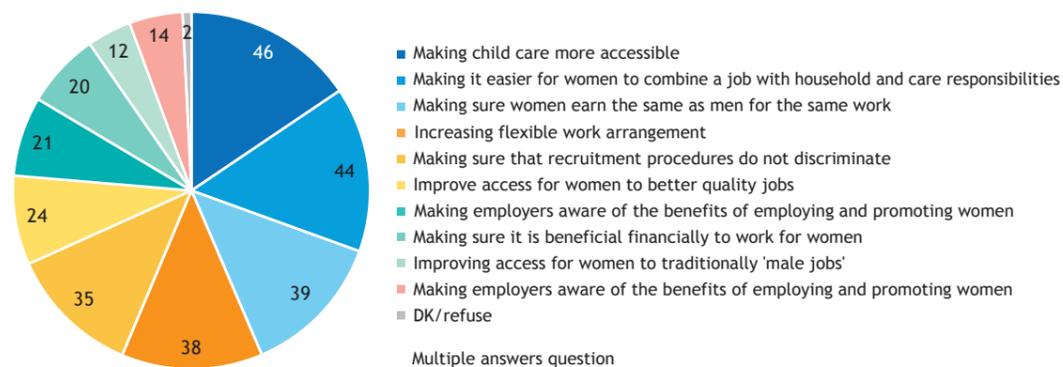
and the needs of the entire workforce (38% for non-exporters). Employees are overwhelmingly willing to embrace new qualifications according to employers, with less than a third appraised as not interested.

### Readiness of employees to acquire new qualifications



When it comes to improving the position of women and increasing their number in the workplace, the majority of exporters believe that better maternity benefits, chiefly

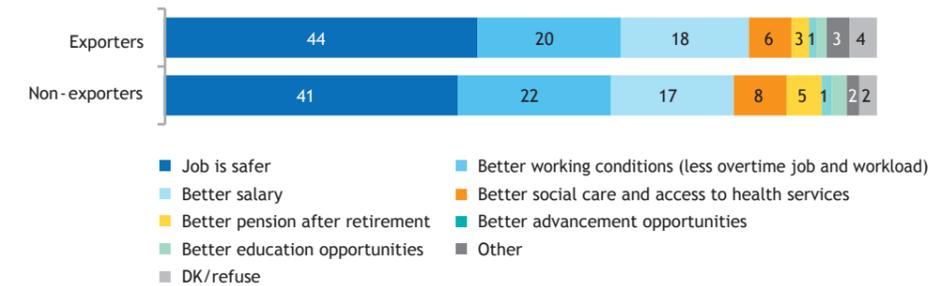
accessible child care, would make the biggest difference (46%). Finding a work-home balance is the second most highly scored access strategy.



As with all other categories of business, representatives of export companies believe that

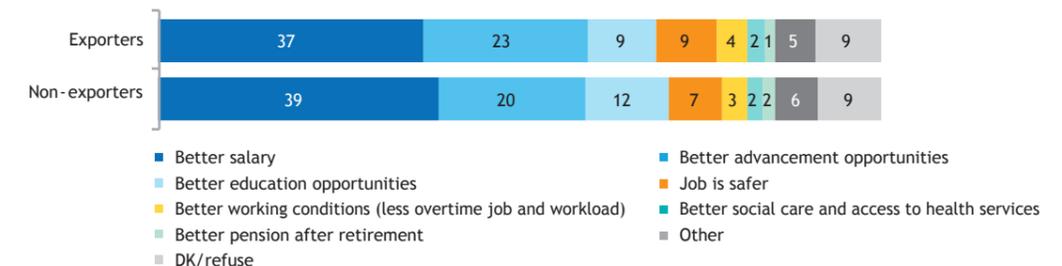
the primary attraction of public sector careers is in their perceived job security.

### Reasons for choosing public sector



At the same time, better remuneration is recognized as the key advantage of a private sector career.

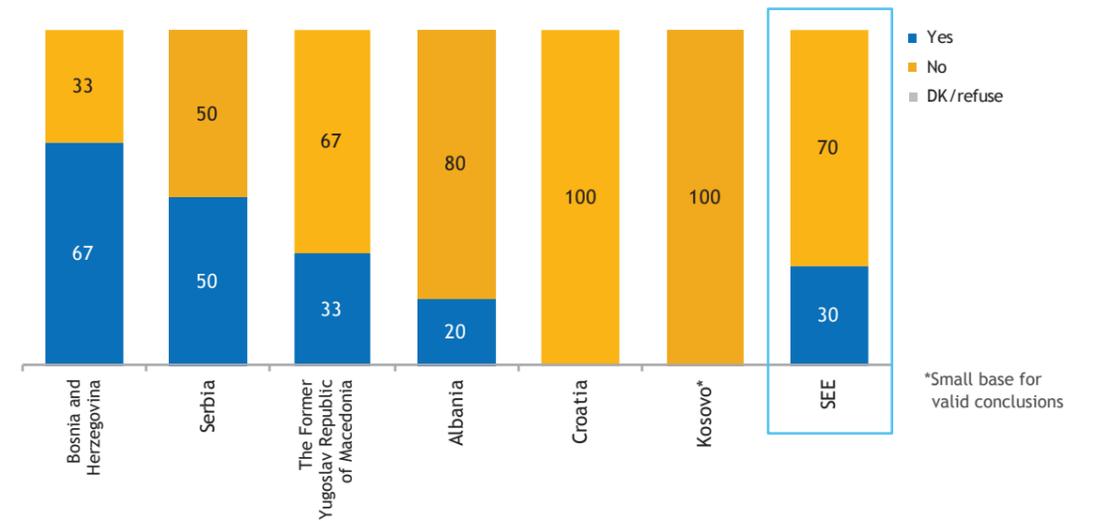
### Reasons for choosing private sector



# Appendix

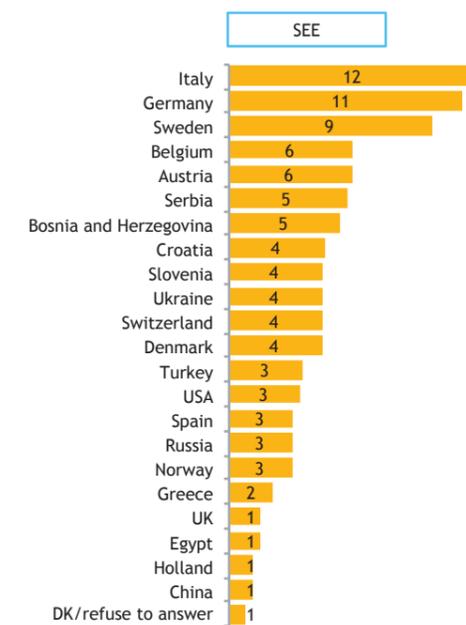
**Figure 101: Is the shareholder equity of your company foreign to some extent? (NEW QUESTION)**

(Respondents who state that largest shareholder(s) in their company is/are bank, investment fund or managers of the firm - N=23\*, %)



**Figure 102: Can you please tell me where the capital comes from (country of origin)? (NEW QUESTION)**

(Respondents who state the that shareholder equity of their company is foreign to some extent - N=64, %)



# Focus on Turkey

## MAIN FINDINGS

The Turkish economy is in many ways different to those of Southeast Europe (SEE). It is much larger and has a more diverse set of trading partners. Also, Turkey has very recently faced political upheaval at a level not seen in the SEE economies. Prior to the recent instability, however, Turkey's economy was performing much better than those in SEE.

The latest political developments, coupled with the economy's robust performance, account for a somewhat contradictory reading by the survey's respondents. There is broad satisfaction with the overall state of the economy, but also an underlying current of anxiety about the future, painting a pessimistic outlook. Again, this is another way in which Turkey is different to the SEE economies where expectations tend to exceed current economic performance.

In terms of financing, debt plays more of a role in Turkey than in SEE. Advance or cash payments are more common than in SEE,

which is likely to be reflective of the faster rate of inflation in Turkey.

Relations with the government are better than in SEE, which is probably due to a prolonged expansion with relatively high growth rates prior to last year's bout of instability. Recent events also account for mounting security concerns, something not as characteristic for SEE. Public sector jobs are valued for better salaries and better pension plans, as opposed to job security in SEE. This is broadly reflective of differences in the education structure between the two labour forces as well as a more protective social safety net in SEE.

Finally, threats from competition are felt more acutely in Turkey, although they do not seem to spark much innovation. The absence of innovation is likely related to the size of the Turkish economy, which allows most companies to do their business domestically thereby weakening the pressure to innovate.

## ECONOMIC OVERVIEW

The Turkish economy has done quite well since the last financial and economic crisis at the beginning of this century. Reforms implemented then have led to prolonged economic expansion at high growth rates - around six percent real growth from 2002 to 2015. Last year growth slowed down to almost one percent, mostly due to negative growth in the third quarter after the attempted military coup.

Going forward, the growth rate is not expected to accelerate to more than three percent in the medium run, which is clearly a significant change in pace. From 2002 to 2015, industrial production grew by a rate of close to six percent, and slowed down to about two percent last year. Again, going forward, there is no dramatic increase in pace forecast.

The fast growth, disrupted last year, includes

the short but sharp recession triggered by the 2008-2009 global financial crisis. In that period, the Turkish economy industrialised and became much more stable, and this is reflected in the responses to the survey which indicate a high level of economic sophistication by many measures. Also, growth has been driven by investments, which expanded by about 12 percent in that period, and slowed down to 2.5 percent last year. The Turkish economy has also become much more open in the period after 2002, both in terms of trade of goods as well as services.

Last year, the year when this survey was administered, may prove to be the break in the economic development cycle, reflected in the tone of the respondents with an overall feeling of accomplishment tinged with increased levels of anxiety about the future.

## CONCLUSIONS AND RECOMMENDATIONS

The Turkish economy is generally in good shape, but prospects are decidedly worse than a year ago. Clearly, the backdrop for the survey's sentiment and expectations is the political instability, policy uncertainty and increased security risks.

In addition, inflation, faster than in most of its trading partners, has consequences for both financing and liquidity.

Innovation and internationalisation are underappreciated. Both have consequences for competitiveness, which is identified as a problem.

Taxes and other business costs are resented, though the overall sense is that the government is seen as business friendly. This is in stark contrast to SEE.

The main recommendations relate to the need to ensure political stability and introduce sound macro policies to get the economy back on a growth path similar to that of 2002-2015.

Table 5: Turkey - Perceptions of the general business environment and economic trends

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

	Deteriorated	Remained unchanged	Improved	DK/refuse
Turkey	27	38	34	0
SEE	30	44	25	0

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?

	Deteriorated	Remained unchanged	Improved	DK/refuse
Turkey	18	38	43	0
SEE	12	43	43	2

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?

	Deteriorated	Remained unchanged	Improved	DK/refuse
Turkey	16	47	36	0
SEE	9	56	33	2

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

	Mean	It is not a good place to invest at all	It is mostly not a good place to invest	Neither good nor bad place to invest	It is mostly a good place to invest	It is a great place to invest	DK/refuse
Turkey	3,5	3	10	36	33	16	0
SEE	3,1	7	21	30	34	7	1

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

	Deteriorated	Remained unchanged	Improved	DK/refuse
Turkey	23	35	39	2
SEE	17	42	40	0

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

	Mean	Not important at all	Not very important	Important	Very important	DK/refuse
Turkey	2,6	8	29	47	9	6
SEE	2,4	24	24	36	16	1

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

	Bad thing	Neither good nor bad	Good thing	DK/refuse
Turkey	6	41	48	4
SEE	7	32	57	4

When asked to assess the general business environment and prevailing economic trends, Turkish business leaders held rather contradictory opinions regarding the current situation and the outlook for the future.

In terms of current developments, Turkish businesspeople tend to be much more positive than their colleagues from the SEE region. A third report improvement in the overall economic conditions over the past year, while in SEE a mere quarter of managers (25%) share this opinion. Companies in Turkey also strongly believe that their economy is a good choice for investors (mean is 3.5 vs. 3.1 in SEE).

At the same time, they are markedly more sceptical toward future development. A larger

proportion of enterprises than in SEE expect to see economic deterioration (18% vs. 12% in SEE) as well as a reduction in their own work force (16% vs. 9% in SEE). Similarly, they are increasingly more negative about how things progressed within their own company in the past 12 months - 23% report a decline in their business compared to 17% of their like-minded peers in the SEE.

Interestingly, it appears that good neighbourly relations and cooperation between the SEE economies means more to Turkey - the mean is 2.6 vs. 2.4 in SEE. When it comes to EU membership, Turkey tends to be more restrained i.e. a lower percentage of companies see it as a benefit (48% vs. 57% in SEE).

**Table 6: Turkey - Business trends**

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

	Deteriorated	Remained unchanged	Improved	DK/refuse
Turkey	17	45	37	0
SEE	16	41	42	0

**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?**

	Decrease	Mostly unchanged	Increase	DK/refuse
Turkey	11	42	45	1
SEE	8	35	55	3

**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?**

	Decrease	Mostly unchanged	Increase	DK/refuse
Turkey	10	55	35	0
SEE	13	53	34	0

**Could you please tell me what percentage (%) of your company's total investment in 2016 went on each of the following?**

	Intangible asset	Property, plant and equipment	Biological assets	Long-term financial investments	Other
Turkey	14	40	10	20	15
SEE	13	43	3	12	21

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

	Decrease	Mostly unchanged	Increase	DK/refuse
Turkey	2	43	53	1
SEE	7	40	53	0

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

	Yes - a lot	Yes - a little	No	DK/refuse
Turkey	20	44	33	3
SEE	33	44	21	2

The largest part of the Turkish business community (45%) notices no changes in demand for their products or services over the previous year. The second most numerous group of respondents consists of those who see improvement in demand (37%).

Some 45% of Turkish executives anticipate a growth in demand although to a lesser extent than in the SEE region (55%).

More than half (55%) of companies in Turkey record no change to their employment numbers. Nearly the same number (53%) cite some growth of labour and related costs.

In 2016, Turkish companies mostly invested in property, plant and equipment (40%), followed by long-term financial arrangements (20%). The latter is a significant difference compared to SEE in which 12% of total investment went to that category. Turkey also cares more about biological assets (10% vs. 3% in SEE).

About two thirds (64%) of respondents confirm that they have taken at least some steps to reduce the harmful environmental impact of their business. At the same time, the percentage of those who admit they take no mitigating measures in this regard is substantially higher than in the region (33% vs. 21%).

**Table 7: Turkey - Business environment**

**How easy or hard is it to start a private business in your place of living?**

	Mean	Very hard	Hard	Neither easy nor hard	Easy	Very easy	DK/refuse to answer
Turkey	2,8	10	29	28	29	2	1
SEE	2,3	20	42	26	9	2	1

**Can you tell 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 and 4 no obstacle)**

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

**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?**

	Mean	Very poor	Poor	Neither poor nor good	Very good	Excellent	DK/ Refuse to answer
Turkey	3,4	2	6	45	37	8	1
SEE	3,3	3	14	37	37	7	1

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

	Mean	Very poor	Poor	Neither poor nor good	Very good	Excellent	DK/ Refuse to answer
Turkey	3,5	1	5	46	34	11	1
SEE	3,7	1	7	24	51	15	1

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

	Mean	In a very negative way	In a negative way	Neither negative nor positive	In a positive way	In a very positive way	DK/ Refuse to answer
Turkey	3,5	1	10	33	42	11	1
SEE	3,3	1	14	43	36	6	1

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

	Roads	Telecommunications	Electricity	Railroads	Gas	Air travel	Waterway transport
Turkey	65	15	8	2	2	4	1
SEE	51	16	10	5	2	3	1

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

	It would have a huge positive impact	It would have moderate impact	It would have no impact	DK/ Refuse to answer
Turkey	36	38	22	3
SEE	30	27	43	1

Survey respondents indicate that running a business in Turkey is much easier than in the region (2.8 versus 2.3 in SEE).

Accordingly, 31% of respondents in Turkey encountered no problems when starting their business, against only 11% in SEE.

Based on data available on operating the business, and obstacles to growth, the overwhelming impression is that it is much easier to start a business in Turkey than to run it. Compared to SEE, companies in Turkey are significantly more concerned about the risk of terrorism and violent conflicts (1.9 vs. 3.4 in SEE), corruption (2.0 vs. 2.6 in SEE) and macroeconomic instability (2.0 vs 2.5 in SEE). On a scale from 1 to 5, Turkish business leaders are satisfied with existing transport modes at an above average rate (3.4). When answering this question, 45% estimate transport

capacities as at least very good, while the same number is reserved. Other types of infrastructure supply are also evaluated very well, with 55% of respondents seemingly very content with transport infrastructure. Although to a somewhat lesser extent than in the SEE region, businesses are still more pleased how overall infrastructure affects their business (3.5 vs. 3.3 in SEE). Furthermore, in keeping with SEE managers' views (51%) but to a remarkably larger extent (65%), Turkish managers believe that road upgrades would impact their business most positively.

Interestingly, Turkish business leaders consider the elimination of roaming costs within SEE to be more beneficial than their colleagues from that region. Inter alia, more than two fifths (43%) of SEE executives find it useless, twice as many as in Turkey (22%).

**Table 8: Turkey - Legal and regulatory framework**

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

	Mean	Very much	Quite a lot	A little	Not at all	DK/refuse
Turkey	2,3	12	49	27	7	4
SEE	3,2	2	10	56	30	2

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

	Mean	To 25 %	26-50%	51-75%	76-100%	DK/refuse
Turkey	42,6	30	28	5	17	19
SEE	86,2	2	7	8	62	21

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

	Mean	To 25 %	26-50%	51-75%	76-100%	DK/refuse
Turkey	47,4	25	29	6	19	20
SEE	85,9	2	7	9	61	21

**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?**

	Mean	Completely disagree	Tend to disagree	Neither agree nor disagree	Tend to agree	Strongly agree	DK/refuse
Turkey	3,6	2	8	26	53	10	1
SEE	2,8	18	22	27	25	8	1

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?

	Mean	Completely disagree	Tend to disagree	Neither agree nor disagree	Tend to agree	Strongly agree	DK/refuse
Turkey	3,5	2	10	28	49	8	2
SEE	3,0	14	19	26	30	9	1

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?

	Mean	Completely disagree	Tend to disagree	Neither agree nor disagree	Tend to agree	Strongly agree	DK/refuse
Turkey	3,5	1	8	33	48	9	0
SEE	2,8	18	24	26	24	7	1

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

	Mean	Completely disagree	Tend to disagree	Neither agree nor disagree	Tend to agree	Strongly agree	DK/refuse
Turkey	3,5	1	18	25	43	10	2
SEE	3,0	10	20	29	34	6	1

To what extent do you agree with the following statement - The information provided by a government agency is pertinent and complete?

	Mean	Completely disagree	Tend to disagree	Neither agree nor disagree	Tend to agree	Strongly agree	DK/refuse
Turkey	3,4	1	12	40	37	8	0
SEE	3,0	10	20	32	30	7	1

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

	Mean	Completely disagree	Tend to disagree	Neither agree nor disagree	Tend to agree	Strongly agree	DK/refuse
Turkey	3,4	2	15	36	36	9	0
SEE	3,0	11	22	29	27	7	3

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

	Yes	No	DK/refuse
Turkey	9	86	5
SEE	36	60	5

Was it for any of the following reasons?

	The criteria seemed to be tailor-made for certain participants	Unclear selection or evaluation criteria	The deal seemed to have been sealed before the tender was published	The deadline for submitting the bids was too tight and impossible to meet	The procedure seemed too bureaucratic or burdensome	Other	DK/refuse
Turkey*	50	50	56	17	22	0	0
SEE	60	18	51	17	27	11	4

\*Small base for valid conclusions

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

	Mean	Completely dissatisfied	Tend to be dissatisfied	Neither satisfied nor dissatisfied	Tend to be satisfied	Strongly satisfied	DK/refuse
Turkey	3,5	0	7	36	49	6	2
SEE	2,8	10	24	39	24	2	1

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

	Mean	Completely dissatisfied	Tend to be dissatisfied	Neither satisfied nor dissatisfied	Tend to be satisfied	Strongly satisfied	DK/refuse
Turkey	3,5	0	8	37	48	4	3
SEE	3,1	7	18	32	36	5	2

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?

	Mean	Completely dissatisfied	Tend to be dissatisfied	Neither satisfied nor dissatisfied	Tend to be satisfied	Strongly satisfied	DK/refuse
Turkey	3,3	1	19	34	39	5	1
SEE	2	2	2	2	2	2	2

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

	Tax-related	Minimum wage regulations	Health and safety regulations	Environmental regulations	Employment regulations	Trading standards	Planning/building/development
Turkey	38	30	25	20	19	18	18
SEE	48	10	7	6	26	11	13

	Working time	Providing information/record-keeping	No specific regulations/all regulations	Pensions	None - no regulations are an obstacle	DK/refuse
Turkey	8	5	4	3	2	1
SEE	4	12	21	4	8	1

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

	Yes	No	DK/refuse
Turkey	3	93	4
SEE	27	72	1

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

	Mean	1-3 cases	4-6 cases	7-10 cases	Over 10 cases	DK/refuse
Turkey*	4	2	1	1	0	97
SEE	8	67	15	8	7	4

\*Small base for valid conclusions

In Turkey, 61% of companies feel that the Government is committed to addressing business concerns. This is the chief reason for the vastly superior government satisfaction rates in Turkey compared to those found in SEE (where only 12% share this opinion).

In spite of good cooperation with public administration, it seems that enterprises in Turkey try harder to avoid taxation. Turkish companies report half of what their SEE counterparts do in total annual sales for tax purposes (43% vs. 86%). This relationship is also

evident with their respective wage bills (47% in Turkey vs. 86% in the SEE region).

Regarding the clarity and consistency of laws and regulations relevant for doing business, respondents are quite satisfied - 63% agree they do not change too frequently while 10% are of the opposite opinion (mean is 3.6 vs. 2.8 in SEE). Availability (3.5 vs. 3.0 in SEE) and consistency (3.5 vs. 2.8 in SEE) of legal acts are also rated positively by the majority of the surveyed population (57% in both cases). As the average scores show, all three aspects are evaluated significantly better than in the SEE region.

Turkish companies also seem happier with the quality and timeliness of information provided by the government. More than half (53%) of Turkish businesses consider the time needed to resolve their requests to be optimal (40% in SEE). In addition, 45% feel that the information obtained is pertinent and complete (37% in SEE) as well as granted at a reasonable cost (34% in SEE). The trend continues with their appraisal of overall public services for businesses (3.5 vs. 2.8 in SEE) as well as those provided digitally (3.5 vs. 3.1 in SEE).

Furthermore, the government in Turkey seems to be more committed to including the private sector in legislative processes relevant to the business community. Some 44% of enterprises in Turkey are at least satisfied with government performance in this regard against only 11% in SEE (3.3 in Turkey vs. 2.3 in SEE).

A substantially smaller proportion of companies in Turkey feel discouraged from taking part in a public tender over the past three years (9% vs. 36% in SEE). Similarly, compared to SEE where that percentage is several times higher (27%), only 3% of Turkish businesses have experienced arbitration courts in the last 36 months.

The vast majority of company leaders in Turkey (97%) agree that some regulations affect their business negatively. Tax-related issues are recognized as the most problematic (38%), followed by minimum wage (30%) and those concerning health and safety (25%). Compared to the SEE region, taxation seems less problematic (48% in SEE) while the last two are recognized as more serious obstacles. The findings overall indicate that businesses in Turkey face a radically different set of problems to their counterparts in the SEE region.

**Table 9: Turkey - Accessibility of loans**

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?

	Internal funds/retained earnings	Borrowing from local private commercial banks	Borrowing from foreign banks	Equity (i.e. issue new shares)	Loans from family/friends	Trade credit from suppliers	Borrowing from state-owned banks, including state development banks
Turkey	16	18	3	8	11	7	3
SEE	58	12	5	4	3	2	2
	Leasing arrangement	Trade credit from customers	Money lenders or other informal sources (other than family/friends)	Credit cards	The government (other than state-owned banks)	Other	
Turkey	4	8	1	13	1	2	
SEE	2	1	1	1	0	4	

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

	Yes	No	DK/refuse
Turkey	25	72	3
SEE	31	67	2

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

	Mean	Up to 7 days	8 - 14 days	15 - 21 days	Over 21 days	The loan was not approved	DK/refuse
Turkey	6	57	12	6	4	12	10
SEE	19	33	13	15	24	5	9

You said that your company's loan application was rejected, what was the main reason for that?

	Perceived lack of profitability of the firm	Lack of acceptable collateral	Inadequate credit history of the firm	Incompleteness of the loan application	Other	DK/refuse
Turkey*	17	33	17	17	0	17
SEE*	41	35	3	11	8	3

\*Small base for valid conclusions

Turkish companies (16%) use internal funds for working capital and new fixed investments to a significantly smaller extent than enterprises in SEE (58%). There does not seem to be one predominant source of financing in Turkey but businesses rather tend to use several at roughly similar rates - borrowing from local private commercial banks (18%), retained earnings (16%), credit cards (13%) and then loans from

family and friends (11%). Outside of internally available funds, all other means of financing are more prevalent than in the SEE.

A quarter of all surveyed managers report applying for a bank loan in the past year. The loan approval process seems to take much less time than in the SEE (6 days versus 19).

**Table 10: Turkey - Overdue payments**

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

	Yes	No	DK/refuse
Turkey	17	79	3
SEE	41	57	2

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

	Yes	No	DK/refuse
Turkey	17	79	3
SEE	41	57	2

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

	Yes, it's a permanent problem	Yes, often	Yes, on occasion	No	DK/refuse
Turkey	5	21	56	15	2
SEE	7	14	37	42	0

**Has the problem of late payment from government institutions caused your business to experience cash flow problems?**

	Yes, it's a permanent problem	Yes, often	Yes, on occasion	No	DK/refuse
Turkey	1	10	39	47	2
SEE	3	6	16	73	2

**What percentage of your company's sales in value terms in the previous 12 months were paid before delivery of products or services, paid on delivery of products or services and sold on credit?**

	Paid before delivery of products or services	Paid on delivery of products and services	Sold on credit (payment due after the delivery of products and services)
Turkey	29	43	27
SEE	14	46	36

**What percentage of your company's purchases of inputs or services in value terms in the previous 12 months were paid before delivery of products or services, paid on delivery of products or services and purchased on credit?**

	Paid before delivery of products or services	Paid on delivery of products and services	Purchased on credit (payment due after the delivery of products and services)
Turkey	28	45	26
SEE	25	41	30

In contrast to the SEE region, the majority of companies in Turkey (79%) have not dealt with problems concerning overdue payments during the last year and only 6% have sought court assistance to resolve them (vs. 20% in SEE). At the same time, cash flow problems caused by late payments of other legal entities, no matter whether private or public, occur more frequently in Turkey.

Thus, 82% of companies report that overdue payments of other private enterprises affect their financial resources at least occasionally (58% in SEE). Half of all respondents confirm late payment by government clients (25% in SEE). Observing all of the trends together, Turkish businesses seem to be less inclined than their SEE counterparts to aggressively pursue payment, although they face more problems as a result.

The most common method of payment in Turkey, whether it is a sale or a purchase, is on delivery of products and services - 43% of sales and 45% of purchases were paid this way in the previous year. The second most cited method in both aspects is advance payment (29% of total sales and 28% of total purchases), closely followed by credit mode (27% of sales and 26% of purchases). Possibly as a result of frequent problems with overdue payments, companies in Turkey are inherently more cautious and more often require that their goods be paid prior to delivery (29% in Turkey vs. 14% in SEE).

**Table 11: Turkey - Corruption**

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

	Mean	Completely disagree	Tend to disagree	Neither agree nor disagree	Tend to agree	Strongly agree	DK/refuse
Turkey	2,8	20	22	23	24	8	2
SEE	2,6	25	20	23	20	4	7

Companies in my line of business usually know in advance how much this "additional payment/gift" will cost.

	Mean	Completely disagree	Tend to disagree	Neither agree nor disagree	Tend to agree	Strongly agree	DK/refuse
Turkey	2,7	20	20	29	19	5	5
SEE	2,6	23	20	23	17	5	12

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 to get connected to and maintain public services?

	Mean	Never	Seldom	Frequently	Always	DK/refuse
Turkey	1,6	59	24	6	8	2
SEE	1,4	65	18	7	1	9

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 to get connected to obtain business licenses and permits?

	Mean	Never	Seldom	Frequently	Always	DK/refuse
Turkey	1,6	61	17	14	5	3
SEE	1,5	60	17	13	1	8

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 to obtain government contracts?

	Mean	Never	Seldom	Frequently	Always	DK/refuse
Turkey	1,6	63	19	8	6	3
SEE	1,6	57	16	14	3	10

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 to deal with occupational health and safety inspections?

	Mean	Never	Seldom	Frequently	Always	DK/refuse
Turkey	1,6	59	19	13	5	3
SEE	1,5	63	17	10	2	9

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 to deal with fire and building inspections?

	Mean	Never	Seldom	Frequently	Always	DK/refuse
Turkey	1,7	58	17	16	6	3
SEE	1,5	63	15	12	2	9

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 to deal with environmental inspections?

	Mean	Never	Seldom	Frequently	Always	DK/refuse
Turkey	1,6	60	19	14	5	2
SEE	1,4	65	15	8	2	10

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 to deal with taxes and tax collection?

	Mean	Never	Seldom	Frequently	Always	DK/refuse
Turkey	1,7	59	17	15	5	3
SEE	1,5	63	16	10	2	9

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 to deal with customs/imports?

	Mean	Never	Seldom	Frequently	Always	DK/refuse
Turkey	1,5	69	15	9	3	3
SEE	1,5	63	13	11	2	11

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 to deal with courts?

	Mean	Never	Seldom	Frequently	Always	DK/refuse
Turkey	1,5	67	14	11	5	2
SEE	1,4	67	12	7	2	13

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 to influence the content of new legislation, rules, decrees, etc.?

	Mean	Never	Seldom	Frequently	Always	DK/refuse
Turkey	1,6	65	14	12	5	3
SEE	1,4	67	13	7	2	12

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

	By reporting the serious wrongdoing to people in authority, via official channels	By reporting the serious wrongdoing to journalists or news organisations	By reporting the serious wrongdoing directly to the general public, via the internet, Twitter, Facebook or on online blogs	Some other way	None, in my society there is no effective way to get action to stop serious wrongdoing	DK/refuse
Turkey	43	18	25	4	4	5
SEE	34	17	8	9	28	4

About two fifths of company representatives in Turkey (42%) do not consider “additional payments/gifts” to “get things done” to be common, while a third disagree. Similarly, most respondents are unaware of the cost of such transactions in advance (40%) while a quarter disagree.

It appears that malpractice is especially widespread with inspections (fire and building; health and safety; environmental) and taxation - approximately a fifth of all respondents feel there is corruption in these two areas. At the same time, almost 70% of companies express their confidence in the proper conduct

of customs and courts. Compared to their counterparts in the SEE region, respondents from Turkey are more inclined to suspect corruption across all sectors with the exception of customs.

When asked about the most efficient way to counter wrongdoing, most Turkish business people (43%) choose to report the issue to people in authority via official channels. This

is followed by informing the general public in different ways via the Internet (25%). The most remarkable difference compared to the SEE region lies in the fact that only 4% of companies in Turkey feel that there is no effective method to stop malpractice in their society - that number is seven times higher in SEE (28%), demonstrating a dramatic difference in the level of confidence in corruption mitigation measures between the two.

Table 12: Turkey - Export and import of businesses in Turkey

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

	Sold domestically	Exported to the SEE region	Exported to the EU	Exported to third countries
Turkey	86	5	6	3
SEE	85	5	8	2

Why doesn't your company export?

	We don't have any plans/interest to export	We don't have capacities to export	We don't know how to export	Our goods/services isn't/ aren't suitable for export	We don't know how to find foreign partners
Turkey	61	12	4	25	1
SEE	29	23	2	34	5

	There is no competent authority in your place of living that could provide relevant information on export procedure	Complicated administrative procedures	Linguistic barrier	Other	DK/refuse
Turkey	3	1	1	0	3
SEE	2	4	0	9	2

What percentage of your company’s inputs and supplies are...?

	Purchased from domestic sources	Imported from the EU	Imported from the SEE region	Imported from third countries
Turkey	86	6	6	3
SEE	70	20	5	4

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

	Small companies and individuals	Large private domestic companies	Your company's parent company or affiliated subsidiaries	Multinationals located in your economy	Publicly owned or controlled enterprises	Government or government agencies	Other
Turkey	44	16	9	5	4	8	14
SEE	54	15	10	6	4	3	7

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

	Up to 2 days	3 - 5 days	Over 5 days	Do not have imported goods	DK/refuse
Turkey	7	10	4	73	6
SEE	30	14	6	47	3

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

	Up to 2 days	3 - 5 days	Over 5 days	Do not have imported goods	DK/refuse
Turkey	5	11	6	71	6
SEE	23	6	3	66	3

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

	Export to the SEE region	Do not export to the SEE region
Turkey	50	50
SEE	28	72

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

	Need to hardcopy documents or certificates	Need for licenses or permits	Obscure or inconsistent rules of origin	Unnecessary physical examinations or inspections	Slow import-export procedures
Turkey	13	13	6	11	12
SEE	11	6	5	6	4

	Wide variability in clearance time	Classification uncertainty	Custom delays	Risks of unclear compliance rules	My company doesn't export to the SEE region
Turkey	5	5	15	3	50
SEE	3	3	2	4	72

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

	Mean	Totally disagree	Disagree	Agree	Totally agree	DK/refuse
Turkey	2,6	5	31	48	6	9
SEE	2,2	30	30	28	9	3

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

	Mean	Totally disagree	Disagree	Agree	Totally agree	DK/refuse
Turkey	2,5	8	37	46	2	6
SEE	1,9	37	32	23	4	4

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?

	Mean	Totally disagree	Disagree	Agree	Totally agree	DK/refuse
Turkey	3,1	2	14	51	25	7
SEE	3,4	6	7	28	56	4

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

	Mean	Totally disagree	Disagree	Agree	Totally agree	DK/refuse
Turkey	3,0	2	18	48	25	6
SEE	3,3	6	10	32	48	5

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

	Mean	Not informed at all	Slightly informed	Mostly informed	Completely informed	DK/refuse
Turkey	2,1	18	50	13	6	12
SEE	2,2	27	37	26	9	2

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

	Mean	Totally disagree	Disagree	Agree	Totally agree	DK/refuse
Turkey	2,7	2	29	41	10	19
SEE	2,2	29	18	34	7	13

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

	It is easier to export to the CEFTA region	It is easier to export to the EU	It's the same	DK/refuse
Turkey	20	33	30	17
SEE	18	42	25	15

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

	Local suppliers should be given priority	Local suppliers should be treated the same as foreign suppliers	DK/refuse
Turkey	75	19	6
SEE	76	21	3

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.

	Kosovo*	Albania	Bosnia and Herzegovina	The Former Yugoslav Republic of Macedonia	Croatia	Serbia	Montenegro
Turkey	3,0	3,4	3,5	4,1	4,3	4,6	5,1
SEE	4,9	5,2	3,6	4,4	3,3	3,0	3,7

As with SEE, the largest portion of total sales in Turkey is made domestically (86%), while a much smaller part goes to the EU (6%) and the SEE region (5%). Lack of plans, ambition or interest accounts for the highest number of non-exporters (61%), followed by the unsuitability of goods and services (25%). Turkish companies source 86% of their inputs locally, substantially higher proportion than in the SEE region (70%). Accordingly, the share of import is also significantly lower. This especially refers to purchasing from the EU (6% in Turkey vs. 20% in SEE).

Small firms and individuals are the main domestic buyers in Turkey (44%). This is relatively comparable to SEE (54%), albeit to a lesser extent. The second biggest purchasers are large private domestic firms (16%), followed by a parent company or affiliated subsidiaries

(9%). Interestingly, compared to SEE, Turkish businesses sell twice as much to government institutions (8%). It seems that both export and import procedures take more time in Turkey than in SEE. The time needed for imported or exported goods to clear customs is between 3 and 5 days on average (against up to 2 days in the SEE region).

Half of all surveyed companies cooperate with SEE economies through export. Customs delays (15%), followed by the need to obtain licenses and permits and hardcopy documents (both 13%) are most frequently cited as barriers to exporting to the region.

According to the results of the survey on competition, Turkish business representatives are noticeably less self-confident than their colleagues from the SEE region. They perceive

global market rivals more seriously (the average score is 2.6 vs. 2.2 in SEE).

Possibly due to a lack of familiarity with the region or the parties to the CEFTA Agreement, company leaders in Turkey (48%) admit they feel threatened by competitors from SEE while the reverse is true for only 27% in SEE. In addition, Turkish businesses are also more sceptical that their goods and services can compete well with those of foreign origin, regardless of where they come from.

Half of all respondents (50%) consider themselves to be somewhat informed about CEFTA and the same number agree that their companies have benefited from the regional trade agreement. In spite of the fact that Turkey is not a CEFTA Party, it seems that its businesses have recognized opportunities the Agreement

provides remarkably better than the SEE economies (2.7 in Turkey vs. 2.2 in SEE). Still, a third of all respondents think it is easier to export to EU members, and some 30% do not see a difference between the two.

As with representatives of the SEE private sector, executives from Turkey feel that local suppliers should be given priority in public procurement (75%). Kosovo\* is considered to be the region's most open economy, by those who feel sufficiently informed on the issue to answer this question, with 3.0, followed by Albania with 3.5, and Bosnia and Herzegovina with 3.5. At the same time, Montenegro is assessed as convincingly the least open (5.1). It is noteworthy that this ranking is almost exactly the reverse to the one provided by SEE business respondents.

**Table 13: Turkey - Innovation and technology**

**Does your company use Internet for...?**

	Communication (E-skype, E-mail, skype, etc.)	Selling your products or services over the Internet	Purchasing products or services for your company over the Internet	Presenting your company through company website	Communication with customers/clients/partners through social networks	Provision of customer services or support online	DK/refuse
Turkey	72	63	62	58	42	31	1
SEE	90	50	50	72	55	32	3

**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?**

	Yes	No	DK/refuse
Turkey	13	84	3
SEE	17	82	1

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

	Yes	No	DK/refuse
Turkey	15	81	3
SEE	54	45	1

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

	Yes	No	DK/refuse
Turkey	20	75	5
SEE	51	48	1

In Turkey, the Internet is primarily used for communication; 72% of companies use e-mail, Skype, etc. Only 58% of companies use web-sites for presentation purposes. Overall, SEE businesses tend to use the Internet much more than their Turkish counterparts.

More than two thirds of the companies sell (63%) and purchase (62%) products or services online, which is significantly more compared to the SEE region where only about half of

the firms do that. Every seventh enterprise in Turkey has cooperated with a university in order to help develop new products or services in the past 3 years. According to the results, they invest significantly less (15%) in introducing new or improving current products or services than the SEE companies (54%). A similar conclusion is made in terms of innovations related to production and/or delivery process - 20% in Turkey vs. 51% in SEE.

**Table 14: Turkey - Skills needs**

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

	Without or unfinished primary school	Primary school	Vocational qualification	Secondary school qualification	Some university education or higher
Turkey	3	11	29	24	33
SEE	0	4	19	47	28

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

	Mean	Fully disagree	Disagree	Neither agree nor disagree	Agree	Fully agree	DK/refuse
Turkey	3,5	0	9	31	51	6	1
SEE	3,3	14	17	15	34	20	0

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

	Mean	Not likely at all	Not likely	Neither likely nor unlikely	Likely	Very likely	DK/refuse
Turkey	3,4	0	16	32	44	4	3
SEE	4,1	2	5	12	46	35	0

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

	Mean	Not likely at all	Not likely	Neither likely nor unlikely	Likely	Very likely	DK/refuse
Turkey	3,2	4	18	30	41	3	4
SEE	3,6	7	9	19	43	21	2

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

	Yes	No	DK/refuse
Turkey	11	85	4
SEE	33	66	0

**Why do you think this is the case?**

	Lacking skills of applicants	Salary and compensation offered by the company is not compet	Other	DK/refuse
Turkey*	55	36	5	5
SEE	74	11	14	2

\*Small base for valid conclusions

The most numerous group of employees in Turkey consists of university degree holders (33%), followed by staff with vocational qualifications (29%). Both groups are larger than in the SEE region. It seems that company leaders in this economy are satisfied with the way the educational system meets the needs of their businesses - 57% agree and only 9% are unhappy with what is on offer through the venue of formal education (the average score is 3.5). When asked about their readiness to hire young, qualified but ultimately inexperienced professionals, Turkish managers have shown

more restraint than their SEE counterparts - only 48% would hire them compared to 81% in SEE. Turkish businesses are also prejudiced against prospective Roma employees to a far greater extent - 44% would hire members of this ethnic group against 64% in SEE.

On a somewhat related note, Turkish businesses seem to struggle much less with filling vacancies and only 11% report experiencing difficulties in identifying staff. This percentage is 33% in SEE.

**Table 15: Turkey - Employment practices**

How often do you use personal contact when hiring new employees?

	Often	Sometimes	Never	DK/refuse
Turkey	55	34	7	3
SEE	60	32	6	1

How often do you use placing advertisements in the papers and/or online when hiring new employees?

	Often	Sometimes	Never	DK/refuse
Turkey	34	40	24	1
SEE	34	36	29	1

How often do you use the intermediation of the official employment agency when hiring new employees?

	Often	Sometimes	Never	DK/refuse
Turkey	26	36	34	3
SEE	29	35	36	1

How often do you cooperate directly with education institutions when hiring new employees?

	Often	Sometimes	Never	DK/refuse
Turkey	16	37	41	5
SEE	8	24	66	2

How often do you use the intermediation of private employment agencies and/or 'head hunters' when hiring new employees?

	Often	Sometimes	Never	DK/refuse
Turkey	19	24	52	5
SEE	4	15	78	2

How often do you use 'poaching' employees from competitors when hiring new employees?

	Often	Sometimes	Never	DK/refuse
Turkey	42	40	13	4
SEE	2	15	80	3

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

	Decrease	Increase	Retain the same level	DK/refuse
Turkey	11	14	69	6
SEE	4	26	65	4

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

		Decrease	Increase
Turkey	Mean	12	21
SEE	Mean	2	21

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

	Men	Women
Turkey	77	23
SEE	65	35

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

	Persons with disabilities (including persons with special needs)	Displaced persons or refugees	Roma	Other ethnic minorities	DK/refuse
Turkey	16	9	7	39	40
SEE	19	16	11	24	55

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

	Mean	Not likely at all	Not likely	Neither likely nor unlikely	Likely	Very likely	DK/refuse
Turkey	3,0	8	19	28	26	3	15
SEE	3,0	17	17	24	27	13	2

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

	Mean	Not likely at all	Not likely	Neither likely nor unlikely	Likely	Very likely	DK/refuse
Turkey	2,9	7	20	30	25	1	17
SEE	3,1	15	14	24	32	12	2

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

	Mean	Not likely at all	Not likely	Neither likely nor unlikely	Likely	Very likely	DK/refuse
Turkey	2,9	7	20	30	25	1	17
SEE	3,1	15	14	24	32	12	2

You said that you would employ workers from the SEE region in your company, from which economy/economies exactly? (N=52)

	Albania	Bosnia and Herzegovina	The Former Yugoslav Republic of Macedonia	Montenegro	Kosovo*	Croatia	Serbia
Turkey	58	67	65	38	52	44	29
SEE	36	74	54	58	46	30	49

**Do you think that employing Roma persons affects/would affect your selling of goods and services?**

	Yes	No	DK/refuse
Turkey	14	67	19
SEE	16	73	11

**Do you think that employing Roma persons affects/would affect the working atmosphere in your company?**

	Yes	No	DK/refuse
Turkey	16	65	18
SEE	18	70	12

**In what way does/would it affect the selling of goods and services of your company?**

	Mean	In an extremely negative way	In a negative way	In a positive way	In an extremely positive way	DK/refuse
Turkey*	4,3	0	21	0	66	14
SEE	2,2	16	58	17	1	9

**In what way does/would it affect the working atmosphere in your company?**

	Mean	In an extremely negative way	In a negative way	In a positive way	In an extremely positive way	DK/refuse
Turkey	3,3	0	36	55	3	6
SEE	2,2	15	57	16	1	11

Just as with the SEE economies, the preferred method of hiring new people in Turkey is through personal contact - 89% of executives employ referrals by a trusted source at least sometimes.

Interestingly, the second most common method is “poaching” employees from competitors, a practice used occasionally by four fifths of companies (82%) - this is a significantly higher percentage than in SEE (17%).

Advertising for new hires is periodically used by 74% of firms. Compared to companies from the SEE region, Turkish businesses have a much closer relationship to education institutions - more than half (53%) gladly consult them when employing new staff (32% in SEE). Many more businesses in Turkey also employ the services of head-hunters and private employment agencies (43% in Turkey vs. 19% in SEE).

If given the choice, 69% of Turkish businesses would keep the same number of employees,

14% would like to see it increased, while 11% admit they would consider downsizing their staff. The average percentage to which businesses would like to cut their staff by is much higher than in the SEE (2%) and amounts to 12%.

Women make up less than a quarter of the entire workforce (23%) which is a cause for concern as it indicates an underlying culture of exclusion. In terms of socially vulnerable groups, Turkish businesses employ members of ethnic minorities (39%) noticeably more frequently than SEE enterprises (24%). At the same time, displaced persons or refugees have a much better chance of finding work in the SEE region (9% in Turkey vs. 16% in SEE). This may be attributed to the fact that refugees and displaced persons in SEE are mostly a result of the 1990’s war and are predominantly of the same ethnic origin as the majority population, while Turkey has been on the receiving end of a large refugee and migrant flow from the Middle East as a result of the recent conflict there.

Possibly due to a lack of awareness of information about foreign workers, 15% of Turkish businesses did not provide an answer when asked about their readiness to engage them. The remainder of respondents were divided - 29% were willing to take them on, 30% were reserved, while 27% were negative in their assessment. This relationship is broadly replicated with regards to prospective employees from the SEE region. A quarter of businesses open to SEE hires prefer employers from Bosnia and Herzegovina (67%), followed by The Former Yugoslav Republic of Macedonia (65%) and Albania (58%).

A minority within the Turkish business community think that hiring Roma would impact sales of their products and services (14%) as well as the work environment (16%). The appraisal of the said influence tends to be more positive in Turkey than in SEE (the average score is 3.3 in Turkey vs. 2.2 in SEE). At the same time, there is an insufficient number of respondents who feel that hiring Roma would impact their sales to assess whether the said impact would be positive or negative.

**Table 16: Turkey - Investment in employees**

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

	Yes	No	DK/refuse
Turkey	15	77	7
SEE	50	50	1

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

	Yes	No	Partly (e.g. only for some employee group)	DK/refuse
Turkey	29	56	12	3
SEE	46	28	25	1

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

	Mean	They are not interested at all in acquiring additional qualifications	They are not interested in acquiring additional qualifications	Neither interested or not interested	They are interested in acquiring additional qualifications	They are very interested in acquiring additional qualifications	Other
Turkey	3,5	2	12	30	36	16	3
SEE	3,7	1	7	23	51	16	2

**In your opinion, what are the most effective ways to increase the number of women in the labor market?**

	Making child care more accessible	Making sure women earn the same as men for the same work	Increasing flexible work arrangement (e.g. part-time work, working from home)	Making it easier for women to combine a job with household and care responsibilities	Improve access for women to better quality jobs
Turkey	44	41	34	32	32
SEE	49	46	38	46	30

	Making sure that recruitment procedures do not discriminate against women	Making sure it is beneficial financially to work for women	Improving access for women to traditionally 'male jobs'	Making employers aware of the benefits of employing and promoting women	DK/refuse
Turkey	21	19	13	13	6
SEE	36	23	17	22	5

**In your opinion, what are the most effective ways to increase the number of women in the labor market?**

	Better salary	Better pension after retirement	Better social care and access to health services	Job is safer	
Turkey	40	24	14	8	
SEE	17	3	5	49	
	Better working conditions	Better advancement opportunities	Better education opportunities	Other	DK/refuse
Turkey	3	3	3		0 3
SEE	19	1	1		2 2

**Why does someone rather choose to work in the private sector?**

	Better social care and access to health services	Better advancement opportunities	Better education opportunities	Better salary	
Turkey	38	14	13	7	
SEE	1	22	11	38	
	Better pension after retirement	Job is safer	Better working conditions	Other	DK/refuse
Turkey	3	3	3	0	3
SEE	19	1	1	2	2

# Conclusions and Recommendations

## CONCLUSIONS

Better news with overall growth, macroeconomic balances, and across the labour market tends to push expectations towards unwarranted optimism. This is especially evident from the discrepancy between the sentiment and the expectation index. Strong improvement in optimism in Croatia as well as sustained optimistic expectations in Kosovo\* and Albania testify to that. This is important for the overall business climate and investment decisions.

Markets can still improve, especially when it comes to employment and skill acquisition. Financial markets do not seem to be playing a leading role in the economic recovery, which limits the potential for investment, innovation, and expansion. By contrast, access to foreign markets, in the region and beyond, is increasingly important and looked at positively.

The overall policy and institutional environment is not supportive of business and not much improvement has been recorded in that respect. Taxes are seen as a burden more because they do not seem to buy the needed public goods and services, but are rather an undue burden on business. Part of the problem is corruption, which seems to be getting worse rather than better.

Free trade and market integration is increasingly favoured. Business people are much more pro-EU than the population, except in Albania and Kosovo\* where the overall support is very enthusiastic.

Political uncertainty and policy instability are the main obstacles to better economic performance. Good governance needs to be pursued through improved transparency, accountability, and impartiality.

With the enabling environment assessed as largely unsatisfactory, economic improvements cannot be attributed to better policies or institutions, or regulation, but rather to a market-led business upswing.

Business sentiments and expectations are more optimistic than those of the public, which suggests that politics needs to be more tuned to economic development rather than fuel political and social uncertainties. Dependence on production for external markets makes stability crucial and places more importance on regional and international relations.

There is a significant divergence between the business and public opinion when it comes to the EU, where business tends to be more positive than the public.

There are significant benefits to be reaped from structural reforms in the markets for products, labour, and credit. Also, educational and training services can be upgraded with skills being increasingly in short supply. Liberalisation of the regional labour market could be helpful in that.

Public investment, local and intraregional, could significantly contribute to the jump starting of more innovative and larger scale economic activities. Economies are small, and regional and even wider markets are needed for larger investment projects. Apart from roads, which need repair to improve regional

connections, railroads would lower costs of transport significantly. Also, investment in energy generation, transmission, and improved markets can hike the potential growth rate to around four percent, which is certainly what the region needs.

Finally, accountability, responsiveness, and good governance are probably the best that politics can contribute to improved economic performance and growing employment and incomes.

# Note on Methodology

Methodology used in Business Opinion Survey is CAPI (Computer-Assisted Personal Interviewing). The survey was conducted via personal interviews in selected companies by

trained interviewers from GfK. Some adjustments and preparations were necessary for the successful implementation of the survey:

## QUESTIONNAIRE

The questionnaire was provided by the RCC. It was originally written in English and subsequently translated into eight local languages, with the exception of Kosovo\* where both Albanian and Serbian versions of the questionnaire were used, and The Former Yugoslav Republic of Macedonia where questionnaires in two different languages were also used. The

RCC reviewed and approved the translations of the questionnaire.

Since the CAPI software was used in the research, all questionnaires were converted to a digital form and installed on interviewers' laptops. The program was reviewed by a competent person in each economy.

## INTERVIEWERS

The survey was conducted by the GfK in all economies, except for Montenegro where De Facto Consultancy was hired as a subcontractor. All interviewers were given written instructions containing general description of the questionnaire, of the method of selecting addresses for the interviews and of the respondent selection process. In addition

to providing written instructions, GfK have organized training for interviewers which explained research goals. Moreover, project coordinators examined the entire digital questionnaire jointly with the examiners and emphasized some important elements (especially the need to read individual answers where one or more answers were possible, etc.).

## SAMPLE

Business Opinion Survey was conducted on the N=200 companies for each economy, with the total of 1600 companies for the SEE region, including Turkey.

The survey encompassed:

- companies of various sizes - micro (4 - 9 employees), small (10 - 49 employees);
- medium (50 - 249 employees) and large (more than 250 employees);

- various business (21 business fields according to NACE classification);
- companies which are not majority-owned publicly or by government;
- companies established earlier than 2014;

It is important to note that the data were weighted on the basis of GDP. The GfK used official data provided by the World Bank Group as a source.

## INTERVIEWING PROCEDURE

Before the main part of the fieldwork, i.e. interviews with business respondents, GfK conducted two preparatory phases: Company selection and Telephone recruitment.

### a) Company selection

The selection of the companies was performed randomly within various regions, sectors, sizes and ownerships. Official data provided by national statistical offices of the seven economies were used as data source. The selection was completed before the first phase of fieldwork, enabling interviewers to receive lists of companies to be contacted.

### b) Telephone recruitment

The target group in the Business Opinion Survey were members of companies' managing boards. Considering the fact that persons in leadership positions have a lot of responsibility and are probably very busy, telephone recruitment was organized. This was the first step of fieldwork which increased the response rate and therefore led to a successful implementation of interviewing process.

In telephone conversations the interviewer presented the idea and the objectives of the survey to respondent and then attempted to arrange a face-to-face interview. The interviewer needed to be very familiar with the project, but also to be eloquent, persuasive, polite and persistent. The de-scribed lists contained the company's name, address and telephone number and, in some cases, the name of contact person. In cases in which a person from the list believed they are not qualified to discuss the topics mentioned, the interviewer asked to be referred to a person who is more competent. A similar request was made when no contact person was indicated on the list. Every telephone interviewer was obliged to contact a potential respondent at least three times and arrange an appointment (except in cases when a person categorically refused to participate in the survey). They needed to note down the scheduled date and time clearly. Thus, the contact lists contained only relevant information; they were filtered and ready for face-to-face interviews.

## SAMPLE STRUCTURE

Figure 103: Sample structure by respondent's position

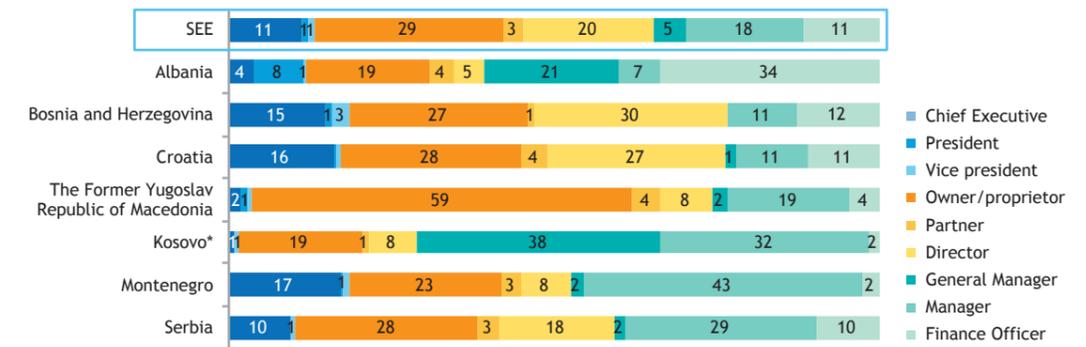


Figure 104: Sample structure by largest shareholder

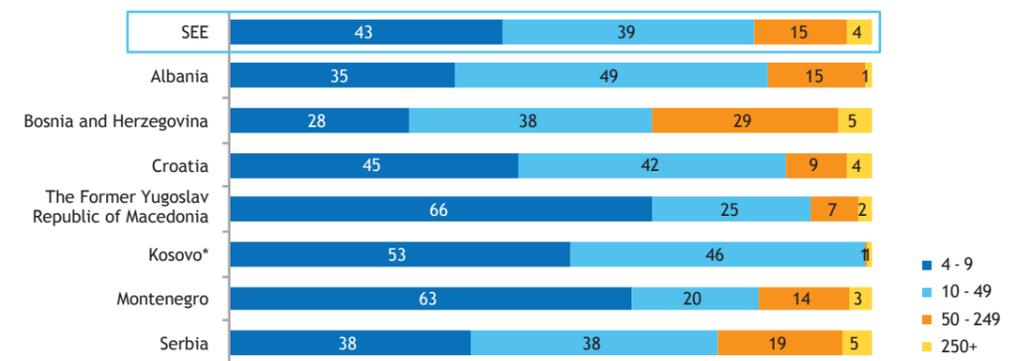


Figure 105: Sample structure by number of employees

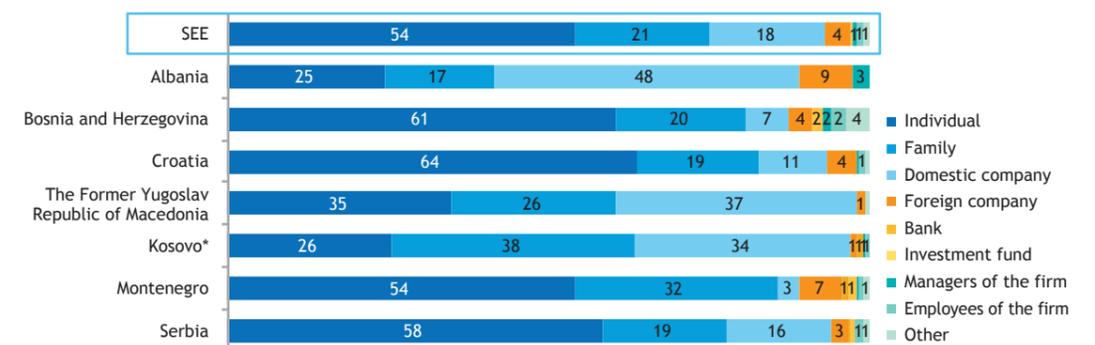


Figure 106: Sample structure by business area

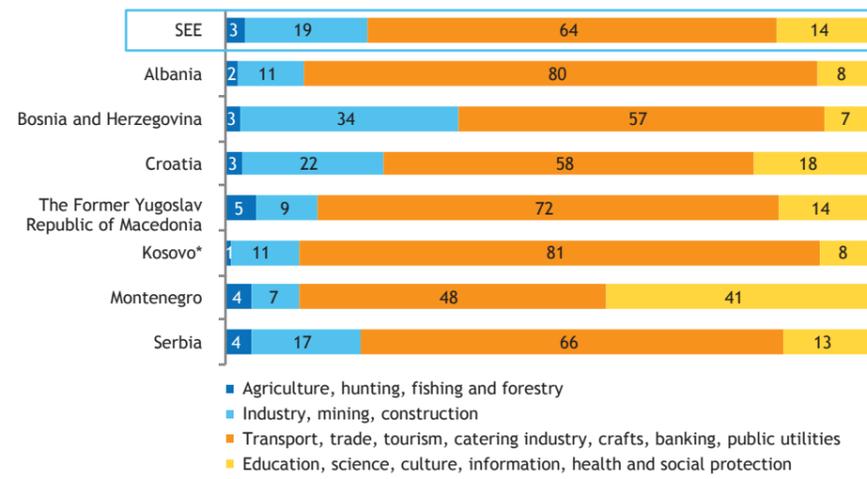
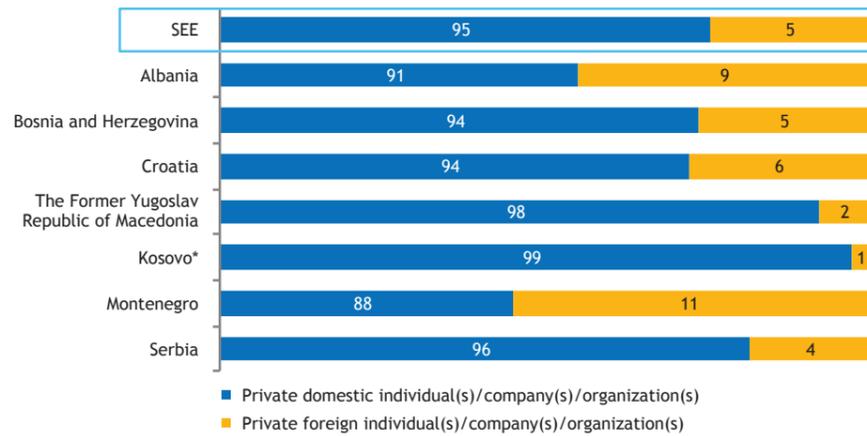


Figure 107: Sample structure by ownership





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