



KEY FINDINGS FROM THE BUSINESS ENVIRONMENT SURVEY OF PRIVATE SECTOR FIRMS IN THE CEE AND CIS

Prepared for:
**THE EUROPEAN BANK FOR RECONSTRUCTION
AND DEVELOPMENT**



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INTRODUCTION

Background

The European Bank for Reconstruction and Development (EBRD), the Harvard Institute for International Development (HIID) and the World Bank Group jointly decided to undertake a Business Environment Survey (BES).

The survey was designed to:

- Provide feedback on the state of private-sector enterprises in various countries
- Measure the quality of governance and public services, including the extent of corruption
- Provide better information on constraints to private sector growth from the enterprise perspective
- Establish some internationally comparable indicators which can be used to track changes in the business environment over time.
- Stimulate policy dialogue on the business environment and shape the agenda for reform.

Countries Under Review

The BES in total covers over 100 countries around the world.

This Report covers the results of a survey carried out by ACNielsen on behalf of the European Bank for Reconstruction and Development (EBRD), of private-sector businesses in 20 countries in CEE and the CIS, namely:

Armenia	Czech Republic	Kyrgyzstan	Russia
Azerbaijan	Estonia	Lithuania	Slovakia
Belarus	Georgia	Moldova	Slovenia
Bulgaria	Hungary	Poland	Ukraine
Croatia	Kazakhstan	Romania	Uzbekistan

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Report Structure

The Report comprises the following sections:

- A review of the methodology used
- A profile of respondent companies
- Enterprises' evaluation of the quality and integrity of public services
- Attitudes to the regulatory environment
- Attitudes to the legal system
- Perceptions of the extent and nature of corruption
- Current practices and perceptions of financing and investment
- Perceptions of the competitive environment

Three Appendices are also attached:

- ACNielsen's estimates of the number of private-sector firms in each country;
 - The response analysis, by country
 - The questionnaire used
-



RESEARCH METHOD

General

The key stages of the project were as follows:

- Desk research to draw up the sample frame
 - Translation and production of the questionnaire
 - Piloting
 - Fieldwork
 - Coding and data entry
 - Tabulation of results
-

Desk Research

Accurate sampling of private enterprises in each of the 20 countries was crucial for ensuring that the findings were representative.

AC Nielsen's staff in the study countries were instructed to contact their government statistical office in order to obtain a breakdown of private-sector enterprises:

- By industry category
- By number of employees
- By location

The quality of information available varied considerably by country. Appendix A sets out a summary of the sources used, the dimensions of the matrix that were available from official sources and how the remaining ones were estimated.

Sample Frame

Once the desk research was completed, ACNielsen drew up the sample frame for each country separately and submitted to the client for approval.

This was necessary since the survey was conducted using a quota sample, rather than by simply taking company names at random.

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Quotas

Quotas were placed on the following:

- Industry sector.
 - Size. This was done on the basis of number of employees (rather than turnover, since accurate data on this is very difficult to obtain). To obtain these quotas, ACNielsen skewed the sample in proportion to the number of people who work for micro- small, medium and large enterprises.
 - Location.
-

**Interview
Methodology**

Interviews were carried out face-to-face rather than through postal or telephone approaches, because:

- Postal surveys generally receive a poor and unpredictable response rate. In this region, response rates are worse still. This is because they tend to be associated with the bureaucracy of the Communist era.
 - The questionnaire was too long for a telephone interview. In any case, there is still a very strong “meetings culture” (even among privatised and newly-created firms) that requires face-to-face contact.
-

**The
Questionnaire**

The basic questionnaire was designed by the EBRD and the World Bank.

To achieve the final survey instrument:

- ACNielsen changed the basic questionnaire (which was heavily based on an earlier postal survey) to one capable of being administered face-to-face
 - The agency formatted the questionnaire to its “house style” and inserted column numbers, further interviewer instructions, etc, as appropriate.
 - The questionnaire was sent to the AC Nielsen country offices for translation. To ensure that the translations were as accurate as possible, a second person translated the foreign language version back into English and sent both versions back to Cyprus. Such back-translation helped to ensure that the questionnaire was clear and unambiguous.
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Piloting To ensure that the questionnaire was easily understood, AC Nielsen undertook five pilot interviews in each country. Wherever possible, the interviews were tape-recorded, since this provided a better record of which parts of the questionnaire needed to be amended.

The results of the pilot were reported back to the Client. A series of proposals were made to the client as to how the questionnaire could be improved, or ambiguities resolved.

Sample Source The list of names of companies to interview were taken from the most appropriate business directories or, when available, Yellow Pages.

Interviewers The interviewers working on the project were, in general, regular staff who work with ACNielsen on a variety of business-to-business and consumer research assignments.

The majority of the interviewers used were mature with experience of either office work or management.

All interviewers were fully trained in accordance with ESOMAR protocols before worked on this study.

Securing Cooperation Interviewers first either telephoned or called round at the prospective respondent company to:

- Ensure that the company matched the relevant quota criteria
 - Arrange an appointment to interview the prospective respondent.
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Quality Controls

Several layers of quality control were used:

- Accompanied Interviews – Regional Managers went along with the interviewers to appointments on a rota basis to check that they adhered to procedure;
- Callbacks – supervisors telephoned the respondent the day after the interview was carried out to check that the interview was properly carried out. This included repeating key elements of the questionnaire to check that the answers tally. One in six questionnaires from each interviewer was checked in this way. If there were any discrepancies then every questionnaire by that interviewer was back-checked.
- Visual and Logic Checks – All questionnaires were visually checked for completeness and obvious errors when they came in. Additional logic checks were built into the data processing and analysis program to capture mistakes (which tend to be mis-punches rather than interviewer errors).

Coding and Editing

All questionnaires were coded and edited under instructions from AC Nielsen Cyprus.

Data Entry

Data Entry was carried out in each country office. The data files were then sent electronically to Cyprus for merging, computer logic tests and, finally, for tabulation.

Deliverables

AC Nielsen has supplied the EBRD with the raw data set as ASCII files.

The client also has a full set of survey tabulations (as an Excel file) as a companion to this Report

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**Conventions
Used**

For brevity, most of the analyses in this report are at the country-level only. The sample bases are generally too small to discern statistically significant differences between different sample groups within countries.

All differences referred to in this report have been tested for significance (at the 95% confidence level) using the modified chi-squared procedure in Quantum, ACNielsen's standard analysis package.

All the charts show percentage of respondent organisations and, unless otherwise stated, are based on the entire sample.

Weighting

None of the data has been weighted. This means that:

- ☐ The views of enterprises in small countries carry the same importance as those of the major countries in the region
- ☐ The findings are skewed towards the larger enterprises in each country.

Nevertheless, the findings are an accurate representation of the study sample in the light of the research objectives.



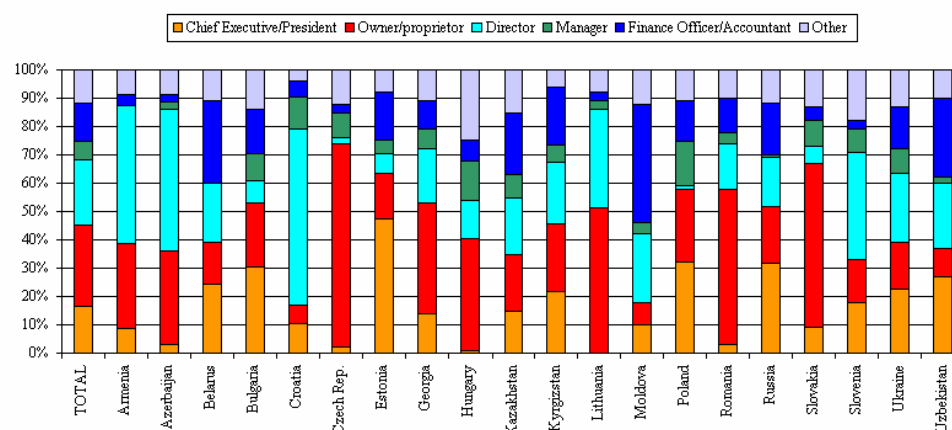
Introduction This section first sets out an overview of the type of respondent and enterprise interviewed.

Respondent Job Title The most common job title for the respondents was owner or proprietor, held by 30%. It was especially common in the Czech Republic, where 72% of interviewees fell into this category. Also widespread were:

- Director (held by 24% of respondents, and by 65% and 67% respectively in Croatia and Azerbaijan)
- Chief Executive/President (17%, including 48% in Estonia)
- Finance Officer/Accountant (14%, including 42% in Moldova)

These titles demonstrate that respondents were suitably qualified to represent their companies at the interview.

RESPONDENT'S JOB TITLE



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Industry Category

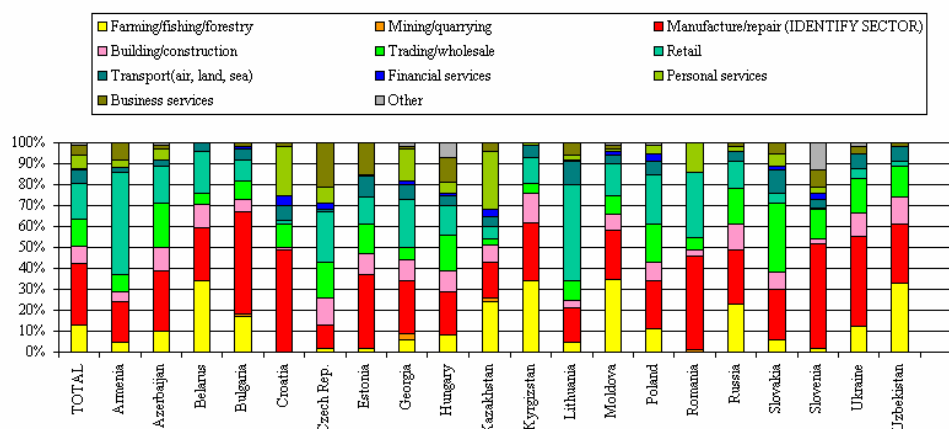
The differences in industry categories in the sample reflect the variations in the national economies. Most common overall was manufacturing (29%) though around half of all interviews in three countries, Bulgaria, Croatia and Slovenia, were carried out with firms in this sector.

Farming and construction were the other two main “manufacturing” sectors represented, with 13% and 8% of the sample overall. Farming represented about a third of all interviews in the more agrarian economies of Belarus, Krgyzstan, Moldova and Uzbekistan.

Seventeen percent of all interviews were in the retail sector. In Armenia this rose to 49% and, in Lithuania, to 46%. Trading and wholesale represented a further 13% of firms but there is a strong degree of overlap between this and the retail sector. In Slovakia, for example, where one third of firms reported they were mainly wholesale and trading, only 5% reported they were predominantly retailers.

Personal services accounted for 6% of firms overall but accounted for 23% in Croatia (predominantly in the hotel industry). Five percent of interviews were with enterprises in the business services sector but in the Czech Republic this figure was 21%.

COMPANY'S MAIN AREA OF ACTIVITY



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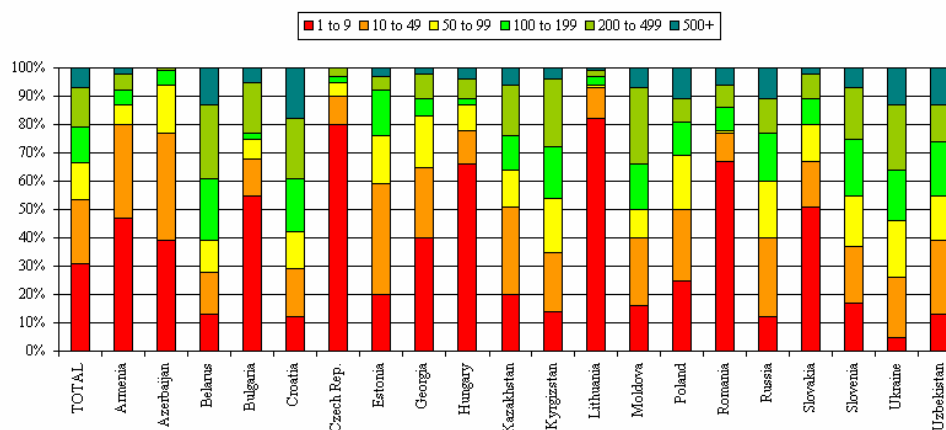


Number of Full-Time Staff

Just over half, 55%, of all interviews were conducted with micro-businesses (under 10 employees) and small enterprises (10-49 full-time staff). A particularly high proportion of interviews in the Czech Republic (80%) and Lithuania (82%) were carried out with firms of 1-9 people, reflecting the dynamism of the small business sector in these countries.

At the other extreme, the proportion of respondents from firms with more than 200 full-time staff was significantly higher than the average of 19% in Belarus, Croatia (both 39%), Ukraine (36%) and Moldova (34%).

NUMBER OF STAFF EMPLOYED FULL-TIME



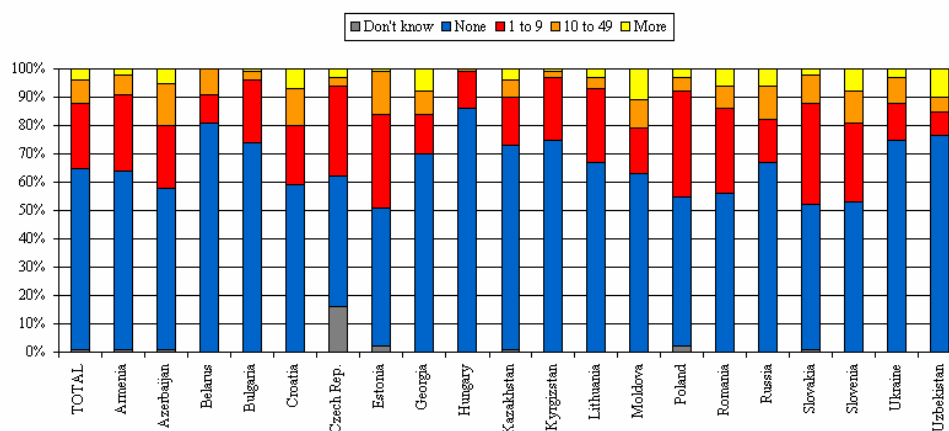
Number of Casual Staff

The majority of enterprises, 65% of the total, claim they do not employ staff on a casual basis. The smallest proportion stating they do not employ any is in the Czech Republic; this is also the country with the greatest proportion who do not know how many casual staff they employ.

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NUMBER OF CASUAL STAFF EMPLOYED



Year In Which Firm Founded

Eighty-seven percent of enterprises were founded since 1989, with 72% being formed between 1989 and 1996.

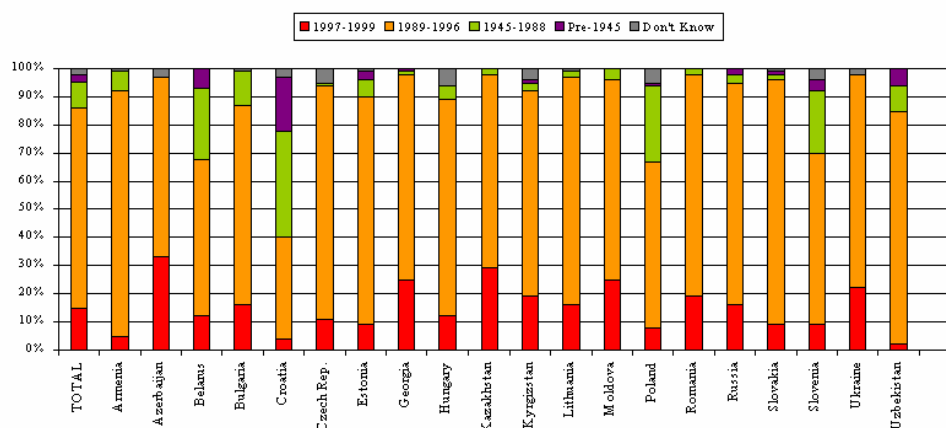
The highest levels of recent start-ups (since 1997) were found in Azerbaijan (33%), Kazakhstan (29%), Georgia and Moldova (both 25%).

Croatia has the longest-established firms, with 38% being founded between the end of World War II and 1988 (compared with 9% overall), and 19% dating from before then (compared with 3%).

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YEAR IN WHICH FIRM WAS FOUNDED



How Firm Was Established

Sixty-one percent of enterprises were established as private companies. Twenty-seven percent are privatised formerly state-owned firms: the proportion is highest in Moldova (46%), Ukraine (45%), Kazakhstan (43%) and Kyrgyzstan (41%).

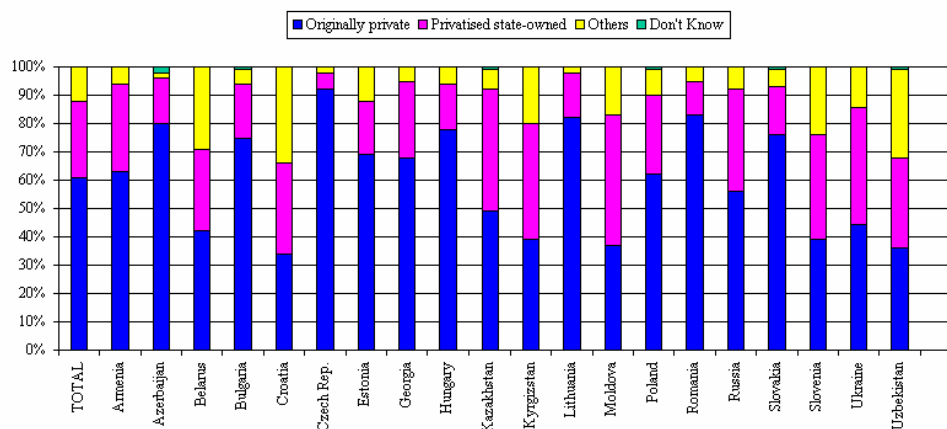
There are significant “other” categories for some countries:

- In Belarus, 27% of enterprises were founded as agricultural co-operatives, as were 13% of those in Kyrgyzstan; 12% in Uzbekistan were established as collective farms
- The state used to own some stock in 25% of enterprises in Croatia

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HOW FIRM WAS ESTABLISHED



Legal Organisation

The most common legal organisation for firms interviewed were single proprietorships, representing one third of all interviews. They formed the majority of enterprises surveyed in Azerbaijan (87%), the Czech Republic (61%), Estonia (54%) and Romania (53%).

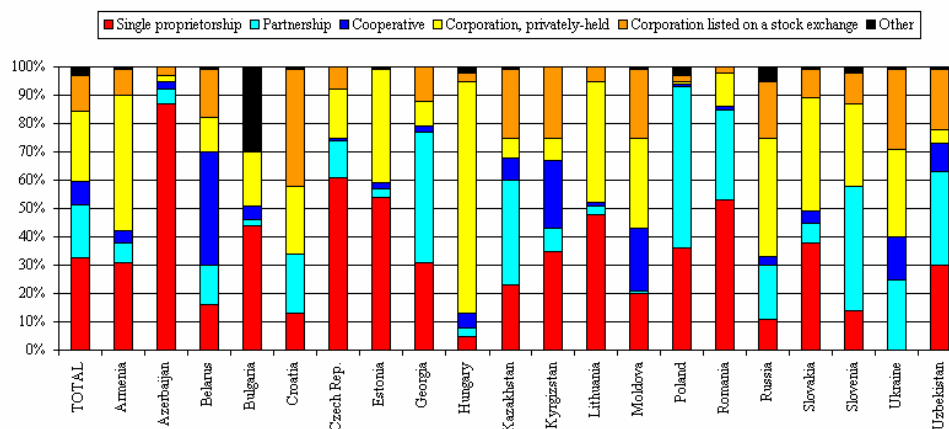
Privately-held corporations represented a quarter of those surveyed, and most notably 82% of those surveyed in Hungary. Partnerships accounted for 19% of enterprises in total, including 57% of interviewed firms in Poland.

Cooperatives were relatively uncommon, accounting for only 8% of interviews, but they were significant in Belarus (40% of firms interviewed) and, to a lesser extent, Kyrgyzstan (24%) and Moldova (22%).

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COMPANY'S LEGAL ORGANISATION

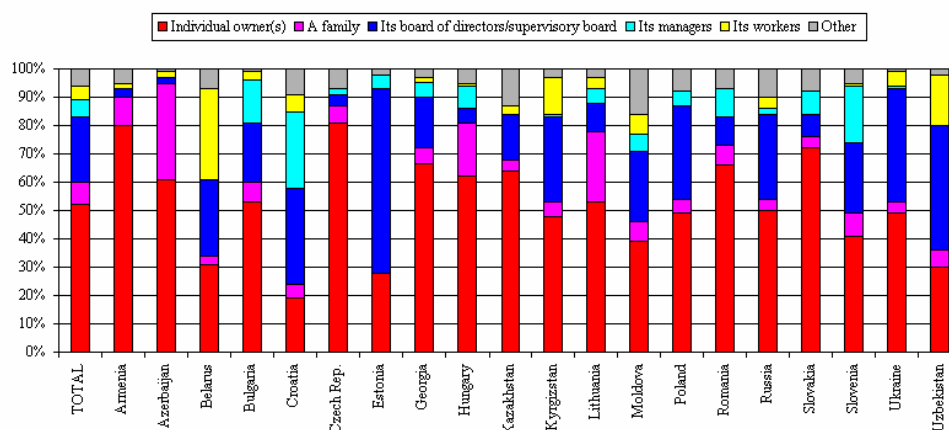


Greatest Control of Firm

In just over half, 52%, of cases it is the individual owner or owners who have greatest control over the firm at present.

A board of directors is the most influential entity 23% of enterprises, though in Estonia this amounts to 65% of the total. Higher-than-average figures are also reported for Ukraine (40%) and Uzbekistan (44%)

ENTITY WITH CONTROL OF FIRM



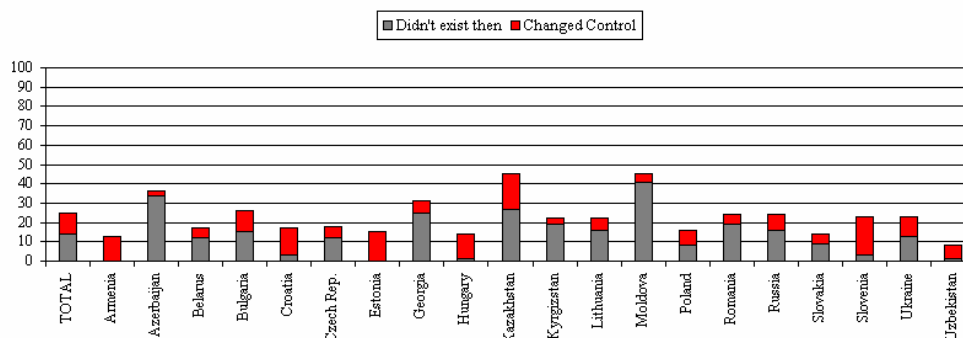
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Change in Control Over Past 3 Years

The identity of the body with greatest control has actually changed for only 9% of enterprises.

PROPORTION OF PRIVATE SECTOR ENTERPRISES WHERE CONTROL HAS CHANGED IN LAST 3 YEARS



Identity of Largest Shareholder

In two-thirds of cases, the largest shareholder in the enterprise is an individual or a family.

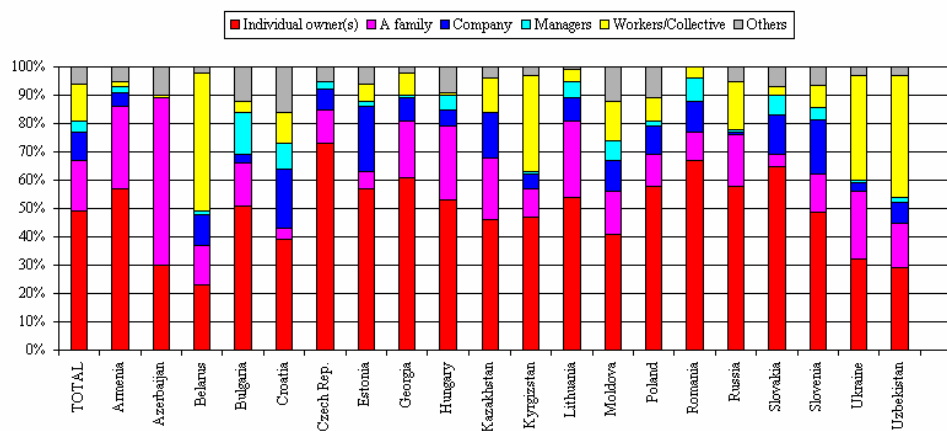
Workers are the main shareholder in 13% of instances, though the figure is substantially higher than this in Belarus, Kyrgyzstan, Ukraine and Uzbekistan. In the first two cases, these include collective farmers as well as industrial workers.

Companies (either domestic or foreign) are the largest shareholders in 10% of cases, and for 23% of enterprises in Estonia and 21% of those in Croatia.

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IDENTITY OF LARGEST SHAREHOLDER



Change In Identity of Largest Shareholder

The identity of the largest shareholder has changed in 13% of enterprises, including 35% of those in Croatia.

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Funding of Fixed Investments

The most common source of funding for fixed investments is from internal funds or retained earnings. On average, this accounts for 60% of investment funding.

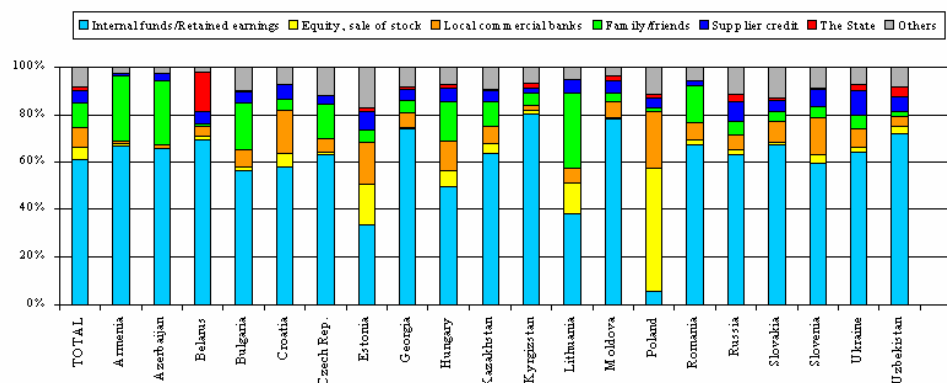
The proportion is significantly higher than this in Kyrgyzstan (80%), Moldova (78%) and Georgia (73%). It represents only around one-third of investment funding in Estonia (33%), Poland (34%) and Lithuania (37%).

Funding investments via equity or sale of stock is much more common in these three countries, averaging 17%, 36% and 12% respectively, than the norm of 5%.

Loans or investments from family and friends are the second most important form of investment funding, averaging 10% across the region. It is substantially higher than this in Lithuania (31%), Azerbaijan (27%) and Armenia (26%).

Local commercial banks are a significant source of funding in Croatia and Estonia (both 18%), Poland (17%) and Slovenia (16%).

ESTIMATED DISTRIBUTION OF SOURCES OF FIRM'S FIXED INVESTMENTS



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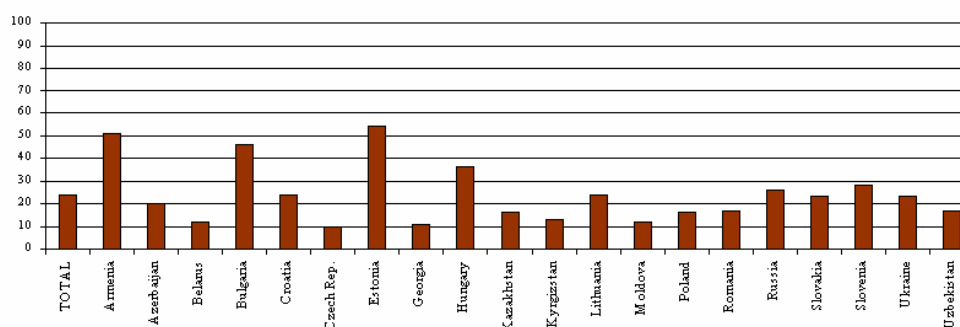


Changes in Financing of Fixed Investments

Overall, one quarter of enterprises report that their financing of fixed investments has changed over the past three years. The highest incidence of this comes in Estonia (54%), Armenia (51%), Bulgaria (46%) and Hungary (36%).

The main changes in funding patterns is that use of internal funds/retained earnings has increased

PROPORTION OF ENTERPRISES EXPERIENCING CHANGES IN FINANCING OF FIXED INVESTMENTS IN PAST 3 YEARS



Change in General Manager

Seventeen percent of organisations have experienced a change in General Manager over the past three years. This is most prevalent in Croatia (32%), Belarus and Uzbekistan (both 31%).

The most common reasons for his/her departure are:

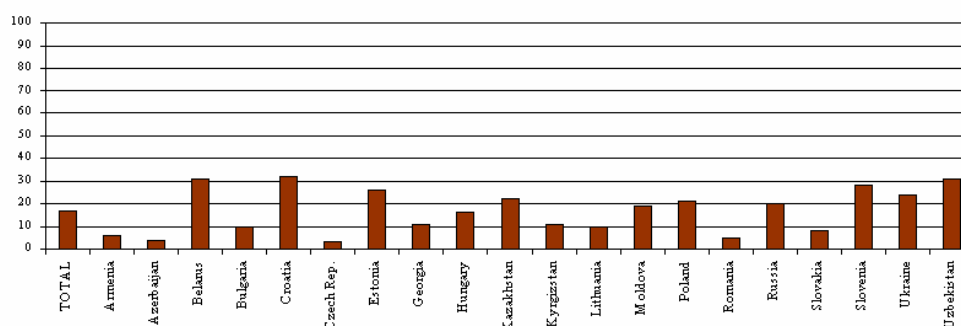
- Recruited by another firm (33%)
- Separated through retirement/death (21%)
- Dismissed on performance grounds (18%)

In fifty-eight percent of cases, their replacement was appointed from within.

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PROPORTION OF ENTERPRISES EXPERIENCING CHANGE IN GENERAL MANAGER



Foreign Stake- holding

Overall, foreign companies have a financial stake in eight percent of enterprises surveyed. The countries with the greatest incidence are Romania (19%), Estonia (16%) and Croatia (15%).

On average these foreign firms have a 55% stake in the company but this cannot be disaggregated by country.

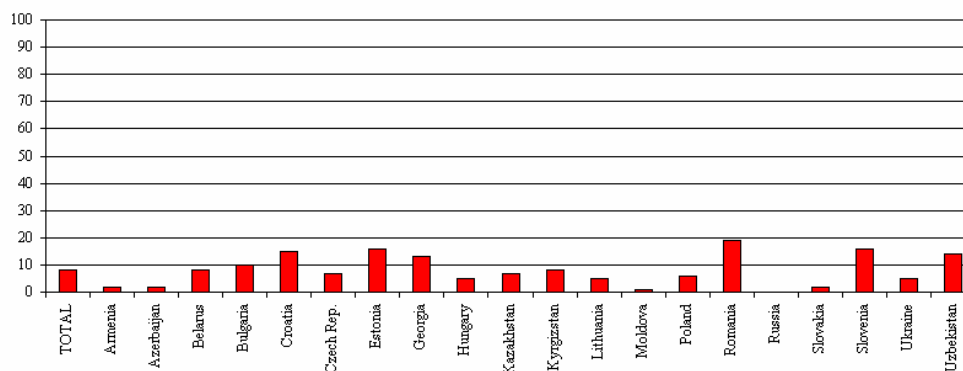
The most common nationalities of these stakeholders are:

- Germany (22%)
- USA (11%)
- Austria (7%)
- France and the UK (both 6%)

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PROPORTION OF ENTERPRISES HAVING FOREIGN INTEREST IN THEM

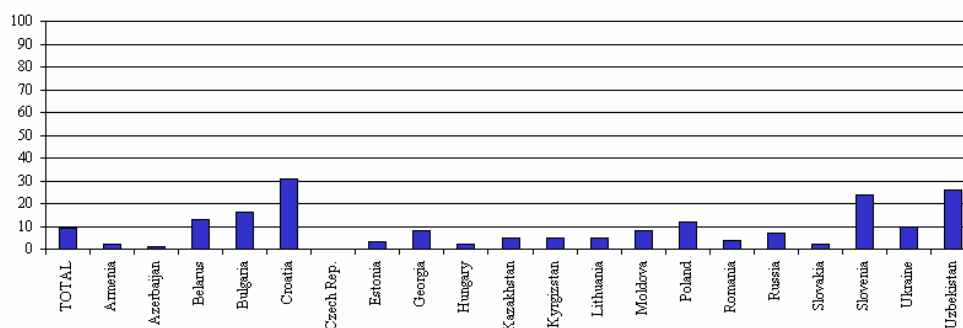


State Stake- holding

A state organisation or agency has a stake in 9% of firms interviewed. The proportion is substantially higher than this in Croatia (31%), Uzbekistan (26%) and Slovenia (24%).

The average proportion of the enterprise's capital owned by the state is 24%.

PROPORTION OF PRIVATE SECTOR ENTERPRISES HAVING STATE FINANCIAL STAKE IN THEM



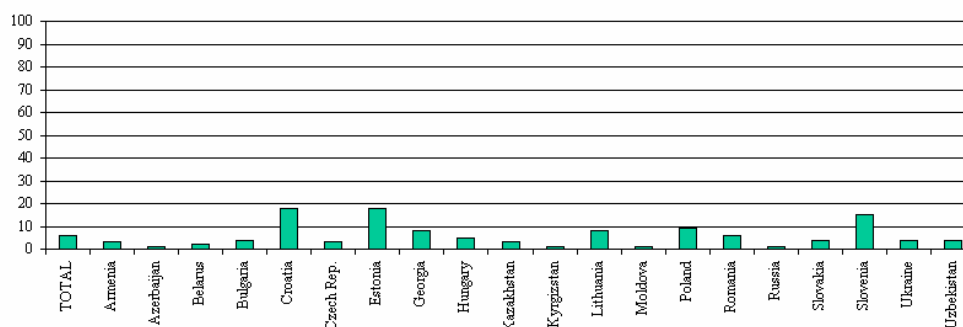
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Holdings/ Operations in Other Countries

Six percent of firms surveyed have holdings or operations in other countries. The highest incidence is found in Croatia and Estonia (at 18%) and Slovenia (at 15%)

PROPORTION OF PRIVATE SECTOR ENTERPRISES HAVING HOLDINGS OR OPERATIONS IN OTHER COUNTRIES



Trade with State Sector

Around half of all firms surveyed trade with the state sector. There is substantial variation by country, reflecting the varying economic power of the state and the nature of the firms surveyed in that country.

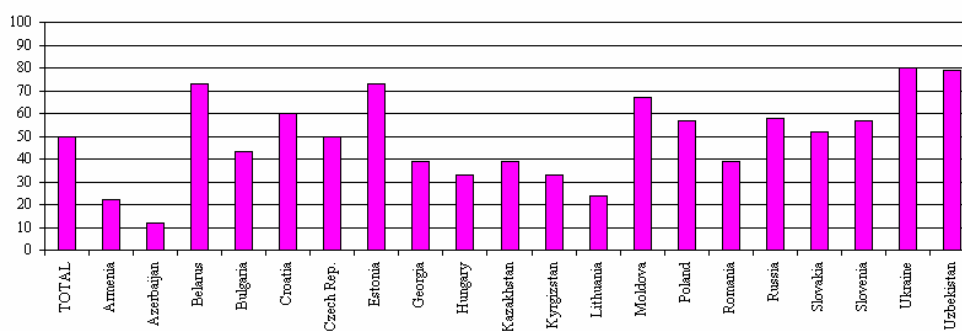
The proportion is highest of all in Ukraine (80%) and Uzbekistan (79%), followed by Belarus and Estonia (both 73%) and Moldova (67%).

The lowest incidence is in Azerbaijan (12%) and Armenia (22%), where high proportion of enterprises interviewed are in retail and trade, and in Lithuania (24%). A parallel survey (also conducted by ACNielsen on behalf of the EBRD) in Lithuania had to be abandoned because there were not enough state-owned enterprises to complete the sample.

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PROPORTION OF PRIVATE SECTOR ENTERPRISES TRADING WITH THE STATE SECTOR



Proportion of Sales to the State Sector

On average, the state sector represents 30% of sales to those firms trading with it.

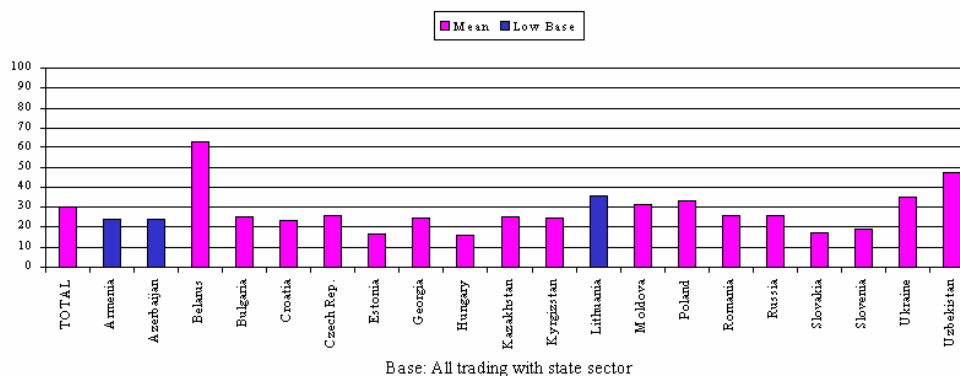
The proportion is higher by far in Belarus than anywhere else, representing 63% of sales.

The bases for some countries are too low (less than 30 respondent organisations) to give statistically meaningful answers. These have been picked out in blue on the chart below.

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PROPORTION OF SALES REPRESENTED BY THE STATE SECTOR

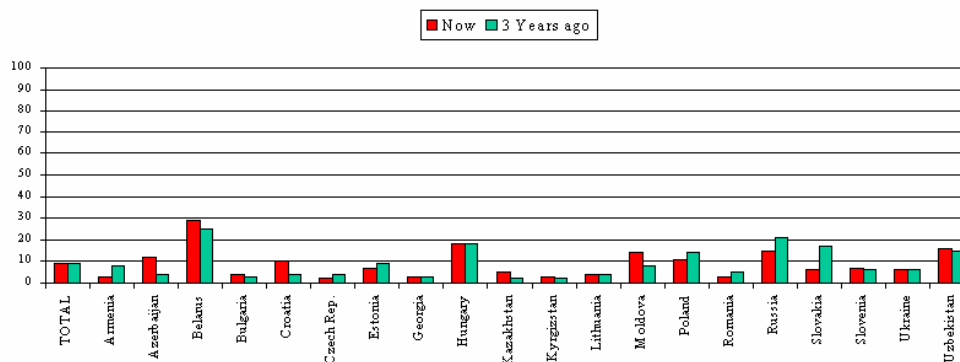


Receipt of Subsidies

Nine percent of firms receive subsidies (including tolerance of tax arrears) from local or national government. The proportion is highest, at 29%, in Belarus, followed by Hungary (18%), Uzbekistan (16%), Russia (15%) and Moldova (14%).

The proportions are unchanged on three years ago, though the level of subsidies tends to be less.

PROPORTION OF ENTERPRISES RECEIVING SUBSIDIES (INCLUDING TOLERANCE OF TAX ARREARS) FROM LOCAL/NATIONAL GOVERNMENT



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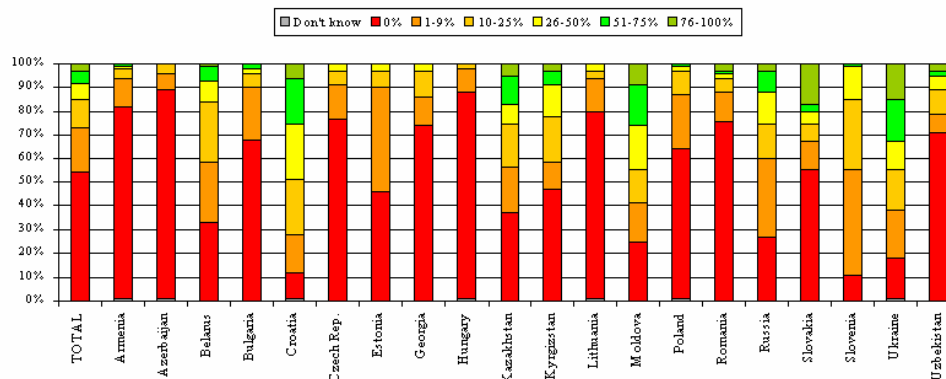


Use of Barter, Offsets and Bills Of Exchange

Fifty-four percent of firms do not use these at all. A majority of firms do however use them in Belarus, Croatia, Estonia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Slovenia and Ukraine.

On average, barter, offsets and bills of exchange represent less than 20% of the firm's sales, even in the above countries. The exceptions are Ukraine, where they account for an average 33% of sales, Croatia (31%) and Moldova (29%).

SHARE OF FIRM'S SALES IN BARTER, OFFSETS OR BILLS OF EXCHANGE



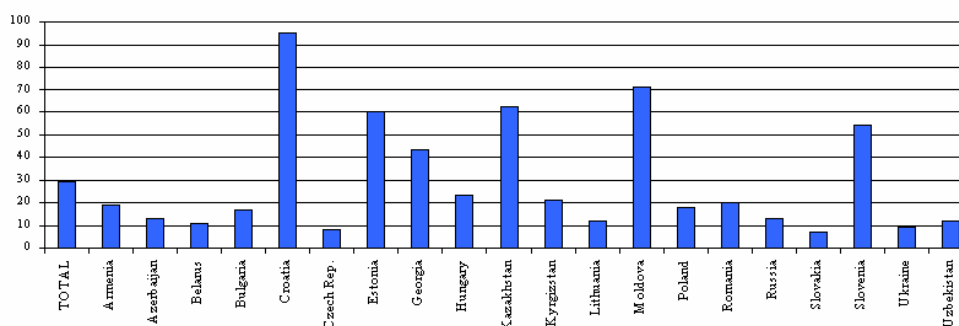
Usage of IAS

Overall, three out of ten enterprises report that they use International Accounting Standards (IAS). The proportion was especially high in Croatia (95%), Moldova (71%), Kazakhstan (62%), Estonia (60%) and Slovenia (54%).

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PROPORTION OF ENTERPRISES USING INTERNATIONAL ACCOUNTING STANDARDS (IAS)

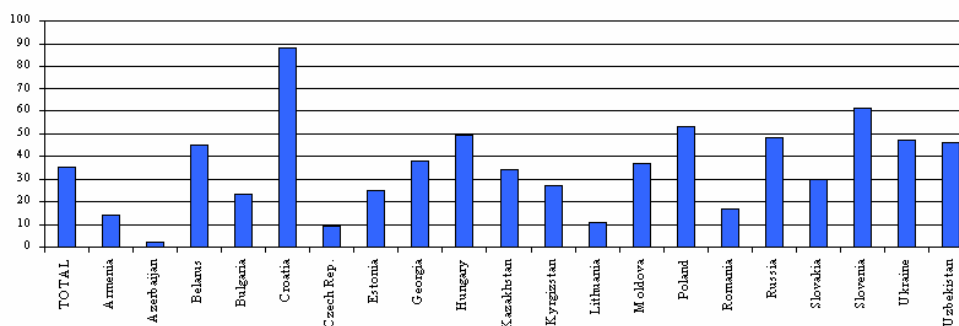


Circulation of Externally Audited Accounts

A somewhat greater proportion, 35% of enterprises, state that they circulate either internally or externally annual financial statements that have been reviewed by an external auditor. This is most common in Croatia, where 88% of those surveyed claim they do so.

It is also relatively widespread in Slovenia and Poland, where 61% and 53% respectively claim they circulate independently audited financial statements.

PROPORTION OF ENTERPRISES CIRCULATING EXTERNALLY AUDITED ACCOUNTS



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Change In Sales Volume Over Past 3 Years

Overall 42% of enterprises claim their sales have increased and 33% state they have decreased over the past three years.

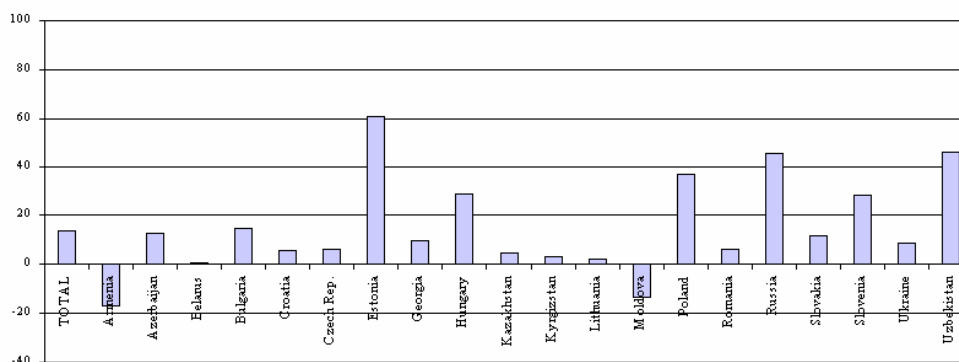
The increase is most pronounced in Slovenia (66%), Estonia (65%), Hungary (60%), Poland (59%), Uzbekistan (57%) and Russia (55%).

By contrast, more than half on enterprises surveyed in Armenia (62%) and Moldova (51%) report a decline in sales

Rate of Change In Sales

Overall, enterprises experienced a 14% increase in sales volume over the past three years. The pattern of the chart below otherwise mirrors the general distribution of enterprises reporting a growth or decline in sales volumes.

NET CHANGE IN SALES VOLUME IN LAST 3 YEARS



Incidence of Changed Investments in Past 3 Years

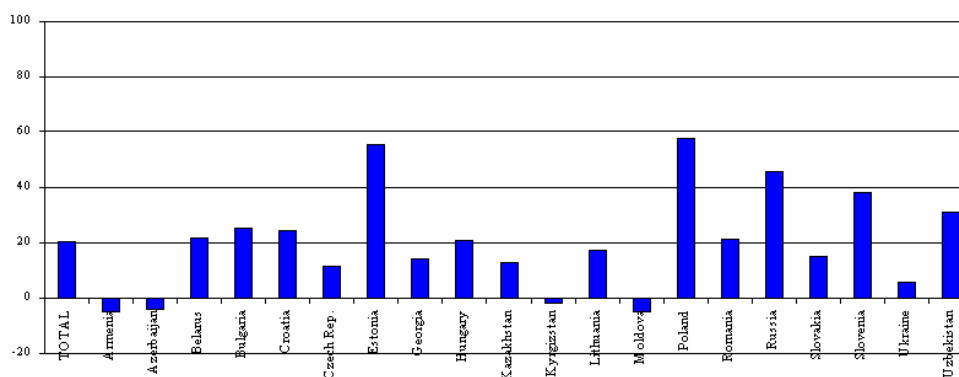
Thirty-nine percent of enterprises report they have increased their level of investment over the past three years. In 44% of cases it has remained constant and 17% of respondents report it has declined.

The greatest proportions stating investment has increased are in Poland and Slovenia (both 63%) and Estonia (62%). It is most likely to have remained constant in Kyrgyzstan (67%) and Azerbaijan (65%) and to have declined in Armenia (45%).

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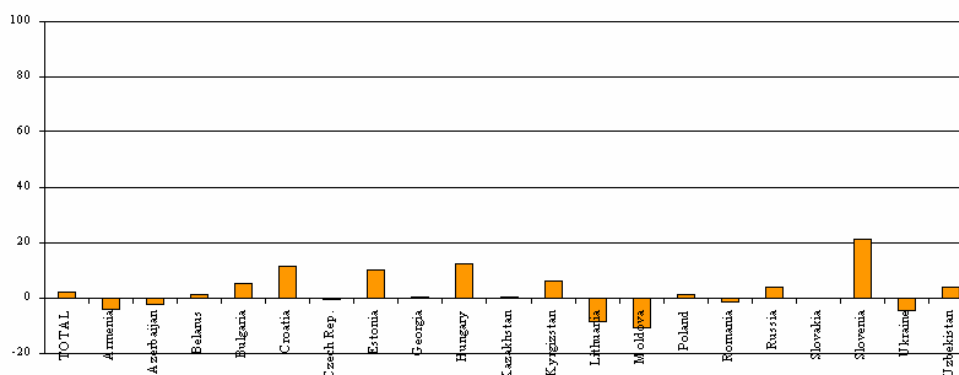
NET CHANGE IN INVESTMENT VOLUME IN LAST 3 YEARS



Incidence of Changed Exports in Past 3 Years

The great majority of enterprises surveyed, 78% of the total, report that export levels are unchanged.

NET CHANGE IN EXPORTS VOLUME IN LAST 3 YEARS



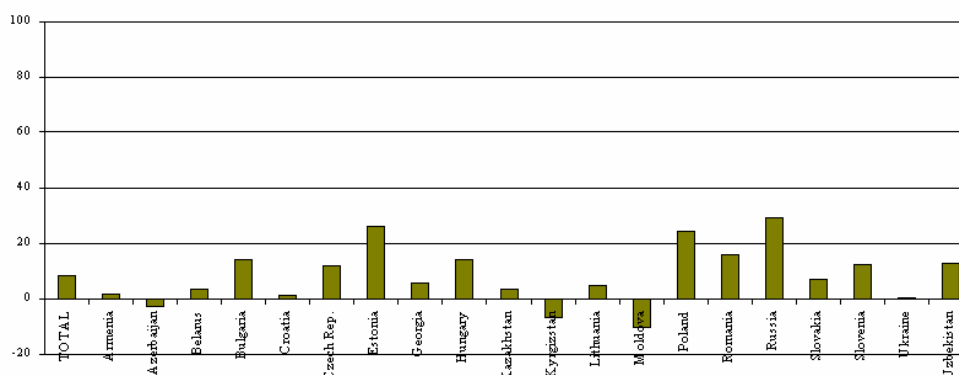
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Incidence of Changed Employment Over Past 3 Years

Employment levels have increased in 28% of enterprises, decreased in 31% and stayed the same in 40%.

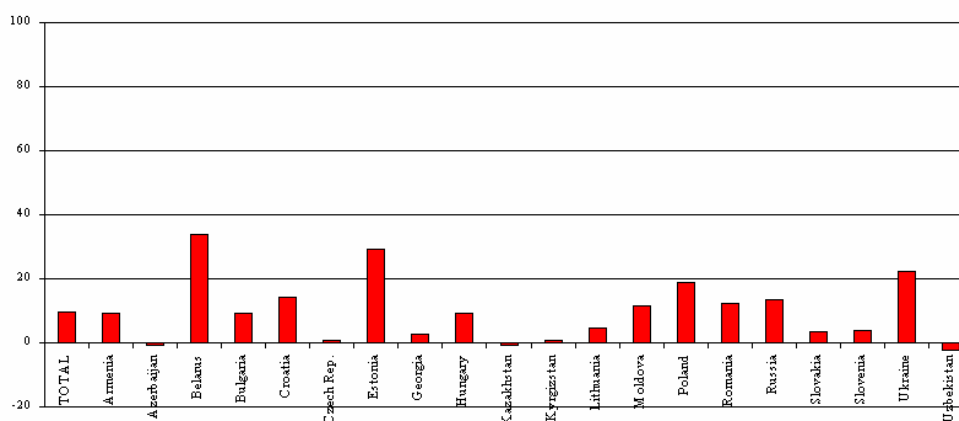
NET CHANGE IN EMPLOYMENT LEVEL IN LAST 3 YEARS



Incidence of Changed Debt

Indebtedness has increased for 28% of enterprises, including 50% of those in Croatia and 48% in Ukraine.

NET CHANGE IN DEBT IN LAST 3 YEARS



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Level of Overdue Payments

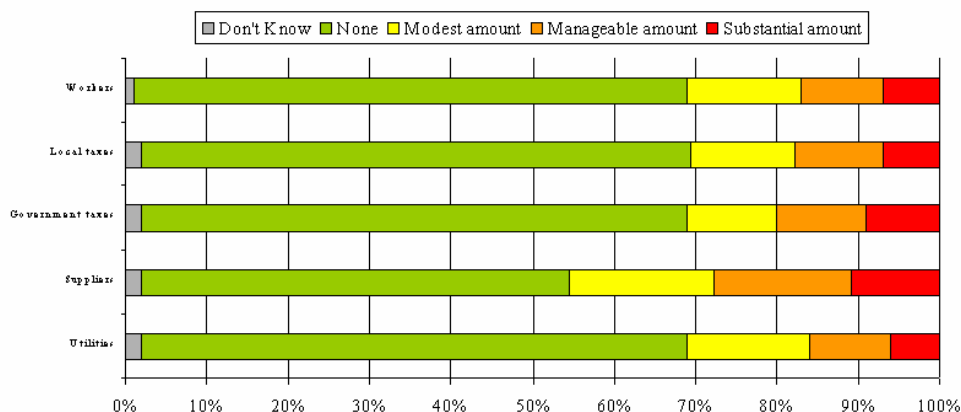
Enterprises were asked whether overdue payments represented a substantial, manageable or modest amount, or if they did not exist at all.

A majority of enterprises claim that they do not owe anything in local taxes (68%), government taxes (67%), to the utilities (67%), suppliers (53%) or their workforce (68%).

Relatively high levels of indebtedness are found in:

- Moldova, where 26% have a substantial amount overdue to suppliers and 22% have a substantial amount overdue to their workers
- Georgia, where 26% have a substantial amount owing as government taxes, 24% have a substantial amount overdue to suppliers and 22% have a substantial amount overdue to their workers

LEVEL OF PAYMENTS OVERDUE



Amounts Receivable

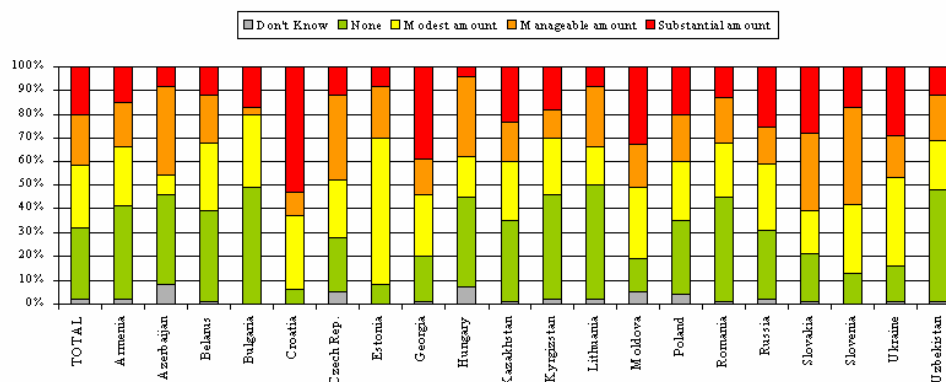
Sixty-eight percent of enterprises have amounts overdue from their customers. In 20% of cases this is regarded as a substantial amount.

This is particularly problematic in Croatia, where 53% say they are owed a substantial amount.

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LEVEL OF PAYMENTS OVERDUE FROM CUSTOMERS



Initiatives Undertaken

Ninety percent of firms have undertaken at least one of 15 named initiatives.

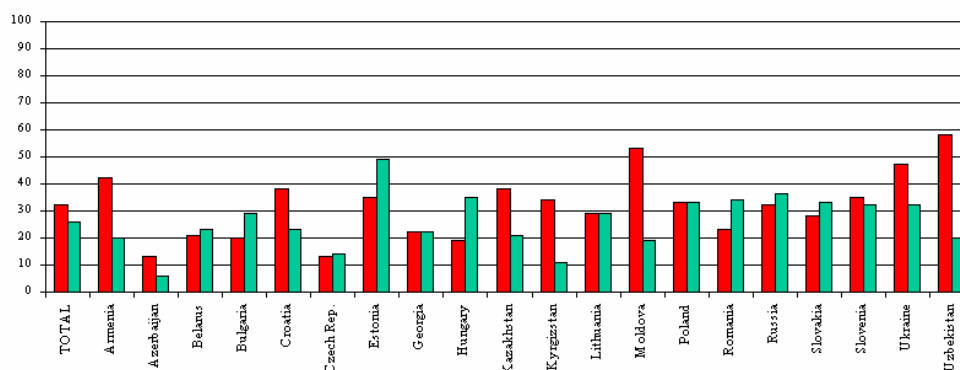
The least proactive firms are in Azerbaijan and the Czech Republic, where 40% and 32% respectively have not undertaken any initiatives.

Thirty-two percent have shed at least 10% of their workforce. This is particularly common (and is the most widely practiced initiative) in Uzbekistan (by 58% of enterprises), Moldova (53%), Ukraine (47%) and Armenia (42%).

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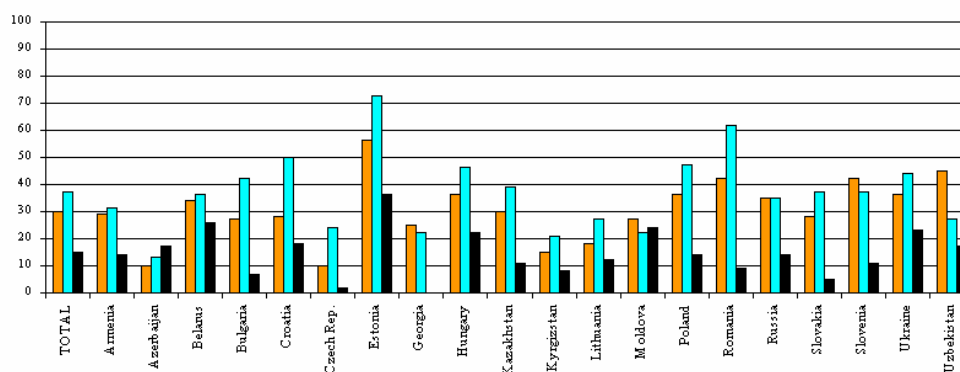


INCIDENCE OF CHANGES TO COMPANY WORKFORCE IN LAST 3 YEARS



The most common is an upgrade of an existing product line, carried out by 37% of enterprises overall. It is particularly widespread in Estonia (carried out by 73% of enterprises surveyed) and Romania (62%).

INCIDENCE OF CHANGES TO PRODUCT RANGE IN LAST 3 YEARS



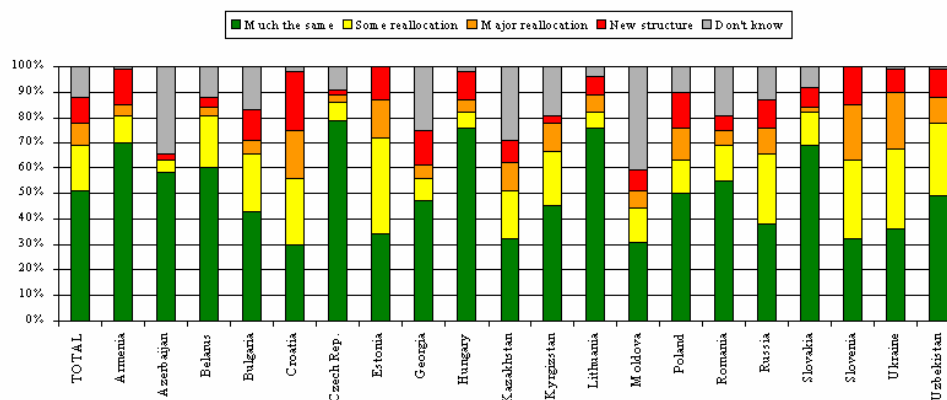
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Reorganisation Fifty-one percent of firms are organised in much the same way as they were three years ago. This inertia is highest in the Czech Republic (79%), Hungary and Lithuania (both 76%), Armenia (70%) and Slovakia (69%).

By contrast, a majority of firms in Croatia, Estonia, Slovenia and Ukraine have undergone some form of realignment or restructuring.

CHANGES IN DEPARTMENTAL STRUCTURE OVER PAST 3 YEARS

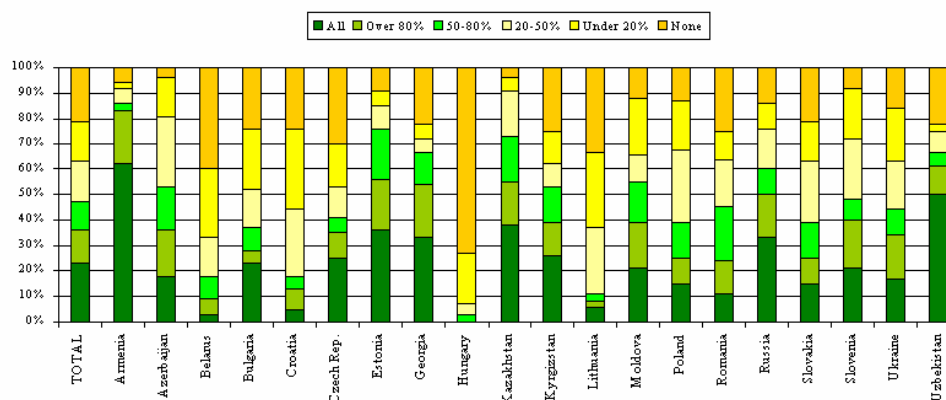


Sales from New Products On average, 49% of an enterprise's sales come from products launched over the past three years. There is a marked diversity between countries. Sixty-two percent of Armenian respondents say that all their sales come from new products whereas 73% of Hungarian enterprises report that none of their sales come from new products.

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PROPORTION OF SALES ACCOUNTED FOR BY PRODUCTS LAUNCHED OVER PAST 3 YEARS



Customer Churn.

Thirty-two percent of enterprises estimate that less than half of their customers were customers three years ago. The proportion is highest in Lithuania, where 52% state that fewer than 50% of their customers were in this position three years previously.

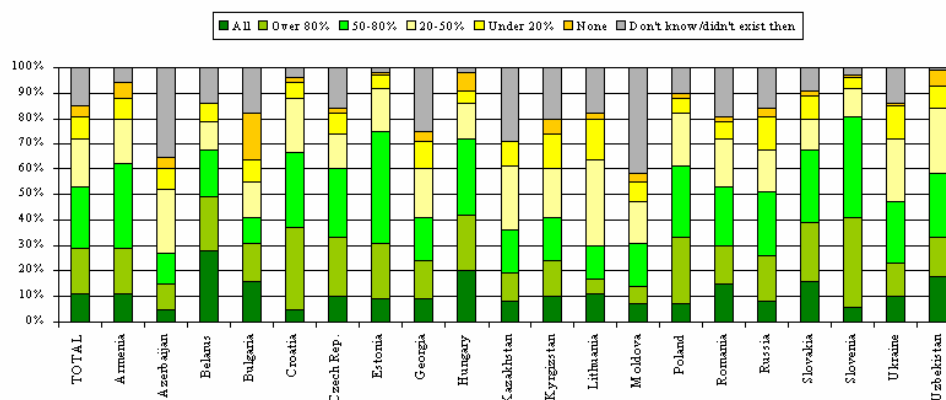
Twenty-nine percent of organisations state that over 80% of their current customers were in this position three years ago. The proportion was highest in Belarus, at 49%; nowhere did it exceed 50%.

The high levels of customer churn could be due to the dynamism and volatility of business in the countries and not to any activity on the part of the enterprise or its competitors.

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PROPORTION OF CUSTOMERS THAT WERE ALREADY CUSTOMERS 3 YEARS AGO



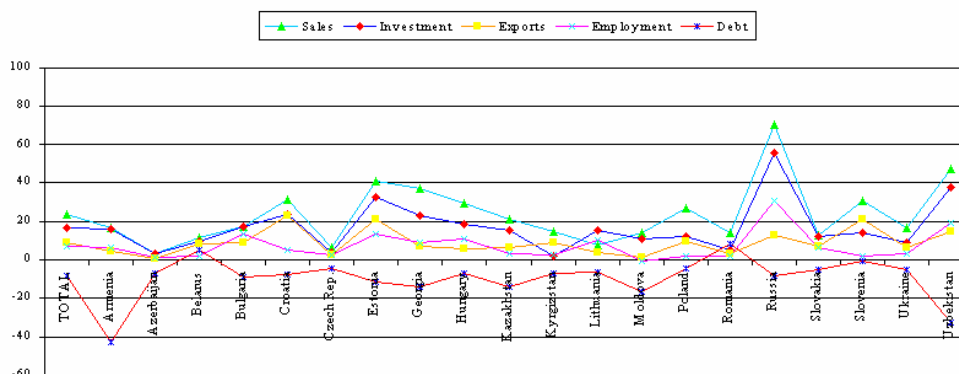
Supplier Churn The pattern for supplier churn was very similar to that for customer churn. The 29% of organisations stating that more than 80% of their current suppliers are the same ones they used three years ago were asked the reason for the lack of change. In 74% of cases, the reason was satisfaction rather than because they felt unable to switch.

Expectations for Next Three Years Overall, 58% of enterprises expect their sales to increase, 45% expect investment to grow, but only 22% expect exports to increase, 29% expect indebtedness to decline and 31% expect employment to grow

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EXPECTED NET CHANGE IN KEY INDICATORS IN NEXT 3 YEARS

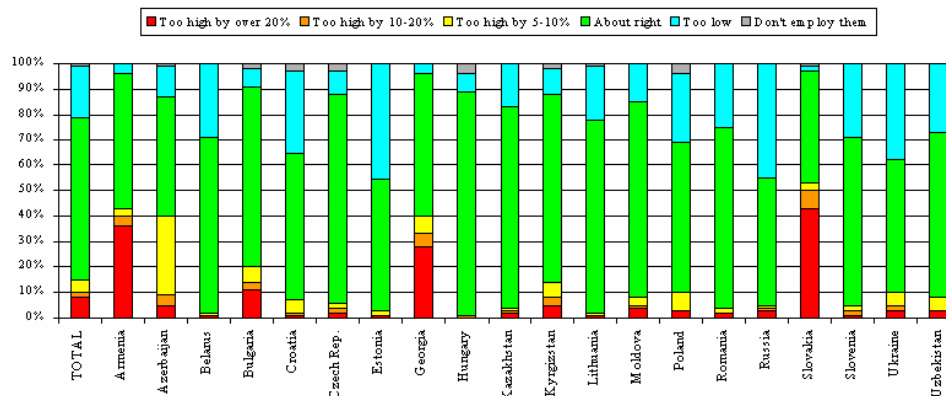


Staffing Levels – Skilled Workers

Almost two-thirds, 64%, of enterprises feel that the current numbers of skilled workers that they employ is about right and a further 20% actually feel it is too low. This shortage of skilled staff is perceived to be strongest in Estonia and Russia, where 45% feel that their current employment levels are too low.

Overstaffing is strongest in Armenia, Azerbaijan, Georgia and Slovakia, where at least 40% of firms feel that their employment of skilled workers is at least 5% too high.

COMPARISON BETWEEN CURRENT AND DESIRED LEVEL OF SKILLED WORKERS IN FIRM



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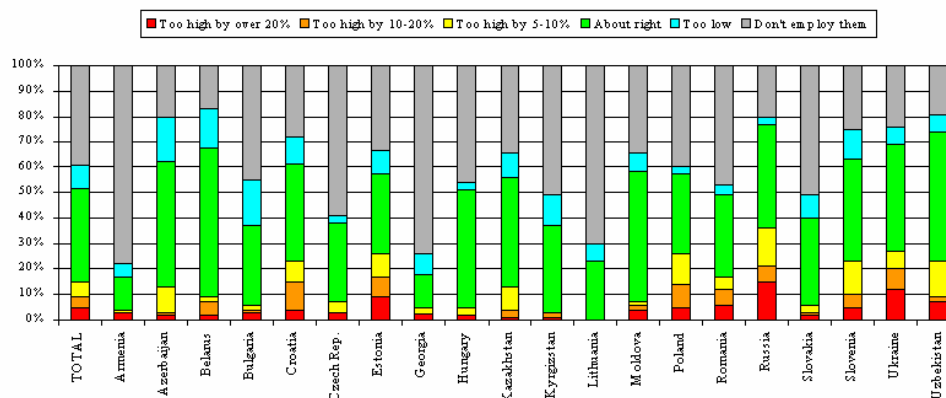
Staffing Levels – Unskilled Workers

Thirty-nine percent of enterprises claim they do not employ unskilled workers. Otherwise, the most common response is that this, too, is about right, though 9% claim a shortage and 15% state their headcount of unskilled workers is too high by at least 5%.

The highest proportions claiming their employment of unskilled staff is too low comes from Azerbaijan and Bulgaria (both 18%) and Georgia (16%).

By contrast, 36% of Russian enterprises state their level of unskilled labour is too high.

COMPARISON BETWEEN CURRENT AND DESIRED LEVEL OF UNSKILLED WORKERS IN FIRM



Staff Turnover

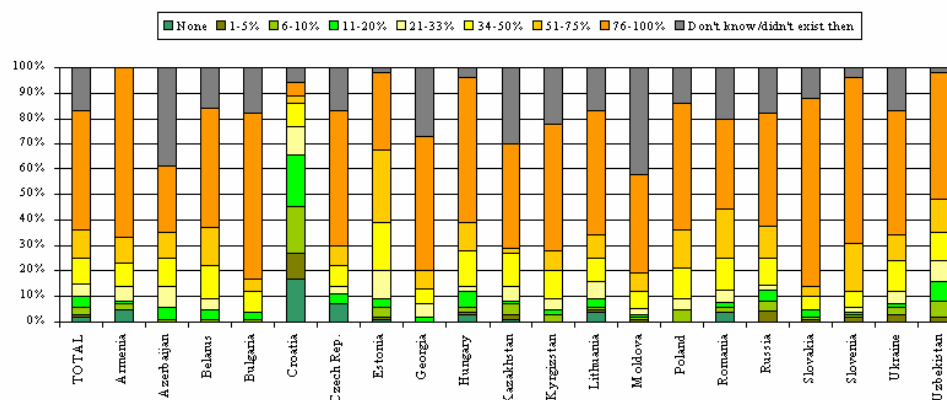
Fifty-eight percent of enterprises report that more than half of their full-time workforce was employed there three years ago. Staff turnover is lowest in Armenia, Slovakia and Slovenia, where at least 75% of enterprises report that more than half their employees worked there three years ago.

Staff turnover is highest by far in Croatia. Two-thirds of enterprises report that one-fifth or less of their full-time workforce was employed there three years ago.

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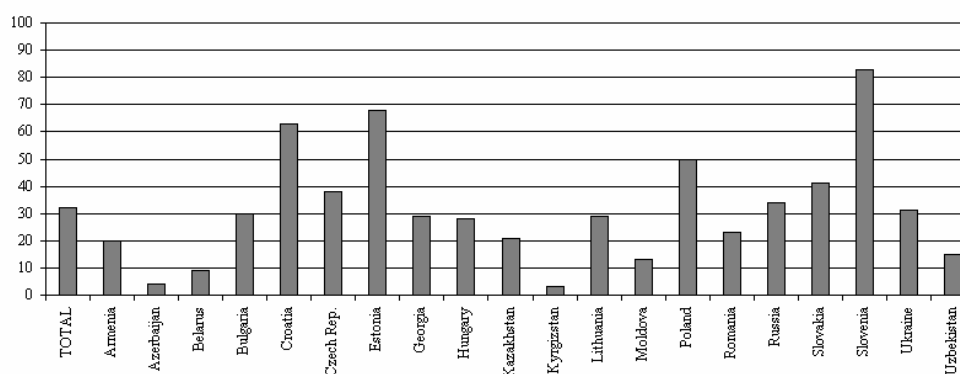
PROPORTION OF FULL-TIME WORKERS EMPLOYED 3 YEARS AGO



Internet Access

One-third of enterprises surveyed claimed they had access to the Internet. Especially high proportions of enterprises are connected to the Internet in Slovenia (83%), Estonia (68%) and Croatia (63%). At the other extreme, the figures for Belarus, Azerbaijan and Kyrgyzstan are all below 10%.

PROPORTION OF PRIVATE SECTOR ENTERPRISES WITH INTERNET ACCESS





KEY OBSTACLES TO BUSINESS OPERATION AND GROWTH OF ENTERPRISES

Introduction Towards the end of the survey, enterprises were asked to rate eleven broad issues on the extent to which they caused problems for the operation and growth of their business. The answers present a good summary of the relative importance of different areas of concern across the region as a whole and between countries.

Average Scores Respondents rated each issue on a scale from 1 (no obstacle) to 4 (major obstacle). On the basis of the average scores given, the rank order of the eleven issues is:

Taxes and regulations.....	3.3
Inflation	3.1
Financing.....	3.0
Policy instability/uncertainty	2.8
Exchange rate	2.7
Corruption	2.4
Street crime/theft/disorder.....	2.4
Anti-competitive practices by government or private enterprises	2.4
Organized crime/Mafia	2.2
Functioning of the judiciary	2.1
Infrastructure (e.g. telephone, electricity, water, roads, land)	2.0

An average score of 2.5 or more means that at least half the respondents are likely to regard it as a moderate or major obstacle. On this basis it can be seen that financial and political issues are bigger barriers than corruption, crime, anti-competitive practice, the judiciary or infrastructure.



	Taxes and Regulations	Inflation	Financing	Policy instability/Uncertainty	Exchange Rate	Corruption	Street Crime/Theft/ Disorder	Anti-competitive practices by government or private enterprises	Organised Crime/Mafia	Functioning of the Judiciary	Infrastructure
TOTAL	3.3	3.1	3.0	2.8	2.7	2.4	2.4	2.4	2.2	2.1	2.0
Armenia	3.5	2.8	2.5	2.9	2.8	1.9	1.7	1.7	1.4	1.5	1.8
Azerbaijan	3.0	2.7	2.9	2.4	2.3	2.8	2.2	2.8	2.3	2.3	2.2
Belarus	3.4	3.7	3.3	3.0	3.1	1.8	2.0	1.9	1.7	1.5	1.9
Bulgaria	3.2	3.0	3.2	3.2	2.5	2.6	2.7	2.4	2.7	2.2	2.4
Croatia	3.3	2.6	3.2	3.1	2.9	2.7	2.1	2.1	2.1	2.7	1.8
Czech Rep.	3.3	3.0	3.2	2.8	2.3	2.2	2.1	2.2	1.8	2.1	2.4
Estonia	2.7	2.3	2.5	2.4	1.8	1.9	2.2	1.8	1.6	1.7	1.6
Georgia	3.3	3.4	3.2	3.0	2.8	3.0	2.5	2.3	2.6	1.9	2.2
Hungary	3.2	2.7	2.8	2.7	1.6	2.0	1.8	2.2	1.7	1.3	1.6
Kazakhstan	3.3	3.6	3.1	2.9	3.5	2.7	2.7	2.6	2.4	2.1	2.2
Kyrgyzstan	3.6	3.7	3.4	3.4	3.4	3.3	3.3	3.0	3.1	2.2	2.2
Lithuania	3.3	2.6	2.8	2.4	1.8	2.5	2.8	2.6	2.6	2.2	1.8
Moldova	3.5	3.8	3.4	3.6	3.6	3.0	3.1	3.1	3.3	2.4	2.6
Poland	3.1	2.7	2.5	2.8	2.4	2.5	2.6	2.4	2.1	2.4	1.7
Romania	3.6	3.8	3.2	3.4	3.1	2.8	2.4	2.4	2.2	2.7	2.5
Russia	3.4	3.4	3.0	3.3	3.0	2.4	2.5	2.6	2.4	2.0	2.0
Slovakia	3.3	3.2	3.3	1.5	2.5	2.4	2.4	2.2	2.3	2.1	1.9
Slovenia	2.9	2.2	2.3	2.6	2.1	1.7	1.7	2.4	1.6	2.4	1.8
Ukraine	3.7	3.5	3.5	3.2	3.1	2.4	2.6	2.8	2.6	2.0	2.2
Uzbekistan	2.6	3.0	2.8	2.1	2.6	2.2	1.8	2.3	1.6	1.7	1.9



Interpretation A number of conclusions can be drawn from the above table:

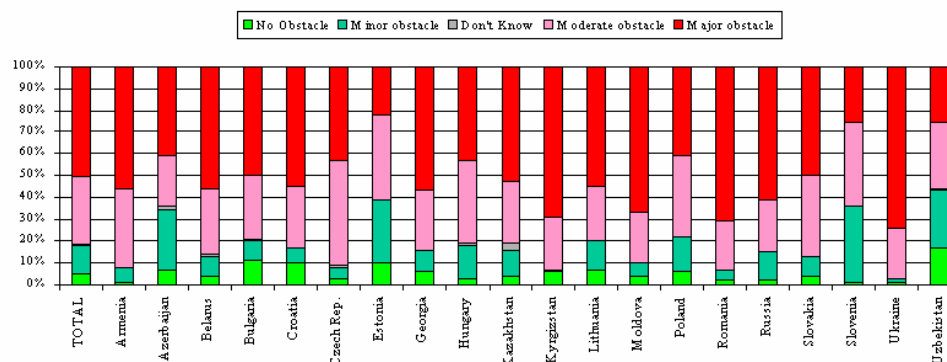
- There is no correlation between perceived barriers to doing business and GDP or other indicators of economic or social growth.
- Armenian, Estonian and Slovenian enterprises are consistently more positive about the relative lack of barriers and obstacles.
- Those in Ukraine, Kyrgyzstan and Moldova take a consistently more negative view.
- Taxes and regulations are the biggest obstacle in every country apart from Georgia, Kazakhstan, Kyrgyzstan, Moldova, Romania and Uzbekistan, where inflation gets a slightly more negative rating.

The eight most important of the above issues are now presented in greater detail.

Taxes and Regulations

Just over half of the enterprises surveyed, 51% of the total, regard taxes and regulations as a major problem. The proportion is highest in Ukraine (74%), Romania (71%), Kyrgyzstan (69%) and Moldova (67%).

DEGREE TO WHICH TAXES & REGULATIONS ARE PROBLEMATIC FOR OPERATION & GROWTH OF BUSINESS



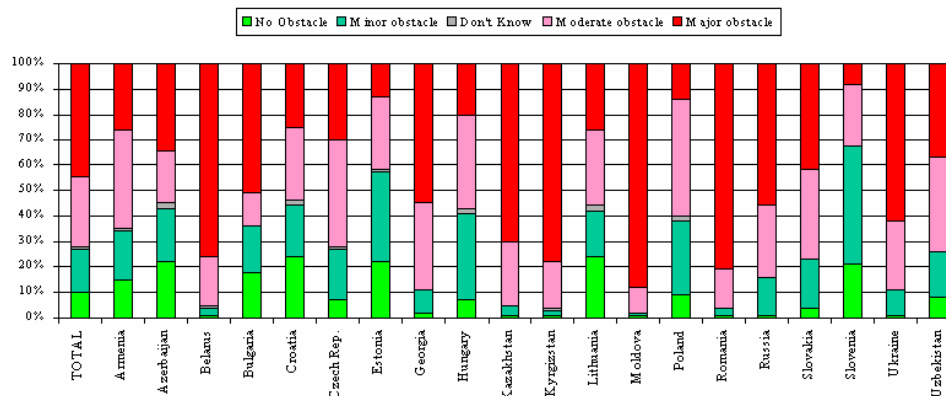
Inflation

Forty-five percent of enterprises regard inflation as a major obstacle and a further 28% regard it as a moderate one. Those regarding it as a major obstacle are most common in Moldova (88%), Romania (81%), Kyrgyzstan (78%), Belarus (76%) and Kazakhstan (70%),

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DEGREE TO WHICH INFLATION IS PROBLEMATIC FOR OPERATION AND GROWTH OF BUSINESS

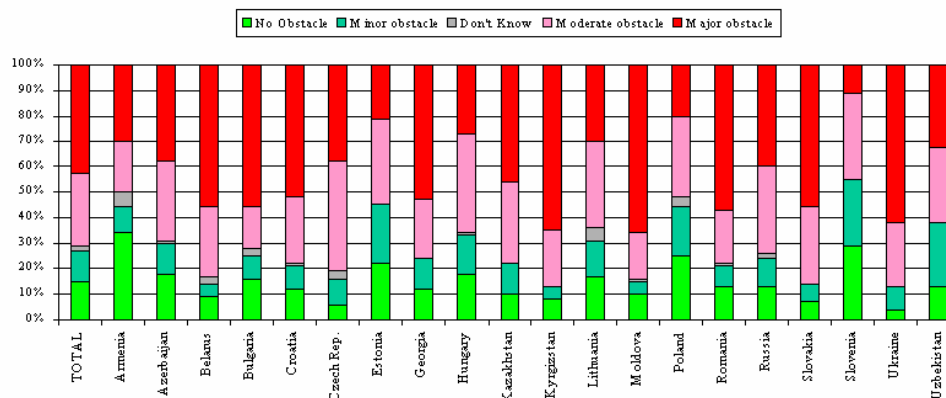


Financing

Seventy-two percent of enterprises regard financing as a moderate or major obstacle. The proportion perceiving financing to be a major obstacle is highest in Kyrgyzstan (65%) and Moldova (66%).

Slovenia is the only country where a majority of respondents do not regard financing as a moderate or major obstacle.

DEGREE TO WHICH FINANCING IS PROBLEMATIC FOR OPERATION AND GROWTH OF BUSINESS



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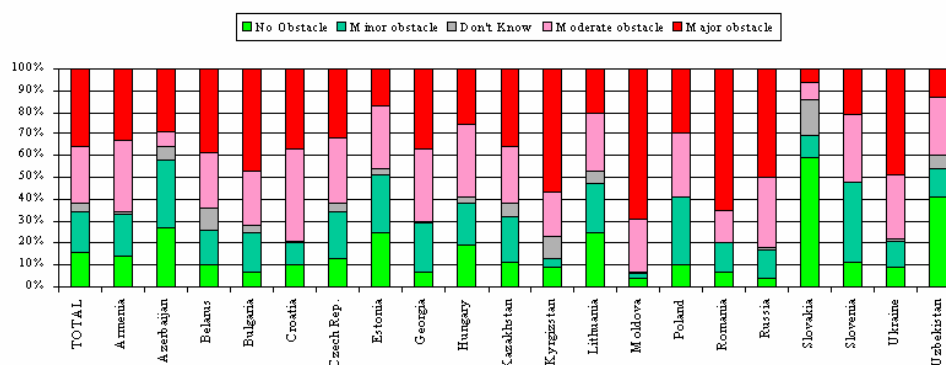


Policy Instability/ Uncertainty

Policy instability and uncertainty are regarded as a moderate or major obstacle by 62% of enterprises. Particularly high proportions take this view in Moldova (93%), Russia (82%), Romania (80%), Croatia (79%), Ukraine (78%) and Kyrgyzstan (77%).

At the other extreme, more than half of the enterprises surveyed in Slovakia (69%), Azerbaijan (58%), Uzbekistan (54%) and Estonia (51%) regard them as a minor obstacle, or no obstacle at all.

DEGREE TO WHICH POLICY INSTABILITY/ UNCERTAINTY IS PROBLEMATIC FOR OPERATION AND GROWTH OF BUSINESS



Exchange Rate

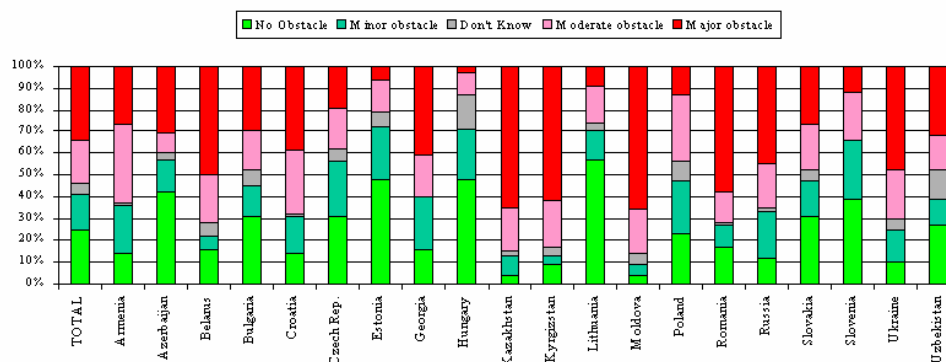
Exchange rates are a moderate or major obstacle for 54% of enterprises. Particularly high proportions of respondents take this view in Moldova (86%), Kazakhstan (85%), Kyrgyzstan (83%), Belarus and Romania (both 72%) and Ukraine (70%).

Overall, 41% feel that exchange rates are a minor or no obstacle; these views are most widespread in Estonia (72%), Hungary (71%) and Lithuania (70%).

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DEGREE TO WHICH EXCHANGE RATE IS PROBLEMATIC FOR OPERATION AND GROWTH OF BUSINESS



Corruption

Forty-three percent believe corruption to be a moderate or major obstacle while 47% of enterprises think it is a minor or no obstacle.

Those most likely to cite corruption as an obstacle are in Georgia (68%) and Kyrgyzstan (67%),

Street Crime/ Theft/Disorder

A marginally greater proportion believe street crime, theft and disorder to be a minor or no problem than think it is a moderate or major obstacle to the operation and growth of their business.

The most relaxed about the issue are respondents in Slovenia (where 81% think it is no or a minor obstacle), Armenia (75%), Hungary and Uzbekistan (both 67%)

At the other extreme, 77% of those in Kyrgyzstan and 71% of enterprises in Moldova perceive them to be moderate or major obstacles.



Anti-Competitive Practices by Government or Private Enterprises

Just under half of the total sample, 48%, feel that anti-competitive practices by Government or private enterprises are no obstacle or a minor obstacle for the operation and growth of their business. More than two-thirds of enterprise surveyed in Armenia (67%) and Estonia (76%) maintain these views.

Moldova shows the greatest proportion believing that it is a moderate or major obstacle, at 63% of the total. In many countries, however, significant proportions of enterprises decline to give a response to this question.

Impact of Other Activities

The majority of respondents report that their enterprise is not impacted at all, that the activity does not happen or that they simply do not know about seven further possible barriers to doing business. The average scores, on a scale of 1 (no impact) to 4 (very significant impact), and leaving out the “don’t knows” and “not applicables” are:

Patronage [public officials hiring their friends and relatives into official positions].....	1.9
Bribes to public officials to avoid taxes and regulations	1.9
The Central Bank mishandling of funds	1.7
Sale of Parliamentary votes on laws to private interests.....	1.7
Contributions by private interests to political parties and election campaigns	1.6
Sale of arbitration courts decisions to litigants	1.6
Sale of decisions of courts in criminal cases.....	1.5
Sale of Presidential decrees to private interests	1.5

Additional Taxes Prepared to Pay

On average, enterprises would be prepared to pay an additional 5% of their revenue of taxes if corruption were eliminated. Similar figures are found for eliminating crime or excessive regulations.

A high proportion of respondents felt unable to answer or would not pay anything. Fifty-six percent of enterprises respond like this over the elimination of corruption. In Belarus the proportion is 73%, in Croatia 70% and 72% in Hungary.



PERCEIVED QUALITY AND INTEGRITY OF PUBLIC SERVICES

Introduction

Respondents were asked to rate fourteen different public service providers for their overall quality and efficiency on a scale of very bad (1) to very good (6). Based on the mean scores given, the rank order of satisfaction across the sample is:

Postal service/agency	4.2
The telephone service/agency	4.1
The electric power company/agency.....	4.1
The Water/Sewerage Service/Agency	4.0
The Central Bank	3.8
The armed forces/military	3.8
Customs Service/Agency	3.7
Education services/Schools.....	3.7
Central Government leadership (President/PM/Cabinet)	3.4
The police.....	3.4
The judiciary/courts	3.2
Public Health Care Service/Hospitals	3.2
Roads Department/Public Works.....	3.1
The parliament	3.0

This section presents the results in greater detail.

Summary, by country

Four countries consistently give their public services and authorities better than average ratings, Croatia, Hungary, Slovenia and Uzbekistan.

Likewise, three, Armenia, Kyrgyzstan and Moldova give lower than average ratings.

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In general, the highest ratings at the country level are also awarded to the utilities. However:

- ☐ Estonia and Poland give their highest country ratings, of 4.6, to their central banks
- ☐ Armenia and Bulgaria give theirs to their armed forces
- ☐ Azerbaijan and Uzbekistan rate their central government leadership the highest

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	Postal Service/Agency	The Telephone Service/Agency	The Electric Power Company/Agency	The Water/Sewerage Service/Agency	The Central Bank	The armed forces/military	Customs Service/Agency	Education services/Schools	Central Government leadership (President/PM/Cabinet)	The Police	The judiciary/courts	Public Health Care Service/Hospitals	Roads Department/Public Works	The parliament
TOTAL	4.2	4.1	4.1	4.0	3.8	3.8	3.7	3.7	3.4	3.4	3.2	3.2	3.1	3.0
Armenia	3.5	3.5	3.8	3.3	3.2	4.2	2.9	3.0	2.9	3.5	3.0	3.0	2.5	2.6
Azerbaijan	3.4	3.6	3.6	3.4	3.7	3.1	3.7	3.0	4.5	3.0	3.5	2.7	3.2	3.7
Belarus	4.5	3.8	4.5	4.3	3.2	4.2	3.5	4.1	3.2	3.5	3.2	3.7	3.7	3.1
Bulgaria	4.1	3.9	3.9	3.9	4.0	4.4	3.9	4.2	3.7	3.9	3.6	3.3	1.8	3.1
Croatia	4.8	4.8	4.7	4.4	3.6	4.6	4.5	4.1	3.1	4.3	2.9	3.4	3.5	3.3
Czech Rep.	3.8	4.3	4.3	4.3	3.5	3.2	3.7	4.1	2.8	3.5	2.6	3.7	2.9	2.5
Estonia	4.5	4.5	4.5	4.3	4.6	3.5	4.1	3.8	4.0	3.2	3.6	3.6	2.7	3.6
Georgia	4.0	4.2	3.5	3.9	3.9	2.9	3.2	3.5	3.9	2.7	3.3	3.2	3.2	3.2
Hungary	4.5	4.6	4.8	4.5	4.1	4.3	3.9	4.2	3.1	4.0	3.6	3.8	3.5	2.7
Kazakhstan	4.0	3.8	4.0	4.1	3.6	3.2	3.1	3.4	3.3	2.9	3.1	2.9	2.7	2.9
Kyrgyzstan	3.7	3.7	3.7	3.8	2.9	2.9	2.8	3.2	3.1	2.6	3.0	2.8	2.6	2.9
Lithuania	4.6	4.3	4.6	4.0	4.0	4.3	3.4	4.3	3.6	3.5	3.1	3.5	3.9	2.7
Moldova	4.0	3.7	2.6	3.1	3.1	3.2	3.5	2.8	2.3	2.5	3.1	2.3	2.3	2.2
Poland	4.5	4.4	4.5	4.5	4.6	4.0	4.2	3.7	3.6	3.7	3.3	3.1	2.9	3.3
Romania	4.4	4.0	4.3	3.9	3.9	4.2	3.6	3.9	2.6	3.6	3.2	3.3	3.0	2.6
Russia	4.1	3.8	4.0	3.9	3.0	3.1	3.6	3.5	2.2	3.0	3.1	3.0	3.2	2.3
Slovakia	4.2	4.3	4.6	4.5	4.0	4.2	3.5	3.7	3.4	3.5	3.3	2.9	3.4	2.8
Slovenia	5.0	4.9	4.7	4.4	4.9	4.3	4.6	4.4	3.9	4.3	3.0	4.2	3.7	3.0
Ukraine	4.3	3.9	3.8	3.8	3.8	3.3	3.3	3.6	3.1	3.2	3.3	3.0	3.1	2.8
Uzbekistan	3.9	3.8	4.2	3.9	4.5	4.2	4.0	3.6	4.9	3.9	3.8	2.9	3.5	4.5

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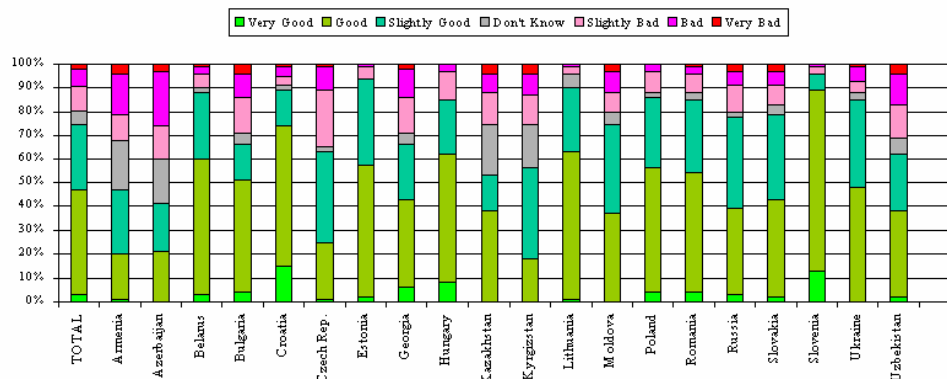


Postal Service/Agency

Nearly three-quarters of enterprises regard their postal service or agency as good in terms of quality and efficiency. Moreover, 89% of Slovenian enterprises, 74% of enterprises in Croatia, 62% of those in Hungary and Lithuania, 60% of enterprises in Belarus and 57% of those in Estonia rate it as good or very good, compared with 46% overall.

The highest proportions taking the opposite view were found in Azerbaijan and the Czech Republic, at 40% and 35% respectively, compared with 19% overall.

RATING OF QUALITY & EFFICIENCY OF POSTAL SERVICE/AGENCY



Telephone Service/Agency

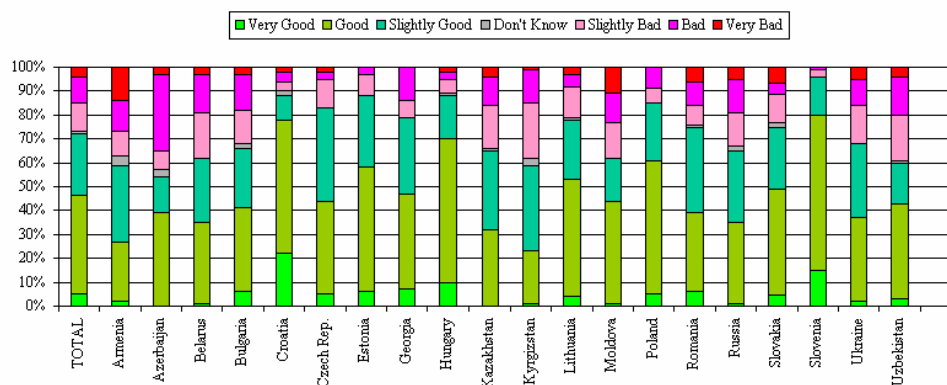
The pattern of satisfaction with the telephone service closely resembles the previous chart. Overall, 73% of enterprises rate the authority in their country as good, with high proportions in Slovenia (80%), Croatia (78%), Hungary (70%), Poland (61%) Estonia (58%) rating it as good or very good.

Overall, just over a quarter rated the overall quality and efficiency and efficiency of their telephone service/agency as bad. Relatively high levels of dissatisfaction were recorded in Azerbaijan (40%), Uzbekistan (39%) and Moldova (38%)

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RATING OF QUALITY & EFFICIENCY OF TELEPHONE SERVICE/AGENCY

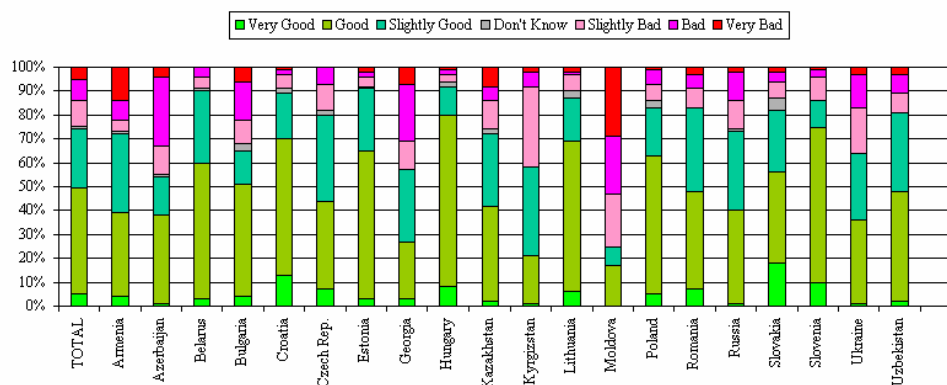


Electric Power Company/ Agency

Three quarters of respondents rate their electric power company/agency as good. Higher-than-average proportions rate them as good or very good in Hungary (80%), Lithuania (79%), Slovenia (75%), Croatia (70%), Estonia (65%) Poland (63%) and Belarus (60%).

The opposite view is most prevalent by far in Moldova, where 53% regard it as bad or very bad.

RATING OF QUALITY & EFFICIENCY OF ELECTRIC POWER COMPANY/AGENCY



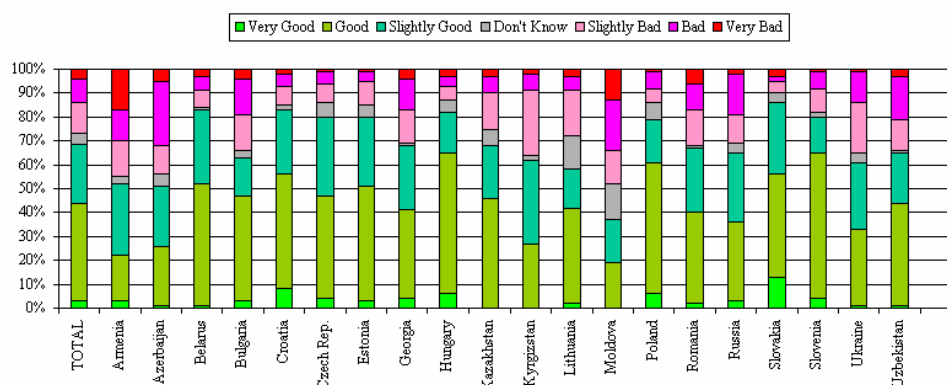
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Water/ Sewerage Company/ Agency

Overall, 69% of respondent enterprises rate the overall quality and efficiency of their water/sewerage company or agency as good. Enterprises in Hungary and Slovenia (both 65%), Poland (61%) Croatia and Slovakia (both 56%) are more likely to rate their local provider as good or very good than the average (of 44%)

RATING OF QUALITY & EFFICIENCY OF WATER/SEWERAGE COMPANY/AGENCY



The Central Bank

Just over half of enterprises, 52% overall, feel the overall quality and efficiency of their central bank to be good, but one-fifth of the total is unable to give an opinion.

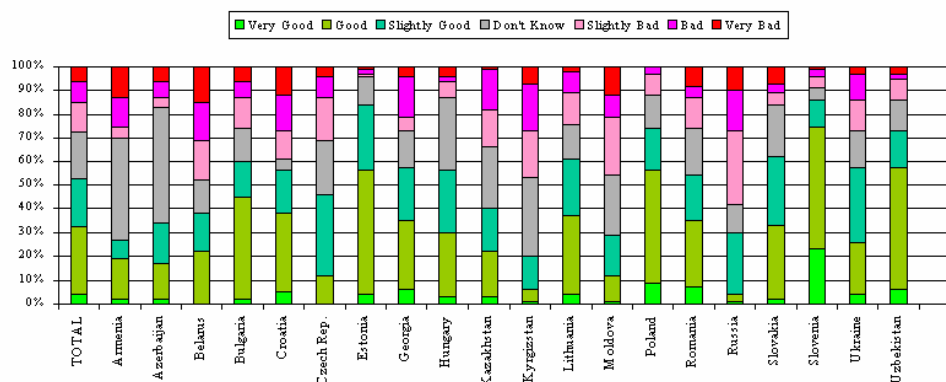
The most positive response were found from Slovenian and Estonian enterprises, where 86% and 84% respectively perceive their central banks to be good.

At the other extreme, 58% of enterprises feel the quality and efficiency of their central bank to be bad.

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RATING OF QUALITY & EFFICIENCY OF THE CENTRAL BANK



The Armed Forces/ Military

The high mean score given to this authority is offset by the high proportion of respondents, 36% of the total, who were unable to express a view. In Kyrgyzstan and Moldova, these represented a clear majority of respondents, at 64% and 61% respectively.

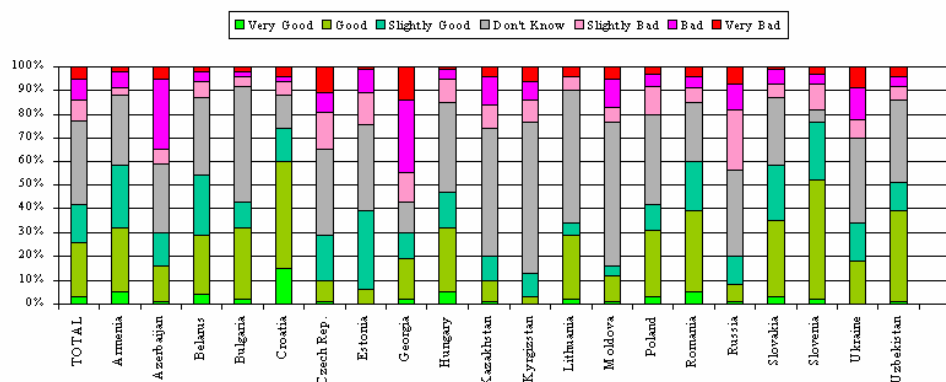
Overall 42% of enterprises believe the quality and efficiency of their armed forces to be good. The countries with the greatest proportions taking this view are Croatia (74%), Romania (60%) and Armenia (58%)

By contrast, 57% of Georgian enterprises and 43% of those in Azerbaijan feel them to be bad, compared with 23% overall.

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RATING OF QUALITY & EFFICIENCY OF THE ARMED FORCES/MILITARY



Education Services/ Schools

Fifty-six percent of respondents feel the overall quality and efficiency of their education services and schools to be good, with one third taking the opposite view.

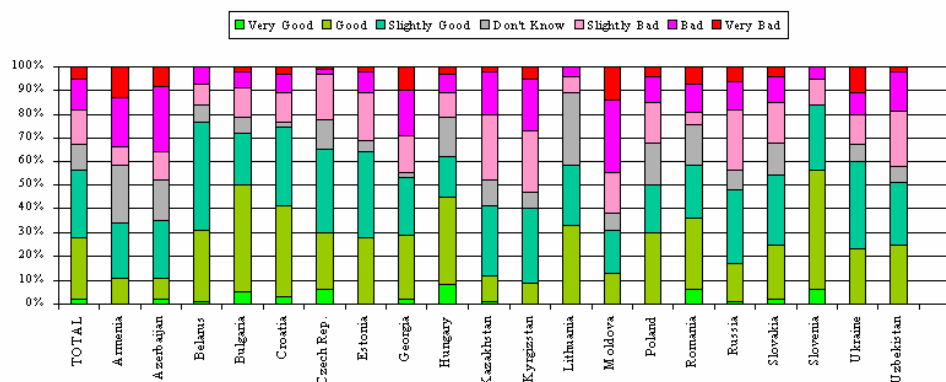
Differences of opinion varied from country to country:

- 84% of respondents in Slovakia, 77% in Belarus, 75% in Croatia and 72% in Bulgaria feel the overall quality and efficiency of education services is good
- 62% of enterprises in Moldova and 53% in Kyrgyzstan perceive it to be bad

Continued on next page



RATING OF QUALITY & EFFICIENCY OF EDUCATION SERVICES/SCHOOLS



Customs Service/ Agency

Overall 42% of respondents regard the customs service as good, 28% feel it is bad and the remainder do not know. Clearly, respondents' ability to answer this question depends on whether they have dealt with this department. While only 7% of those who export their goods and services did not know how good they are, amongst non-exporters the figure climbs to 38%.

The highest ratings came in Croatia, Estonia and Slovenia, where 66%, 68% and 85% of enterprises respectively rate it as good, to some degree.

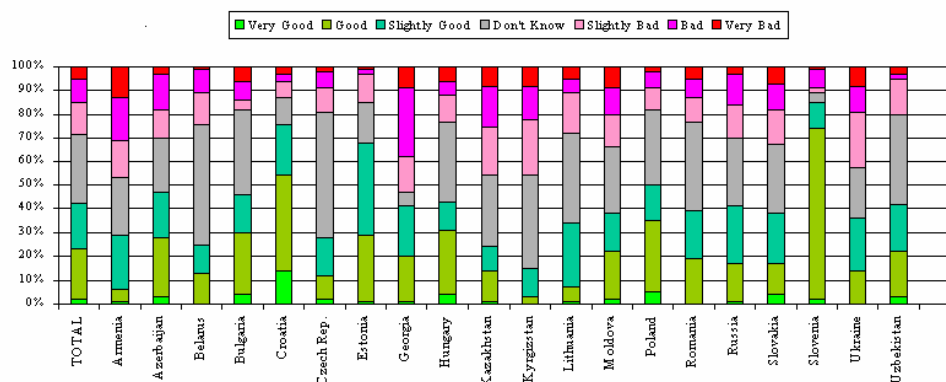
The most negative view comes from Georgia, where 53% of enterprises rate it as bad.

In Belarus and the Czech Republic, a high proportion of enterprises, 51% and 53% respectively, reported that they did not know.

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RATING OF QUALITY & EFFICIENCY OF CUSTOMS SERVICE/AGENCY



Central Government Leadership (President/PM/ Cabinet)

Overall, 42% of respondents feel the overall quality and efficiency of their central government leadership is good, and 43% feel it to be bad.

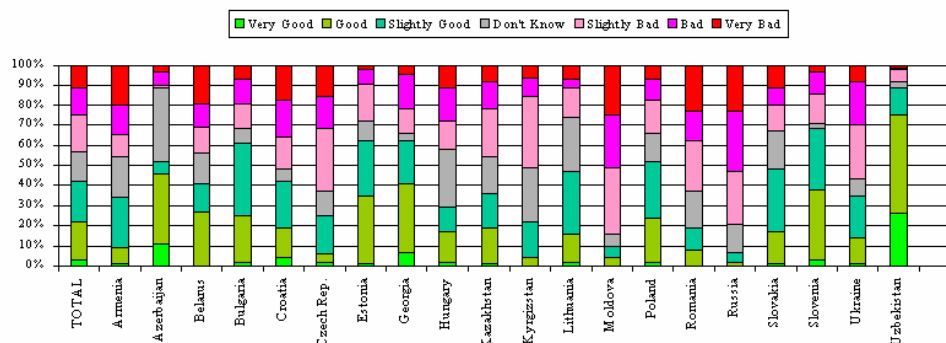
The most positive respondents are to be found in Uzbekistan, where 89% state their quality to be good, Slovenia (65%) Estonia and Georgia (both 62%) Bulgaria (61%)

Eighty-four percent of respondents in Moldova and 79% of those in Russia give their central government a negative rating, while 63% of Czech and Romanian enterprises feel it to be bad.

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RATING OF QUALITY & EFFICIENCY OF CENTRAL GOVERNMENT LEADERSHIP (President/PM/Cabinet)



The Police

In total, enterprises' views on the police are finely balanced. Forty-six percent feel their overall quality and efficiency to be good, with 45% taking the opposite view.

Those most positively disposed towards their police force are respondents in:

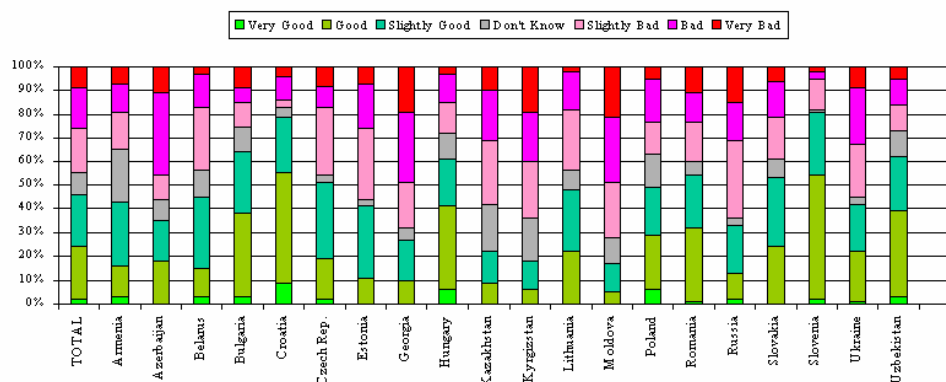
- Slovenia, 81% of whom feel they are good
- Croatia (79%)
- Bulgaria (66%)

By contrast, 72% of Moldavian enterprises, 68% of those in Georgia and 64% in Kyrgyzstan believe their overall quality to be bad.

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RATING OF QUALITY & EFFICIENCY OF THE POLICE

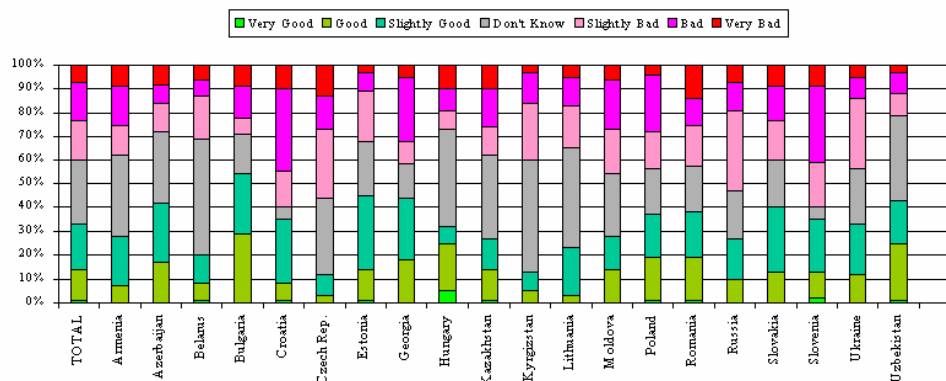


Judiciary/The Courts

More respondents regard the quality and efficiency of the courts to be bad than good, at 40% compared with 33%.

Most positive are respondents in Bulgaria, where 54% believe them to be good. By contrast, 60% of enterprises in Croatia and Slovenia, 56% of those in the Czech Republic and 53% of those in Russia feel they are bad.

RATING OF QUALITY & EFFICIENCY OF JUDICIARY/THE COURTS



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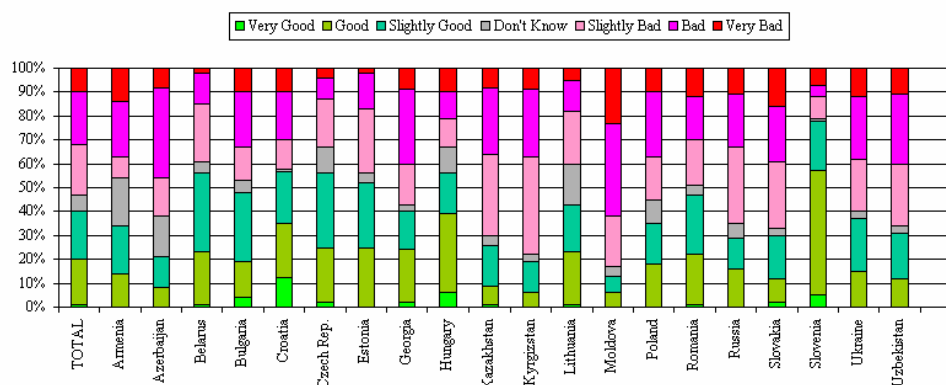
Public Health Care/ Hospitals

Just over half of the total sample, 53%, feel the quality and efficiency of public health care and hospitals is bad.

The responses to this question showed clear regional variations; the most positive responses were found in Slovenia (where 78% feel the quality and efficiency of public health care and hospitals is good), Hungary (56%), the Czech Republic (55%), Croatia and Estonia (both 52%).

By contrast, 83% of respondents in Moldova, 76% in Kyrgyzstan and 70% in Kazakhstan feel it to be bad. The lowest performance in Central Europe came from Slovakia, where two-thirds believe the quality and efficiency to be bad.

RATING OF QUALITY & EFFICIENCY OF PUBLIC HEALTH



Road Department/ Public Works

Fifty-four percent of enterprises regard the overall quality and efficiency of their roads or public works department to be bad.

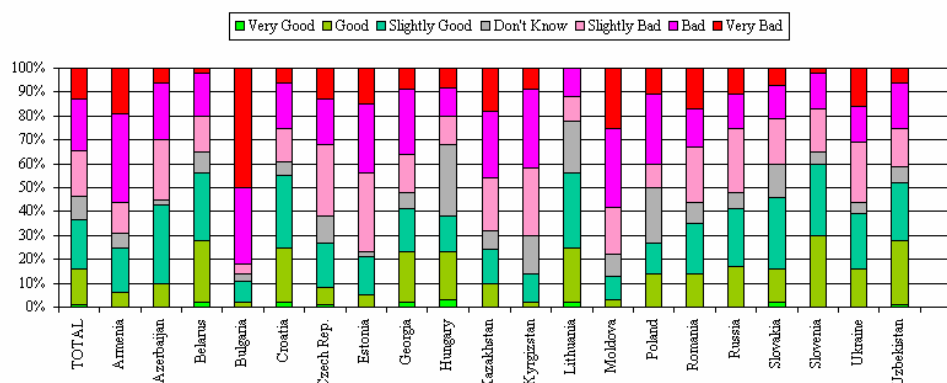
The most extreme views come from Bulgaria, where 50% of enterprises believe it to be very bad. In addition, 58% of enterprises in Moldova and 56% of those in Armenia rate them as bad or very bad.

By contrast, 60% of enterprises in Slovenia, 56% of enterprises in Belarus and Lithuania, 55% of those in Croatia and 52% of those in Uzbekistan believe it to be good.

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RATING OF QUALITY & EFFICIENCY OF ROADS DEPARTMENT/PUBLIC WORKS



The Parliament Just over half of respondents, 54% of the total, feel the quality and efficiency of their parliament (or other elected body) to be bad.

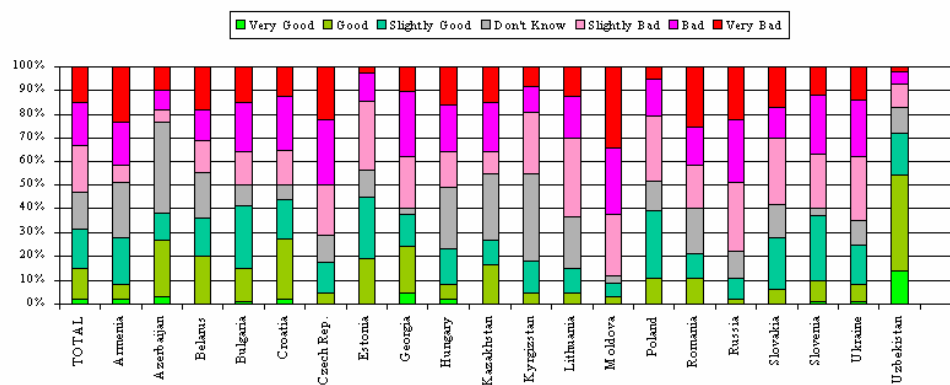
The only country where a majority felt they were good is in Uzbekistan

In the Czech Republic, three-quarters feel their parliament to be bad, a much higher proportion than in the neighbouring countries of Hungary (47%), Poland (42%) or Slovakia (58%). The Moldavian parliament has the worst rating of all, with 89% of enterprises regarding them as bad.

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RATING OF QUALITY & EFFICIENCY OF THE PARLIAMENT





THE REGULATORY ENVIRONMENT

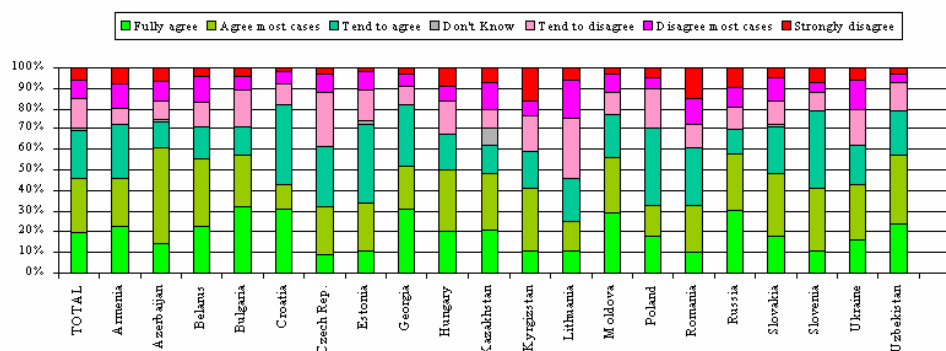
Introduction

Ease of Obtaining Information

Overall, 72% of private-sector enterprises agree that *information on the laws and regulations affecting my firm is easy to obtain*. The most positive response is from Russian enterprises, where 61% fully agreed or agreed in most cases, compared with 46% overall.

Fifty-four percent of Lithuanian enterprises disagreed.

AGREEMENT WITH STATEMENT: *Information on laws and regulations affecting my firm is easy to obtain*



Consistency and Predictability of Interpretation of Regulations

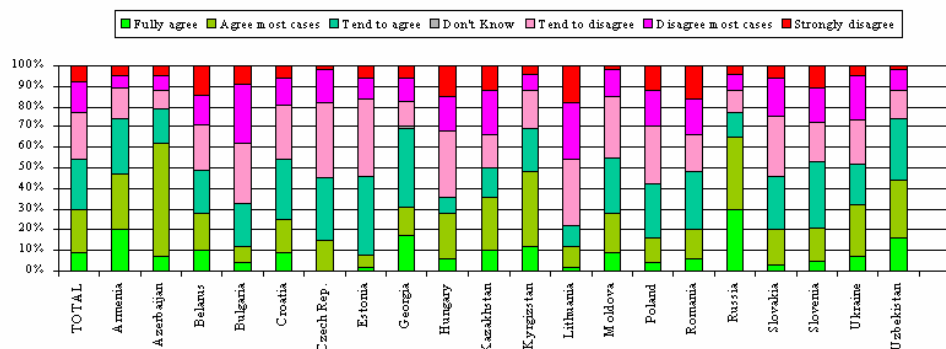
A lower proportion, 54%, agree that *Interpretations of regulations affecting my firm are consistent and predictable*. High agreement is reported from Azerbaijan (79%), Russia (77%), Armenia and Ukraine (both 74%).

The proportion of enterprises disagreeing is higher than the average of 46% in Lithuania where 78% disagreed), Bulgaria (67%) and Hungary (64%).

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AGREEMENT WITH STATEMENT:
*Interpretation of regulations affecting my firm are consistent
and predictable*



**Comparison
with 3 years
ago**

The proportion of respondents unable to give an answer (because they were not in business three years ago) makes it hard to say whether *Interpretations of regulations affecting my firm* are more or less *consistent and predictable* than then.

In general, there has been no significant movement.

**Relative
Importance of
Regulatory
Barriers**

Respondents were asked to list which of eight areas is the most important obstacle for their business. In rank order, the responses were:

High taxes	66%
Tax regulations/administration	20%
Customs/Foreign Trade Regulations in this country.....	3%
Business Licensing.....	3%
Labor regulations	2%
Foreign currency/exchange regulations	2%
Environmental regulations	1%
Fire, safety regulations.....	1%
Don't know	1%

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High taxes, followed by tax regulations and administration, were the top two answers in all 20 countries

Degree of Problem

Respondents also rated these elements on a scale from no obstacle (1) to a major obstacle (4). The table below sets out the average scores given.

These confirm the responses of the previous table, that, for the majority of respondents in virtually all countries, high taxes and tax regulations and administration are moderate or major obstacles.

	High taxes	Tax regulations /administration	Customs/ Foreign Trade Regulations	Business Licensing	Labor regulations	Foreign currency/ exchange regulations	Environmental regulations	Fire, safety regulations
TOTAL	3.5	3.0	2.1	2.0	1.8	1.8	1.8	1.8
Armenia	3.5	3.0	1.9	1.7	1.1	1.8	1.6	1.2
Azerbaijan	3.3	2.7	2.1	2.1	1.9	1.9	2.0	2.1
Belarus	3.7	3.2	1.9	2.3	1.7	2.6	1.8	1.7
Bulgaria	3.3	2.7	1.9	2.1	1.9	1.6	1.7	1.6
Croatia	3.7	2.9	1.9	1.6	2.0	1.9	2.0	2.0
Czech Republic	3.5	3.2	1.9	1.9	2.2	2.1	1.9	1.9
Estonia	2.9	2.5	1.7	1.5	1.8	1.1	1.7	1.7
Georgia	3.7	3.0	2.1	2.1	1.8	1.6	1.9	1.8
Hungary	3.6	2.9	1.9	2.2	2.0	1.7	1.9	1.6
Kazakhstan	3.8	3.0	2.2	2.2	1.4	1.7	1.9	1.8
Kyrgyzstan	3.9	3.3	2.8	2.0	1.4	1.6	1.6	1.6
Lithuania	3.6	3.0	2.1	2.3	2.3	1.2	1.7	1.8
Moldova	3.7	3.3	2.3	2.6	1.7	1.9	1.9	1.8
Poland	3.5	3.0	2.3	1.3	2.5	1.9	2.1	2.1
Romania	3.7	2.9	2.3	1.9	1.8	2.0	1.6	1.5
Russia	3.7	3.3	1.9	2.0	1.8	1.8	1.9	1.9
Slovakia	3.4	3.0	2.1	1.8	1.9	1.6	1.9	1.9
Slovenia	3.3	2.7	1.8	1.5	2.4	1.8	1.9	1.6
Ukraine	3.8	3.4	2.5	2.5	1.9	2.3	2.3	2.1
Uzbekistan	3.0	2.4	2.1	1.9	1.5	2.7	1.7	1.5

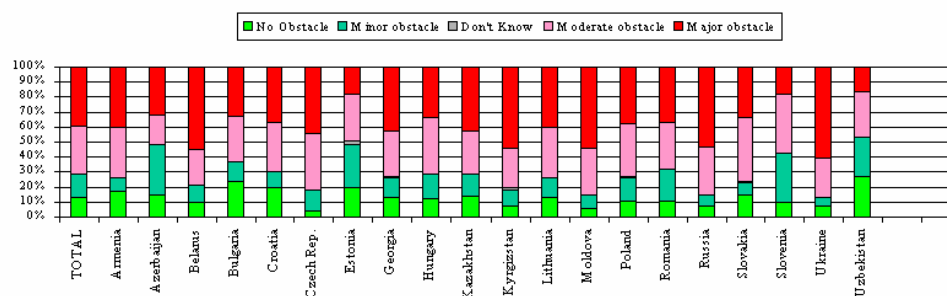
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Tax Regulations/ Administration

Thirty-two percent of respondents regard tax regulations and administration in their country as being a moderate obstacle for firms such as theirs and a further 39% feel it to be a major obstacle. The proportion taking this most extreme view is highest, at 61%, in Ukraine.

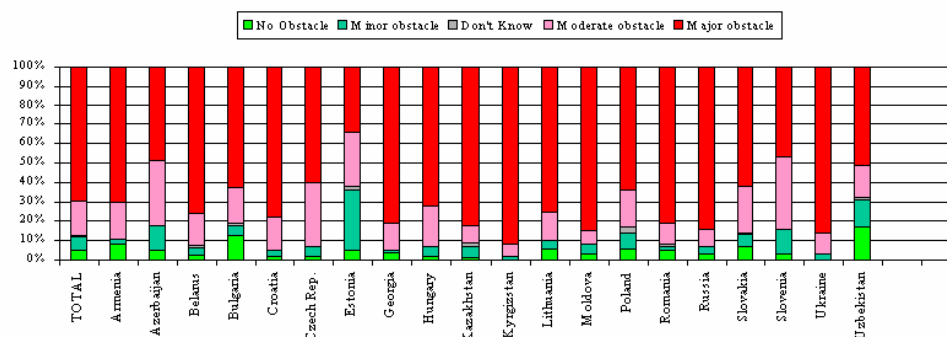
DEGREE TO WHICH TAX REGULATIONS/ADMINISTRATION IS PROBLEMATIC FOR OPERATION AND GROWTH OF BUSINESS



Level of Taxation

Seventy percent of respondents across the region regard high taxes as a major obstacle. The lowest proportions taking this view were found in Estonia (34%), Slovakia (47%) and Azerbaijan (49%).

DEGREE TO WHICH HIGH TAXES ARE PROBLEMATIC FOR OPERATION AND GROWTH OF BUSINESS



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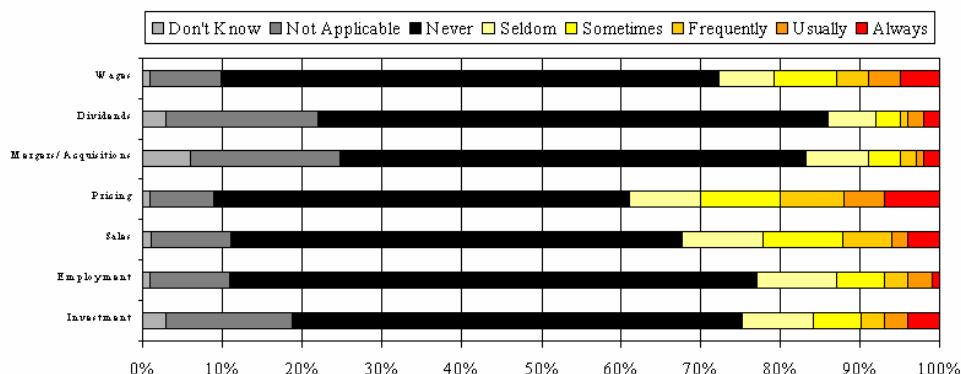


Government Intervention on Policy Decisions

The great majority of respondents perceive their government to operate a laissez-faire policy with regard to their enterprises' policy decisions. The only countries where the converse holds true are:

- Belarus, where 89% perceive the government intervenes at some point on decisions on pricing – 56% reporting it always happens, 73% on sales, 28% always
- Slovakia, where 64% perceive the government intervenes at some point on decisions on wages and pricing, 57% on sales, 54% on investment and 51% on employment
- Moldova, where 62% perceive the government intervenes at some point on decisions on pricing
- Uzbekistan, where 61% perceive the government intervenes at some point on decisions on pricing
- Ukraine, where 60% perceive the government intervenes at some point on decisions on pricing
- Hungary, where 55% perceive the government intervenes at some point on decisions on wages

INCIDENCE OF GOVERNMENT INTERVENTION IN POLICY DECISIONS



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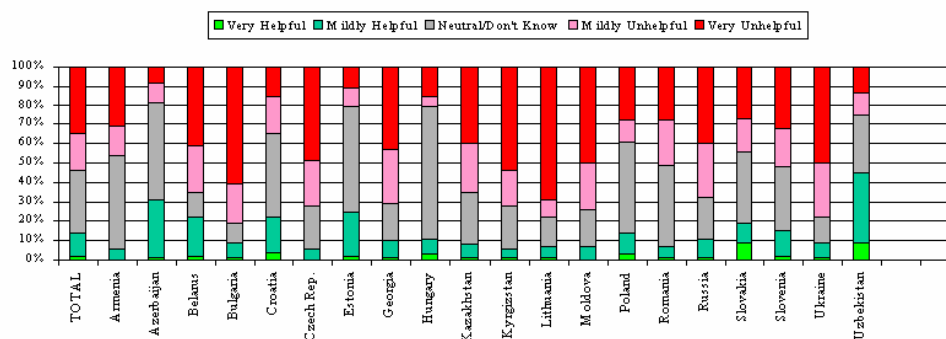
Helpfulness of Local/National Government

Fifty-two percent of enterprises believe that central/national government is mildly or very unhelpful towards businesses like theirs. Only 14% feel it is actually helpful.

The highest proportions regarding their central/national government as unhelpful are found in Bulgaria (81%), Lithuania and Ukraine (both 78%). In no country does a majority feel that their central/national government is actually helpful towards businesses like theirs.

The proportion reporting that central/national government is helpful three years ago is higher in Hungary (19% compared with 11%), Kazakhstan (17% cf. 8%) and Kyrgyzstan (12% cf. 6%) than it is now.

HELPFULNESS OF CENTRAL AND NATIONAL GOVERNMENT TOWARDS BUSINESS LIKE RESPONDENT'S



Helpfulness of Local Government

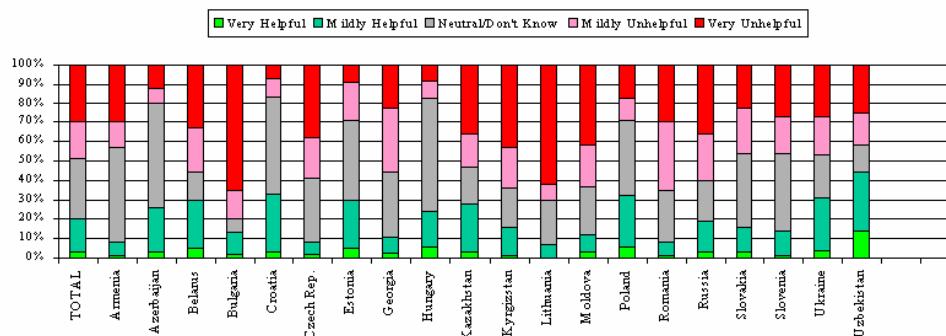
Local government performs mildly better. Forty-nine percent believe it is unhelpful, 20% feel it is helpful and 31% are neutral or have no opinion.

Seventy percent of Bulgarian enterprises regard local government as being unhelpful, as do 70% of those in Lithuania.

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HELPLEFULNESS OF LOCAL/REGIONAL GOVERNMENT TOWARDS BUSINESS LIKE RESPONDENT'S



“Red Tape”

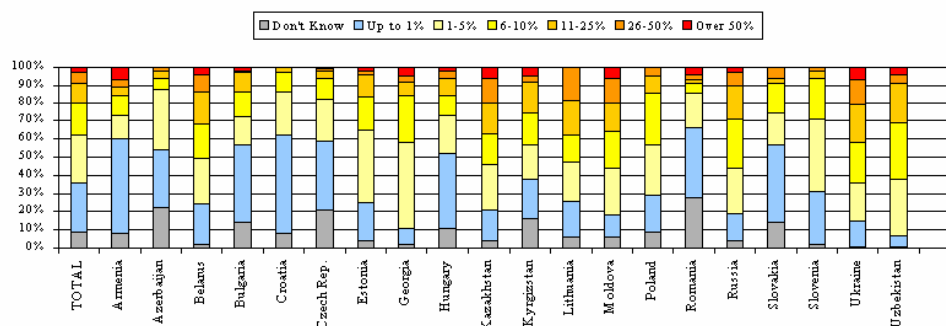
Twenty percent of enterprises state that their senior managers spend at least 10% of their time dealing with government officials about the applications and interpretation of laws and regulations.

The highest proportions of enterprises spending over 10% of senior management time on these issues are found in Uzbekistan (42%), Lithuania (38%), Kazakhstan (37%) and Moldova (36%). By contrast, the least amount of “red tape” (measured by the proportion reporting that senior management spends less than 1% of their time each year on these matters) is found in Croatia (54%) and Armenia (52%).

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PERCENTAGE OF SENIOR MANAGEMENT TIME SPENT DEALING WITH GOVERNMENT OFFICIALS ABOUT THE APPLICATION & INTERPRETATION OF LAWS & REGULATIONS

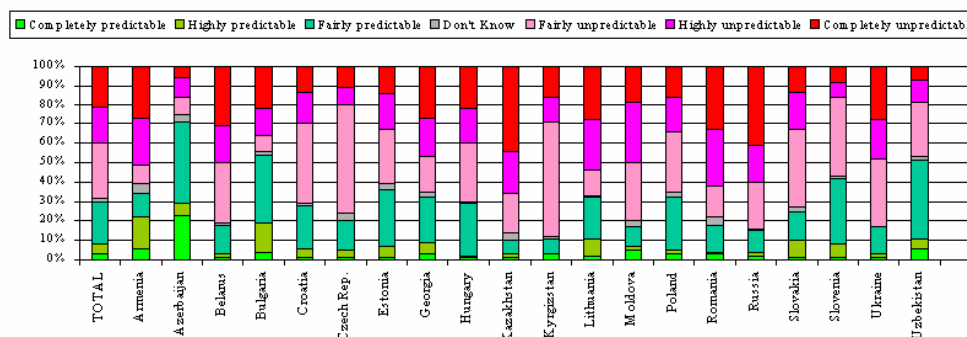


Predictability of Changes in Government Policy

Only 29% of enterprises report that changes in the government's economic and financial policies that materially affect their business are fairly, highly or completely predictable.

Respondents in Azerbaijan (71%) gave the highest ratings.

PREDICTABILITY OF CHANGES IN GOVERNMENT ECONOMIC & FINANCIAL POLICIES



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Change In Predictability

Respondents were asked the extent to which have the laws, regulations and policies affecting their business have become more or less predictable over the past three years.

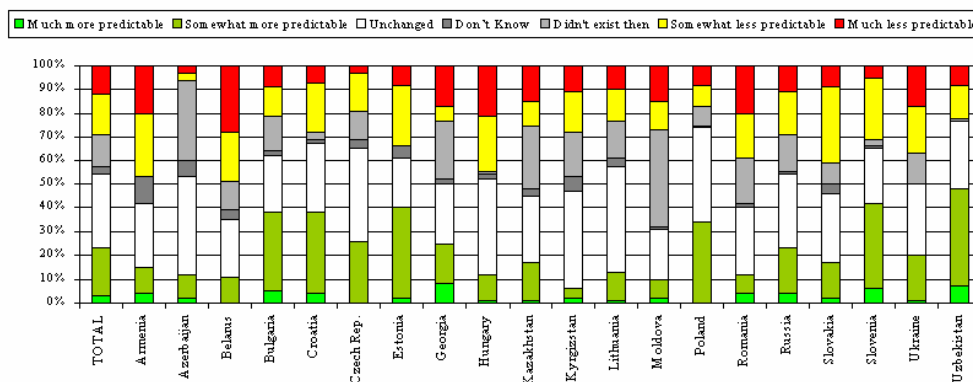
Overall, 23% say they have become more predictable and 29% say they are now less predictable; the remainder believes they have stayed the same, or they cannot comment (mainly because their firm was not in business three years ago).

The countries where the perception tends to be one of growing unpredictability are:

- Belarus, where 49% of enterprises perceive laws and regulations are becoming less predictable and only 11% feel they are becoming more so;
- Armenia, at 47% and 15%
- Hungary, at 45% and 12%
- Slovakia, at 41% and 11%

Perceptions of growing predictability are strongest in Uzbekistan (where 48% of enterprises perceive laws and regulations are becoming more predictable and 22% feel they are becoming more so) and Slovenia (at 42% and 31%), but there is greater polarisation of views in these countries.

EXTENT TO WHICH LAWS, REGULATIONS & POLICIES CHANGED OVER PAST 3 YEARS



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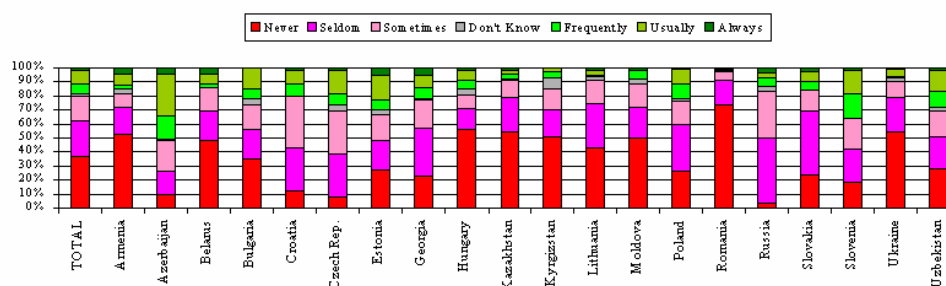


Government Notification

Sixty two percent of respondents say it is never or seldom true that *the process of developing new rules, regulations or policies is usually such that businesses are informed in advance of changes that will affect them.*

The most extreme exception to this pattern is in Azerbaijan, where 51% of enterprises report they frequently, usually or always are given advance notification of changes in regulations.

TRUTHFULNESS OF STATEMENT: *The process of developing new rules, regulations or policies is usually such that businesses are informed in advance of changes that will affect them*



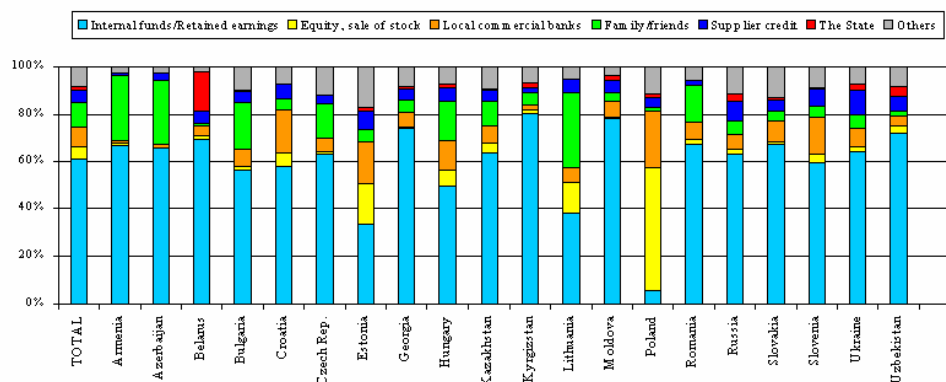
Government Consultation

Governments generally perform even worse in response to the statement *in case of important changes in laws or policies affecting my business operation the government takes into account concerns voiced either by me or by my business association.* Overall, 49% of respondents feel it is never true and a further 6% do not know; over three-quarters of respondents gave one of these two answers in Romania.

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ESTIMATED DISTRIBUTION OF SOURCES OF FIRM'S FIXED INVESTMENTS

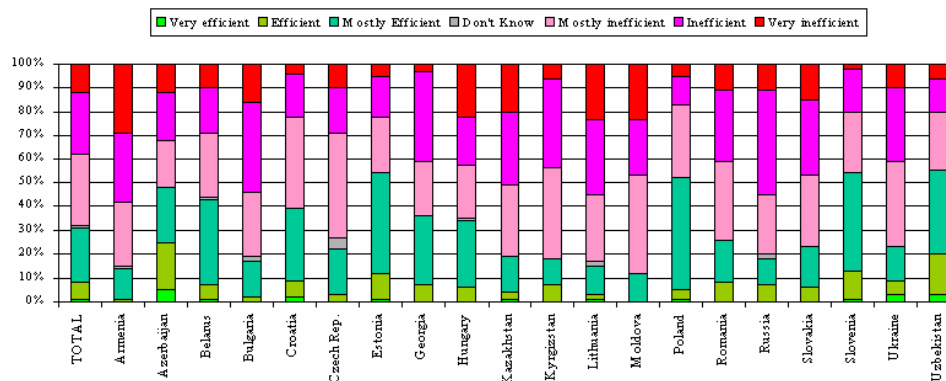


Overall Rating of The Government

Enterprises were asked to rate the government for its efficiency in delivering services. Sixty-eight percent feel it is inefficient.

The only countries where a majority feel that government is efficient are Uzbekistan (55%), Estonia and Slovenia (both 54%) and Poland (51%)

RATING OF EFFICIENCY OF THE GOVERNMENT IN DELIVERING SERVICES





ATTITUDES TO THE LEGAL SYSTEM

Introduction

Image of the Court System

Overall the majority do not frequently, usually or always associate the phrases *fair and impartial*, *honest/uncorrupted*, *quick*, *affordable*, *consistent/reliable* or *able to enforce its decisions* with their country's court system. The only countries where a majority of enterprises have a positive view of their country's court system are:

- ☐ Slovenia, where 75% believe it is *able to enforce its decisions*, 67% believe it is *fair and impartial*, 59% think it is *consistent/reliable* and 58% think it is *honest/uncorrupted*
 - ☐ Bulgaria, where 67% think it is *able to enforce its decisions*
 - ☐ Uzbekistan, where 65% think it is *able to enforce its decisions* and 64% perceive it to be *affordable*
 - ☐ Estonia, where 51% believe it is *fair and impartial*
-

Support of The Legal System For Property Rights

The proportion agreeing and disagreeing with the statement *I am confident that the legal system will uphold my contract and property rights in business disputes* is finely balanced, at 51% and 49% of the sample respectively.

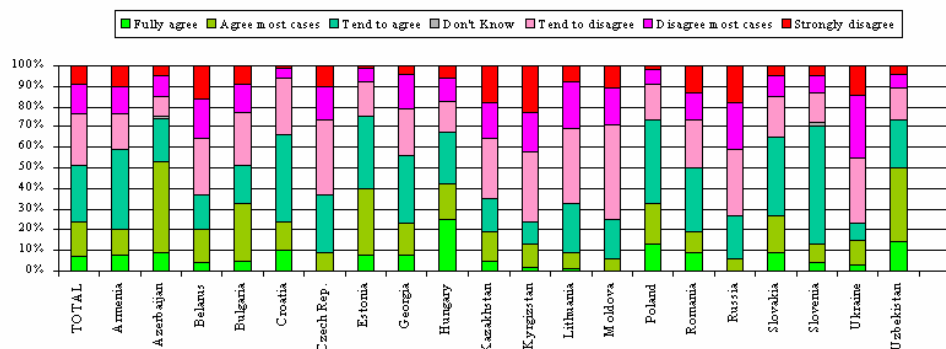
The “confident” enterprises were most commonly found in Estonia (75% of the sample), Poland and Uzbekistan (both 73%), Slovenia (70%), Hungary (67%), Croatia (66%), Slovakia (65%) and Azerbaijan (64%)

The “unconfident” countries, in terms of highest proportions disagreeing with the above statement, are Ukraine (77%), Kyrgyzstan (76%), Moldova (75%), Russia (73%), Lithuania (67%), Kazakhstan (65%), Belarus and the Czech Republic (both 63%).

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AGREEMENT WITH STATEMENT:
*I am confident that the legal system will uphold my contract
and property rights in business disputes*



**Comparison
with 3 Years
Ago**

The proportion unable to comment on the situation three years ago means that, for most countries it is not possible to say if the support offered by the legal system is perceived to be getting better or worse.

In Estonia, however, 43% would have disagreed with the above statement, compared with the 25% that actually do so today, indicating that confidence in the Estonian legal system has increased.



ATTITUDES TO THE BANKING SYSTEM

Introduction

Biggest Financial Obstacle for Firm's Business

The biggest financial obstacle for the firm's business is believed to be that of high interest rates. Forty-five percent of respondents picked this from a list of twelve possible financial obstacles.

The proportion giving this as the biggest obstacle is highest in Kyrgyzstan (72%), Armenia and Moldova (both 64%) and Slovakia (61%) but it is the most commonly listed obstacle in most countries.

Twenty-eight percent of Bulgarian enterprises are most likely to nominate the collateral requirements of banks and financial institutions as the biggest obstacle they face. A relatively high proportion of Polish enterprises, 26%, do so, compared with 9% of firms across the sample.

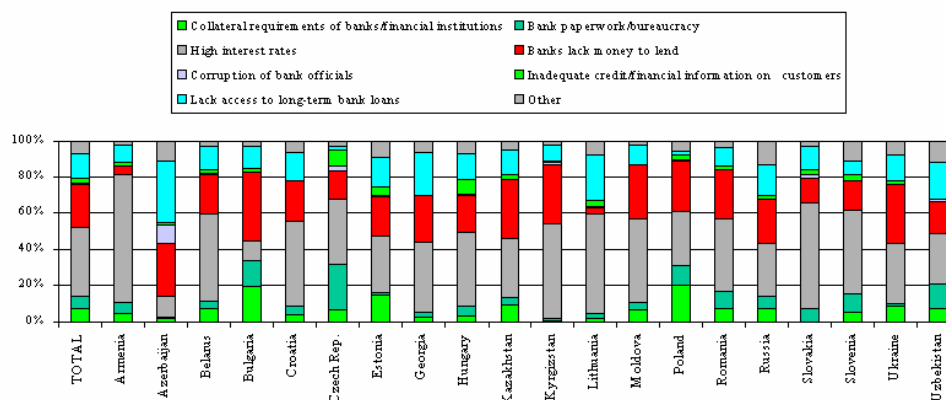
Lack of access to long-term bank loans is the second most commonly given answer, by 17% of respondents. It seems particularly problematic in Azerbaijan and Georgia, where 37% and 30% respectively list it as the biggest financial obstacle.

In Azerbaijan, a higher proportion cites the fact that banks lack money to lend, 21%, than high interest rates (12%). Overall, lack of money to lend was listed by 5% of enterprises.

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BIGGEST FINANCIAL OBSTACLE FOR FIRM'S BUSINESS



Relative Scale of Financial Obstacles

Respondents rated each potential obstacle on a scale from 1 (no obstacle) to 4 (major obstacle). The mean scores are set out below.

Armenia is the most positive about its financial system, recording significantly lower scores than enterprises in any other country. At the same time, enterprises in Azerbaijan, Croatia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Romania and Ukraine tend to regard all aspects of their country's financial apparatus as more of an obstacle than do their counterparts in other countries.

Some of these mean scores are misleading, in that relatively high proportions of respondents had no opinion either way. Issues on which at least 20% of the sample had no view are:

- ☐ Lack of access to specialised export finance (36%)
- ☐ Lack of access to non bank equity/investors/partners (26%)
- ☐ Lack of access to foreign banks (26%)
- ☐ Corruption of bank officials (24%)
- ☐ Lack of access to lease finance for equipment (23%)
- ☐ Inadequate credit/financial information on customers (20%)

These respondents were not included in the calculation of the mean scores

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	High interest rates	Lack access to long-term bank loans	Collateral requirements of banks/financial institutions	Bank paperwork/ bureaucracy	Banks lack money to lend	Inadequate credit/financial information on customers	Lack access to lease finance for equipment	Lack access to non bank equity/investors/ Partners	Need special connections with banks/financial institutions	Corruption of bank officials	Lack access to foreign banks	Lack access to specialised export finance
TOTAL	3.3	2.8	2.5	2.5	2.3	2.2	2.2	2.2	2.2	1.9	2.1	2.1
Armenia	2.8	1.6	1.4	1.5	1.4	1.4	1.2	1.2	1.3	1.1	1.3	1.0
Azerbaijan	3.1	3.4	2.7	2.5	3.2	2.8	2.8	2.9	2.8	2.9	2.9	2.8
Belarus	3.4	2.6	2.4	2.3	2.3	1.7	1.8	1.5	1.7	1.3	1.8	1.3
Bulgaria	2.7	3.0	3.1	3.3	2.3	2.1	2.0	1.8	2.5	2.2	2.2	2.2
Croatia	3.7	3.3	2.4	2.8	2.7	2.5	2.7	2.3	2.5	1.8	2.3	2.8
Czech Republic	3.0	1.9	2.5	2.9	2.5	2.4	1.8	1.8	2.0	2.1	1.9	1.5
Estonia	3.1	2.5	2.4	1.8	2.0	1.8	1.5	2.0	1.9	1.5	2.1	1.7
Georgia	3.6	3.2	2.4	2.4	2.4	2.3	2.6	2.4	2.6	2.1	2.9	2.5
Hungary	3.0	2.5	2.3	2.3	1.5	2.1	1.6	1.9	2.1	1.5	1.7	1.5
Kazakhstan	3.5	3.2	2.9	2.6	2.2	2.4	2.8	2.5	2.3	2.0	2.1	2.4
Kyrgyzstan	3.8	3.5	3.2	3.0	3.0	2.6	2.7	2.2	2.6	2.8	2.1	2.6
Lithuania	3.3	2.7	1.8	2.0	1.7	2.2	2.4	2.2	2.2	2.3	2.4	1.9
Moldova	3.8	3.1	2.9	2.8	2.8	2.5	2.8	2.7	2.6	2.2	2.4	2.7
Poland	3.4	2.2	2.9	3.1	1.3	2.2	1.7	2.2	2.0	1.5	1.7	2.2
Romania	3.8	3.4	3.1	2.9	2.6	2.4	3.0	2.3	2.3	2.1	2.3	2.2
Russia	3.0	2.9	2.4	2.4	2.0	2.2	2.4	2.1	2.1	1.7	2.1	2.0
Slovakia	3.4	3.1	2.0	2.4	2.9	2.4	1.7	2.5	2.1	2.0	2.1	2.3
Slovenia	3.3	2.3	2.4	2.6	1.6	2.1	2.0	2.1	1.9	1.3	1.9	2.1
Ukraine	3.6	3.4	3.0	2.7	2.9	2.7	3.0	2.8	2.4	2.1	2.7	2.7
Uzbekistan	3.0	3.0	2.2	2.4	2.3	1.9	2.4	1.9	1.9	1.8	1.9	2.2

Below we discuss in greater detail the distribution of responses to the four most critical responses.

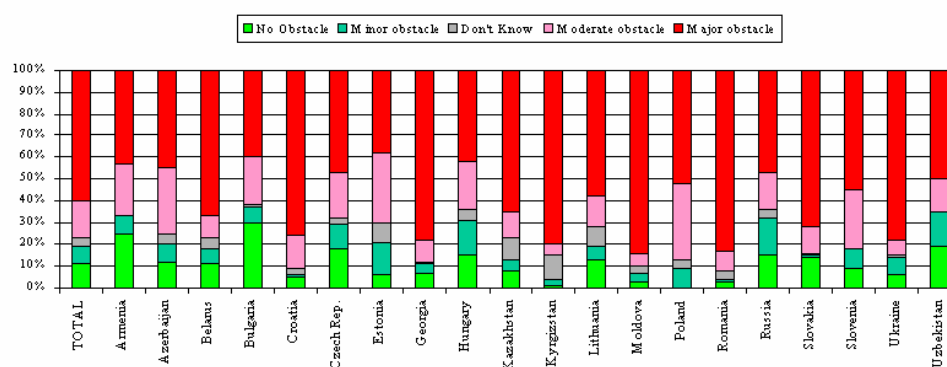
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High Interest Rates

Over three-quarters, 77%, of enterprises regard high interest rates as a moderate or major obstacle to the operation and growth of their business. The proportion is in excess of 60% in every country.

DEGREE TO WHICH HIGH INTEREST RATES ARE PROBLEMATIC FOR OPERATION AND GROWTH OF BUSINESS



Lack Of Access To Long-Term Bank Loans

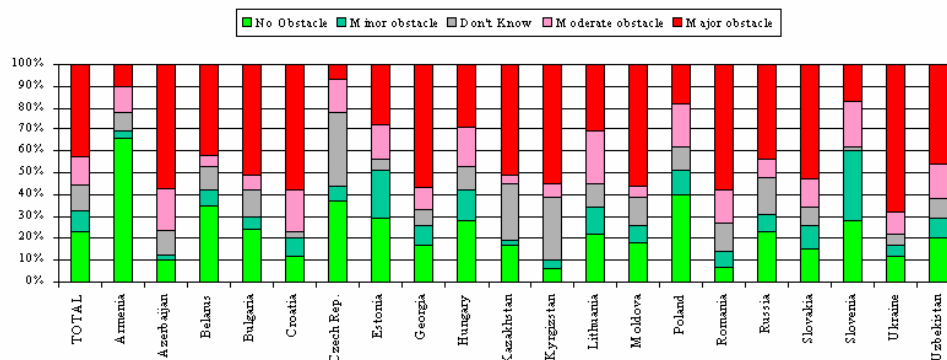
Fifty-five percent of enterprises regard lack of access to long-term bank loans as a moderate or major obstacle to the operation and growth of their business. Overall, 42% report it as being a major obstacle.

The proportion regarding it as a major or moderate obstacle is particularly high in Azerbaijan (81%), Ukraine (78%), Croatia (77%) and Romania (73%).

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DEGREE TO WHICH LACK OF ACCESS TO LONG-TERM BANK LOANS IS PROBLEMATIC FOR OPERATION AND GROWTH OF BUSINESS

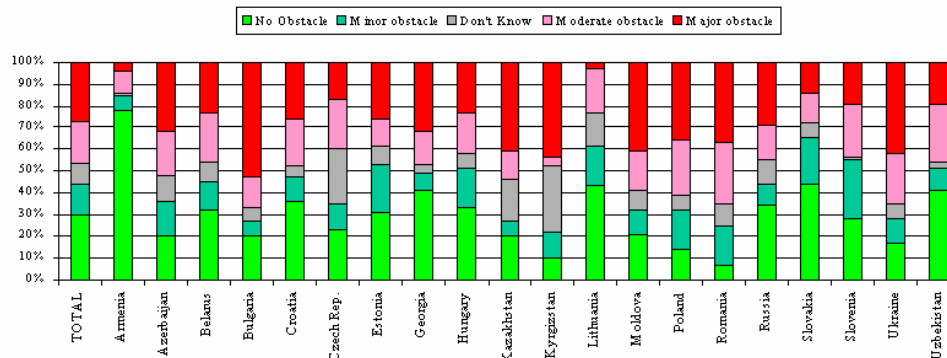


Collateral Requirements of Banks/ Financial Institutions.

Overall, 47% of respondents regard this as a moderate or major obstacle and 44% as a minor obstacle or none whatsoever.

The greatest proportions regarding the collateral requirements of banks and financial institutions as a moderate or major obstacle are found in Bulgaria (67%), Romania and Ukraine (both 65%) and Poland (61%). The most positive on this are enterprises in Armenia, where 85% report it is only a minor obstacle, or no obstacle, Slovakia (65%) and Lithuania (61%).

DEGREE TO WHICH COLLATERAL REQUIREMENTS OF BANKS ARE PROBLEMATIC FOR OPERATION AND GROWTH OF BUSINESS



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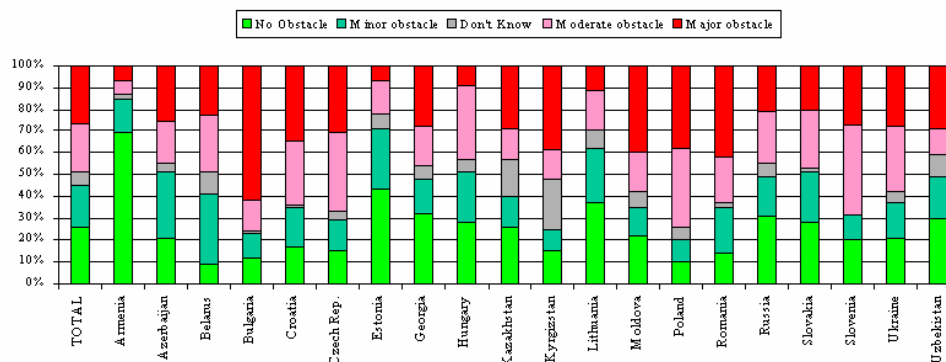
Bank Paperwork/ Bureaucracy

Bank paperwork/ bureaucracy is regarded by 49% of the sample as a moderate or major obstacle with 45% feeling it is of lower importance.

The proportion regarding this as problematic is highest in Bulgaria, where 62% regard this as a major obstacle. Bureaucracy is flagged as a moderate or major obstacle also by more than 60% of enterprises in Poland (74%) the Czech Republic (67%), Croatia (64%) and Romania (63%).

As well as Armenia (where 69% of enterprises say that bureaucracy is no obstacle), enterprises in Estonia and Lithuania are generally positive on this issue. Seventy-one percent and 62% regard it as a minor obstacle or no obstacle.

DEGREE TO WHICH BANK PAPERWORK/ BUREAUCRACY IS PROBLEMATIC FOR OPERATION AND GROWTH OF BUSINESS



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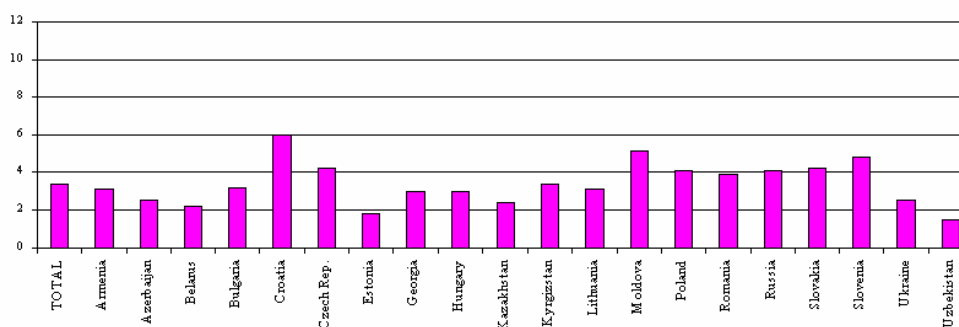
Time to Transfer Funds to Domestic Supplier

Sixty-eight percent of enterprises report that it takes three days or less to transfer funds through the financial system to a domestic supplier. Overall, the average is 3.4 days.

If transfer within three days is regarded as some form of “pass mark”, then the best performers are Estonia (where 98% of enterprises feel this is done), Uzbekistan (91%), Belarus and Slovenia (both 89%), Hungary (82%) and Kazakhstan (80%).

Overall, only 5% of the sample feel that it typically takes over 7 days. Only in Croatia does a significantly higher proportion, 10%, feel this is so.

AVERAGE NUMBER OF DAYS TO TRANSFER MONEY THROUGH FINANCIAL SYSTEM TO DOMESTIC SUPPLIER





ATTITUDES TO CORRUPTION

Introduction

This was by far the most sensitive part of the questionnaire. Because of the high level of refusals, the following wording was added to the questionnaire to preface this section:

Can I please reassure you that:

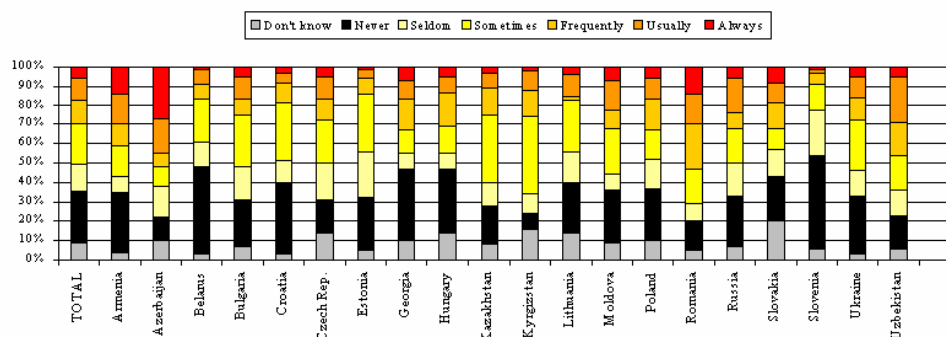
- *We are interested in your opinions in a personal capacity*
- *We do not imply in any way that your company makes unofficial payments*
- *We recognise that your company as well as AC Nielsen neither approves of nor condones the use of unofficial payments*
- *The responses that you give will be aggregated and presented in purely statistical terms; any comments you give me cannot be attributed to either you or your company.*

Frequency of Having To Make Irregular "Additional Payments"

Thirty percent of enterprises reported that it was frequent, usual or always that firms in their line of business had to make some irregular "additional payments" to get things done. At the other extreme, 27% feel that it never happens.

The highest levels of agreement with this statement are found in Azerbaijan, where 54% agree, and Romania (53%). By contrast, 45% of those in Belarus and 48% of Slovenian respondents report it never happens.

INCIDENCE OF HAVING TO MAKE SOME IRREGULAR "ADDITIONAL PAYMENTS" TO GET THINGS DONE



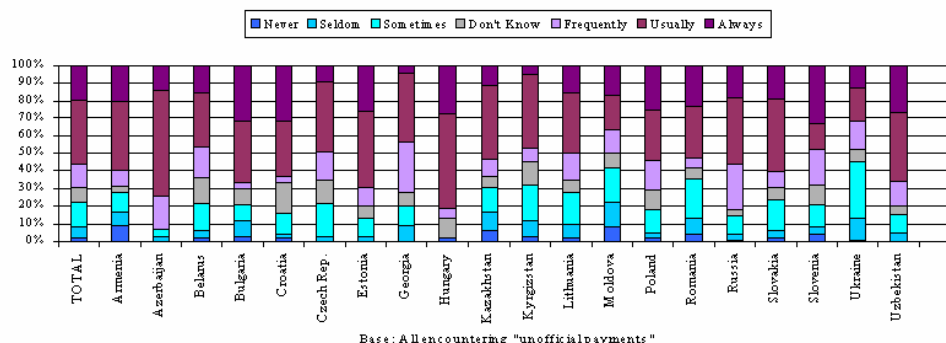
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Pattern of Irregular “Additional Payments”

Overall, 69% of those encountering irregular “additional payments” feel that *If a firm pays the required “additional payments” the service is also delivered as agreed* frequently, usually or always. The proportion believing this was so less often was highest in Ukraine and Moldova.

TRUTHFULNESS OF STATEMENT: *If a firm pays the required “additional payments” the service is usually also delivered as agreed*

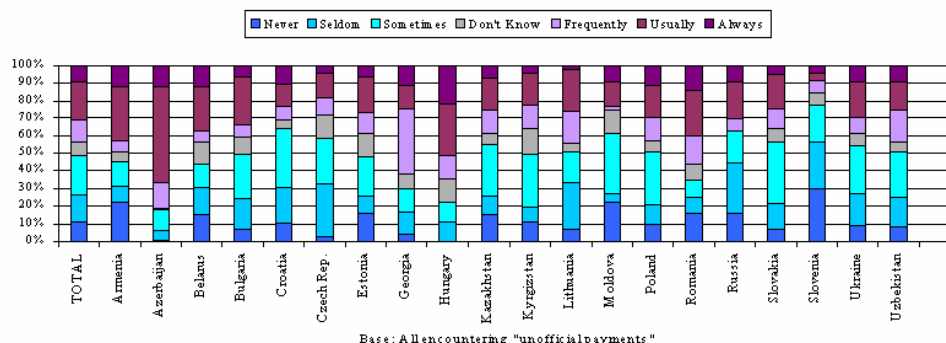


Forty-three percent frequently, usually or always feel it true that *Firms in their line of business usually know in advance about how much this “additional payment” is.* Seventy-one percent of Azeri enterprises encountering irregular “additional payments” take this view, as do 64% of those in Hungary. Enterprises in Slovenia and Croatia are least likely to know how much they expect to pay, with 78% and 63% respectively feeling it is true sometimes, seldom or never.

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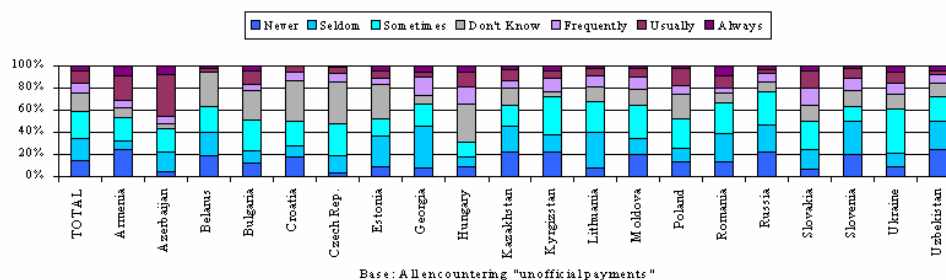


TRUTHFULNESS OF STATEMENT:
*Firms in my line of business usually know in advance about
how much this “additional payment” is*



Just under a quarter of enterprises encountering irregular “additional payments” think it is frequently, usually or always true that *if a firm pays the required additional payment to a particular government official, another government official will subsequently require an additional payment for the same service*. This practice is most common in Azerbaijan too.

TRUTHFULNESS OF STATEMENT:
*If a firm pays the required additional payment to a particular
government official, another government official will subsequently
require an additional payment for the same service*



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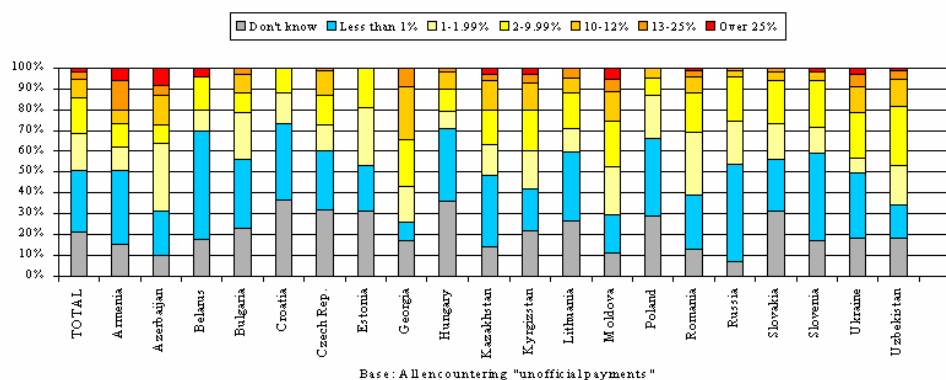


Proportion of Revenue Paid as Unofficial Payments

The proportion of revenue typically paid, as additional “unofficial payments” is relatively small. Only 31% of those encountering the phenomenon expect firms like theirs to pay 2% of their revenues or more each year. A high proportion say they do not know, either because they have no first-hand or direct anecdotal experience, or because they do not wish to answer.

The highest proportion of enterprises stating it is typical to pay at least 2% of revenues per annum is in Georgia, at 57%.

PROPORTION OF REVENUES TYPICALLY PAID AS UNOFFICIAL PAYMENTS



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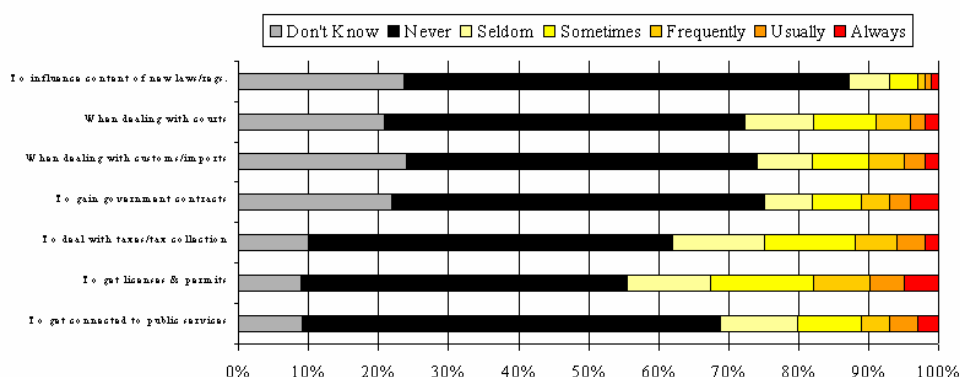
Activities Demanding Extra Unofficial Payments

The frequency of having to make extra unofficial payments is very low. The proportion of enterprises reporting that it happens frequently, usually or always is as follows:

To get connected to and maintain public services (electricity and telephone)	11%
To get licenses and permits	18%
To deal with taxes and tax collection	12%
To gain government contracts	11%
When dealing with customs/imports	10%
To deal with courts	9%
To influence the content of new laws, decrees or regulations	3%

However, respondents' frame of reference when answering this question is not clear. It could be that seeking to obtain these things happens very rarely, but that when it does some form of extra unofficial payment is generally expected or, conversely, that on most occasions no payment is expected.

FREQUENCY OF MAKING EXTRA UNOFFICIAL PAYMENTS



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Breakdown of Spend on Extra Unofficial Payments

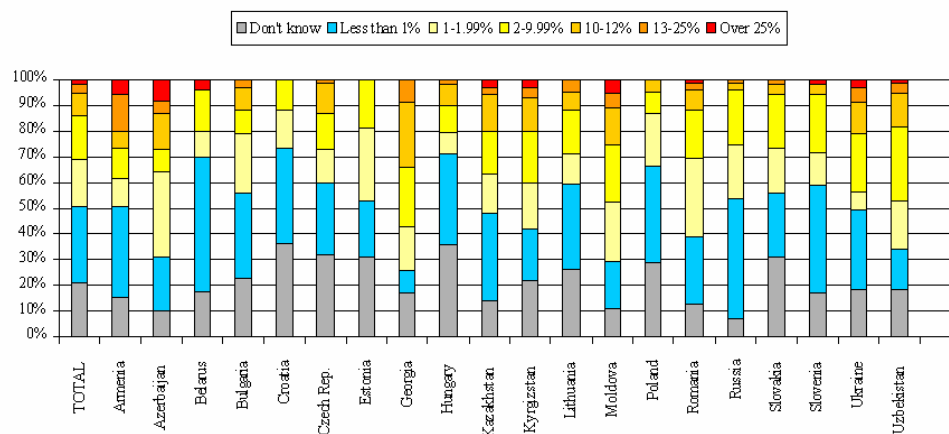
Enterprises' estimates of the breakdown of extra unofficial payments are below.

Overall, the greatest proportion of extra unofficial payments is directed at getting licenses and permits, amounting to 24% of the total. This represents the greatest proportion of extra unofficial payments in Hungary (51% of all spend in that country), Romania (40%), Moldova (34%), Slovakia (33%), Belarus (32%), Poland (28%) Bulgaria, Kazakhstan and Russia (all 22%).

Dealing with taxes and tax collection accounts for about 20% of all extra unofficial payments, and are the most important target for them in Kyrgyzstan (56% of the total) Azerbaijan (31%), Armenia and Georgia (both 30%), Uzbekistan (27%) and Ukraine (21%).

Extra unofficial payments to gain government contacts accounts for 14.2% of the total, and are the most important target for them in Croatia and the Czech Republic (both 43% of the total), Slovenia (36%) and Estonia (35%)

PROPORTION OF REVENUES TYPICALLY PAID AS UNOFFICIAL PAYMENTS



Base: All encountering "unofficial payments"

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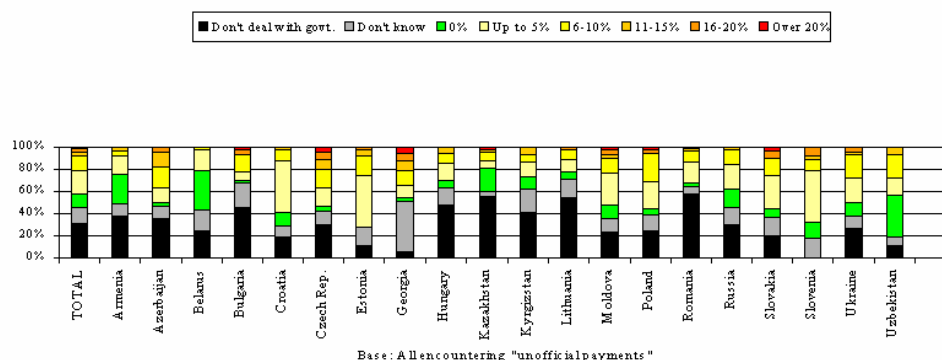


Government Contracts

A high proportion of enterprises either does not do business with the government or do not expect to pay any proportion of the contract value to secure the order.

Twenty-one percent of respondents reported a typical figure in excess of 5% of the contract's value; the proportion was significantly higher than this in Azerbaijan (36%) and the Czech Republic (33%).

PROPORTION OF CONTRACT VALUE TYPICALLY OFFERED AS ADDITIONAL UNOFFICIAL PAYMENT TO GET GOVERNMENT CONTRACT



Correct Treatment

Only 29% of respondents feel that it is frequently, usually or always true that *If a government agent acts against the rules I can usually go to another official or to his superior and get the correct treatment without recourse to unofficial payments.*

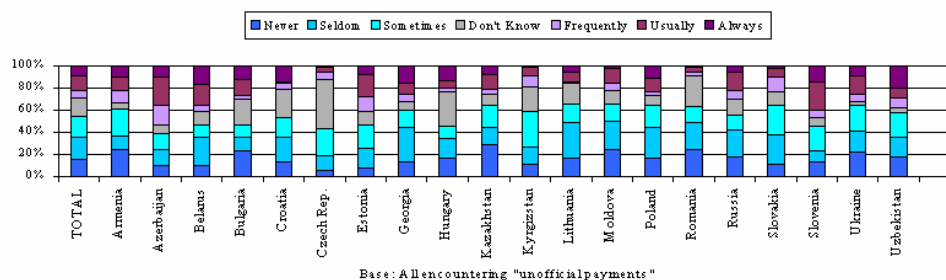
The proportion generally agreeing with it is highest in Azerbaijan, 53% of whom feel it is frequently, usually or always true. However, the question does not address the proportion who feel they would get the correct treatment even if they made an unofficial payment to another official or superior.

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TRUTHFULNESS OF STATEMENT:

If a government agent acts against the rules I can usually go to another official or to his superior and get the correct treatment without recourse to unofficial payments

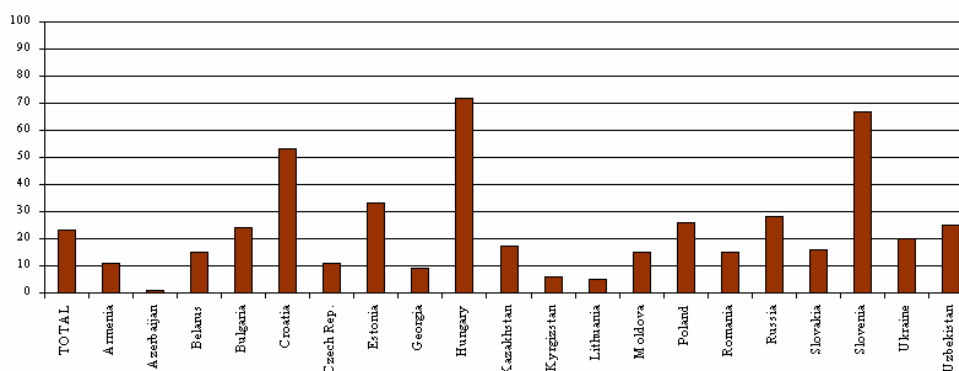


Membership of Lobby/Pressure Group

Overall 23% of enterprises belong to lobby or pressure groups. The highest incidence is found in Hungary (72%), Slovenia (67%) and Croatia (53%).

Two thirds of members of such groups use it, rather than their firm's own ties to public officials, to affect the outcome when a new law, rule, regulation, or decree is proposed that would have a substantial impact on their firm.

PROPORTION OF ENTERPRISES BELONGING TO LOBBY/PRESSURE GROUP



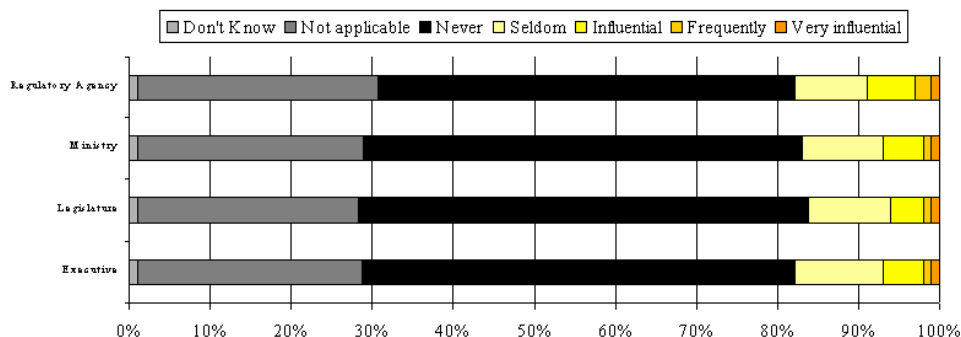
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Perceived Influence of Firm on Decision-Making Bodies

The majority of firms believe that they are either never influential when a new law, rule, regulation, or decree is proposed that would have a substantial impact on their firm, or are so removed from the decision-making process that the question is not applicable to them.

INFLUENCE OF RESPONDENT ORGANISATION ON NATIONAL BODIES WHEN NEW LAW, REGULATION OR DECREE DISCUSSED



Tax Evasion

Forty-three percent of enterprises report that typical firms in their sector report at least 90% of their sales to the tax authorities.

The highest levels of honesty in this respect are to be found in Slovenia, where 84% claim that at least 90% of income is reported to the authorities, and Belarus (79%).

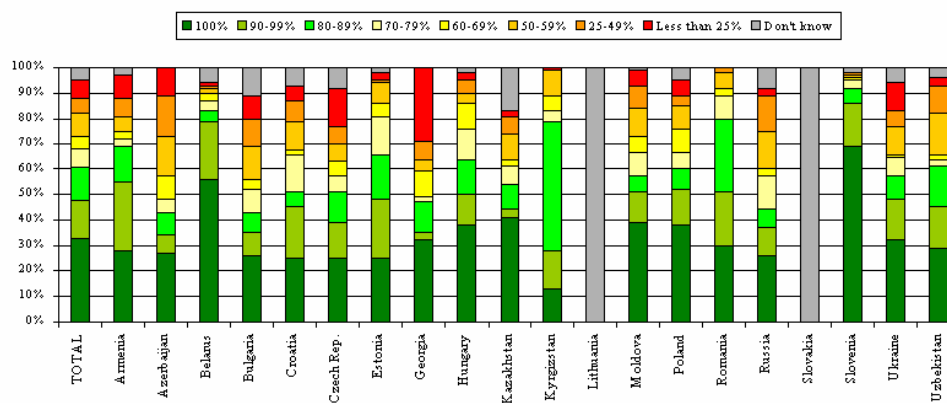
At the other extreme, more than 40% of enterprises in Azerbaijan (43%) and Georgia (41%) report that less than 60% of sales are declared.

The chart below has no data for Lithuania and Slovakia. This is because the question was wrongly asked, and refers to the proportion of sales that are “off the books”.

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PERCENTAGE OF SALES VALUE TYPICALLY REPORTED TO TAX AUTHORITIES





IMPORTS AND EXPORTS

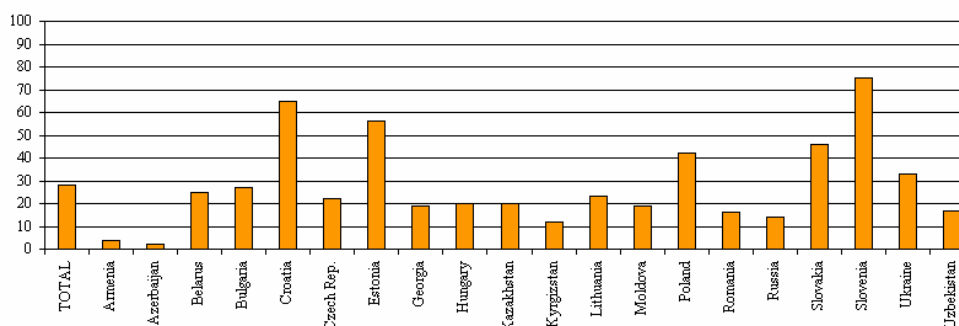
Introduction

Exports

Twenty-eight percent of enterprises export their products or services. The highest incidence of exporting firms is found in Slovenia (75%), Croatia (65%) and Estonia (56%).

The lowest figures of all were for Armenia and Azerbaijan at 4% and 2% respectively.

PROPORTION OF PRIVATE SECTOR ENTERPRISES SELLING TO CUSTOMERS IN OTHER COUNTRIES



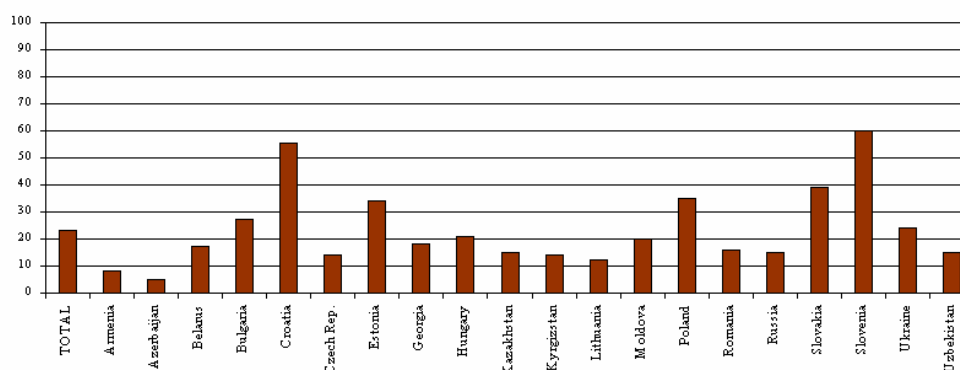
Direct Exports

The proportion exporting goods directly is lower than the above figures, at just 23% of enterprises. The highest proportions were found in Slovenia and Croatia, at 60% and 55% respectively.

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PROPORTION OF ENTERPRISES EXPORTING GOODS DIRECTLY



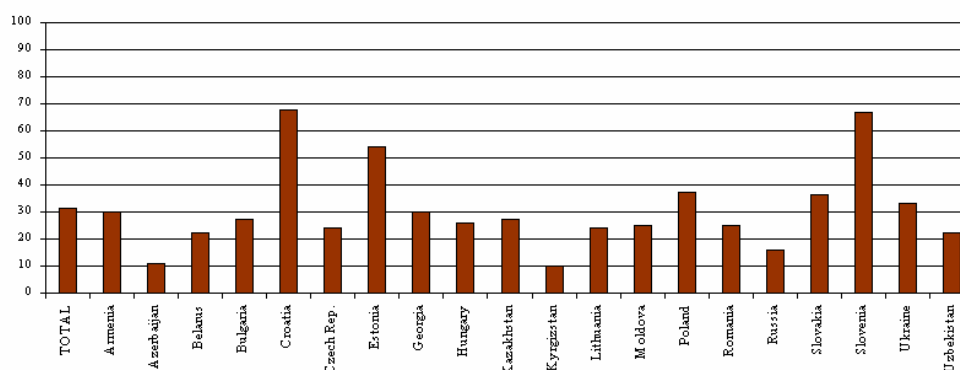
Duration of Pre-Shipment Inspection Process

Forty-eight percent of enterprises exporting goods directly report that the pre-shipment inspection process takes a day or less. Overall, the average is 3.2 days.

Direct Imports

Overall, 31% of enterprises import goods directly, with the highest proportions being found in Croatia (68%), Slovenia (67%) and Estonia (54%).

PROPORTION OF ENTERPRISES IMPORTING GOODS DIRECTLY





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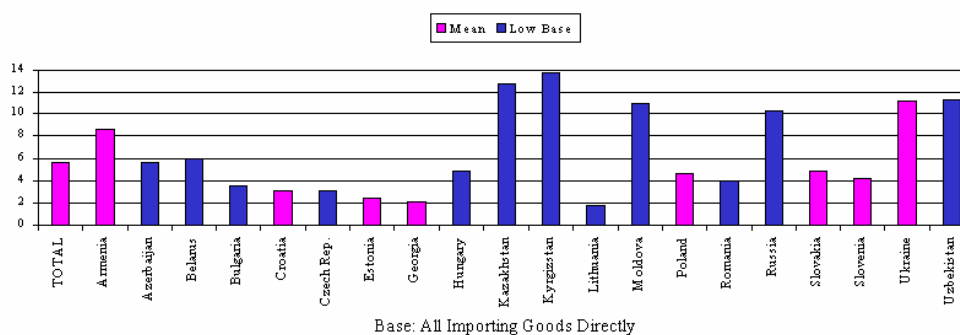
Average Transit Time For Exports

On average, goods take 5.6 days to pass from their point of entry to customs clearance, though in 59% of cases the response is three days or less.

Some outliers skew these averages, generally in countries where a small proportion of enterprises import goods directly.

Of the major importing countries, Polish enterprises report significantly greater transit times than for Estonia, at 4.6 days compared with 2.4 days.

AVERAGE NUMBER OF DAYS FROM GOODS ARRIVAL AT PORT OF ENTRY TO CUSTOMS CLEARANCE





COMPETITION

Introduction

Number of Competitors

The great majority of enterprises, 81% of the total, report that their major product line faces at least four competitors in their domestic market.

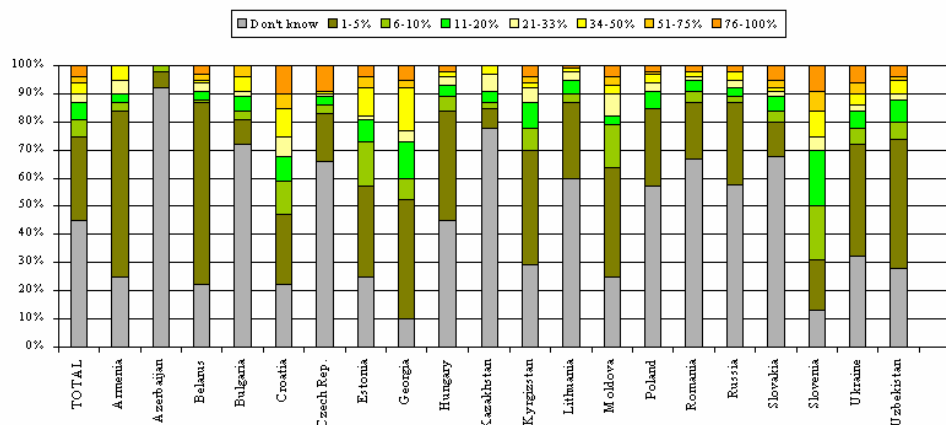
Only 7% of respondents state they have no competitors and in no country did the proportion exceed 15%.

Market Share of Main Product Line

Forty-five percent of firms do not know the market share of their main product line. The proportion is much higher than this in Azerbaijan (92%), Kazakhstan (78%), Bulgaria (72%), Slovakia (68%), Romania (67%) and the Czech Republic (66%).

Otherwise, the market share of enterprises' main product line does not exceed 10% for 36% of enterprises in general. Such niche players or operators in highly fragmented markets are especially common in Belarus (66%), Armenia (62%) and Moldova (54%)

MARKET SHARE OF MAIN PRODUCT LINE



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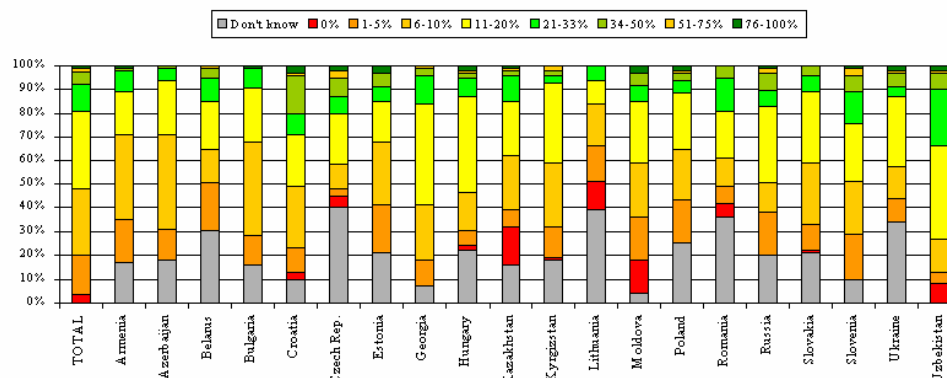


Operating Margin of Main Product Line

The average operating margin on enterprises' main product line was 17%, though the figure is somewhat distorted by the substantial proportion, 21%, unable or unwilling to answer. The proportion exceeded one third in the Czech Republic (40%), Lithuania (39%), Romania (36%) and Ukraine (34%).

Operating margins tend to be highest in Croatia and the Czech Republic, averaging 22% and 24% respectively.

OPERATING MARGIN OF MAIN PRODUCT LINE



Type of Firm Presenting Biggest Competitive Threat

Domestic small and medium enterprises are most likely to be cited as the biggest competitive threat.

It was only in Poland that more enterprises identify a bigger competitive threat, that of foreign firms producing in the domestic market. This was listed by 30% of Polish enterprises, compared with 27% citing domestic small and medium-sized enterprises. Overall, foreign firms producing in the domestic market were identified by only 9% of firms as their biggest competitors.

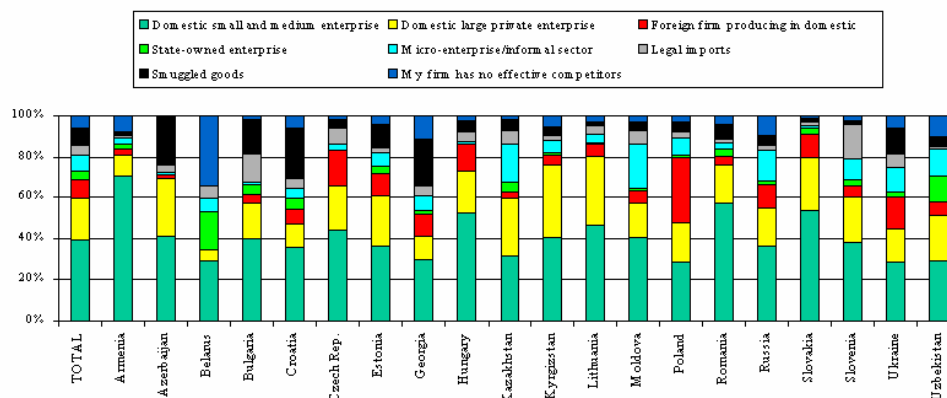
One firm in five regards domestic large enterprises as their biggest competitor.

Smuggled goods are cited by 8% overall, but by substantially higher proportions in Azerbaijan (25%),

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TYPE OF FIRM PRESENTING BIGGEST COMPETITIVE THREAT



Incidence of Competitive “Sharp Practice”

Respondents were presented with a list of nine examples of possible anti-competitive activity and were asked to rate each on a score of 1 (no obstacle) to 4 (major obstacle).

Care should be taken when interpreting the table below. At first sight, most of the scores are relatively low (especially in Belarus). However, there are two possible reasons for this. The first is that competitive “sharp practice” is such a rare occurrence that it presents little obstacle. The second possibility is that these practices are so widespread that enterprises accept them as part of normal competitive activity.

In addition, a high proportion of respondents either did not know how to answer these statements or felt they were not applicable. The proportion doing so, by statement, is as follows:

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Domestic producers unfairly sell below my prices	17%
They avoid sales tax or profits tax	23%
They do not pay duties or observe trade regulations	27%
They avoid labor taxes/regulations (e.g. social security).....	28%
They have favored access to credit, infrastructure services or customers	29%
They collude to limit my access to credit, supplies, land, equipment or customers	30%
Foreign producers sell below international prices	31%
They violate my copyrights, patents or trademarks	31%
They receive subsidies (including the toleration of tax arrears) from national/ local government	35%



	Domestic producers unfairly selling below my prices	Competitors Avoiding Sales Tax or Profits Tax	Competitors not Paying Duties or Observing Trade Regulations	Competitors Avoiding Labour Taxes/ Regulations (e.g Social Security)	Foreign Producers Selling Below International Prices	Competitors Having Favoured Access To Credit, Infrastructure Services or Customers	Competitors Receiving Subsidies (Including the Toleration of Tax Arrears) from National/Local Government	Competitors Violating Copyrights, Patents or Trademarks	Competitors Colluding To Limit Access to Credit, Supplies, Land, Equipment or Customers
TOTAL	2.9	2.5	2.5	2.5	2.4	2.3	2.0	1.9	1.8
Armenia	1.8	2.3	2.0	2.2	1.7	2.2	1.9	1.5	1.4
Azerbaijan	3.0	3.0	3.2	2.8	2.7	2.9	2.7	2.4	2.3
Belarus	1.5	1.4	1.4	1.4	1.2	1.6	1.5	1.2	1.2
Bulgaria	2.9	3.1	3.3	3.1	2.7	2.5	1.7	2.2	2.1
Croatia	2.6	2.7	2.6	2.9	2.6	2.4	2.4	1.8	1.8
Czech Rep.	2.4	2.5	2.5	2.1	2.6	2.5	1.5	1.3	1.6
Estonia	2.3	2.4	2.4	2.2	2.3	1.9	1.5	1.5	1.5
Georgia	2.7	2.7	2.6	2.6	2.4	2.3	2.1	2.6	2.2
Hungary	2.6	2.4	2.4	2.6	2.3	2.5	2.1	1.9	1.8
Kazakhstan	2.7	2.5	2.7	2.4	2.4	2.2	1.9	2.1	1.5
Kyrgyzstan	3.1	2.4	2.4	2.5	3.0	3.0	2.2	2.3	2.3
Lithuania	2.7	2.7	2.6	2.8	2.4	2.2	1.9	1.5	1.5
Moldova	2.9	2.9	2.9	2.7	2.4	2.1	1.8	2.4	1.7
Poland	3.1	2.7	2.8	2.8	3.2	2.6	2.4	1.9	2.2
Romania	2.8	2.6	2.7	2.7	2.5	2.5	2.2	2.0	1.9
Russia	2.5	2.2	2.2	2.2	2.0	2.2	2.0	2.0	1.7
Slovakia	3.0	2.2	2.3	2.3	2.5	1.9	2.5	1.6	1.6
Slovenia	2.5	2.3	2.0	2.5	2.4	1.8	1.9	1.8	1.7
Ukraine	2.7	2.7	2.8	2.6	2.4	2.6	2.3	2.1	1.8
Uzbekistan	2.6	2.1	2.2	1.7	1.8	2.2	1.7	2.2	1.8



**Developing
New Products
and Markets**

Respondents were also asked to assess six potential pressure groups for their influence on developing new products and markets. These were rated on a scale from very important (4) to not at all important (1).

The rank order for these pressure groups (and the means scores) is:

Pressure from domestic competitors	2.6
Pressure from customers	2.6
Pressure from foreign competitors	2.0
Pressure from creditors	1.8
Pressure from government or government agencies	1.8
Pressure from shareholders	1.7

The table overleaf presents the mean scores by country. Three points emerge:

- Domestic competitors and customers are the most significant pressure groups in all countries
- None of the others is significant at the country level either
- Competitive pressure is rated as more important in the more advanced economies of Central Europe.



	Pressure from domestic competitors	Pressure from customers	Pressure from foreign competitors	Pressure from creditors	Pressure from government or government agencies	Pressure from shareholders
TOTAL	2.6	2.6	2.0	1.8	1.8	1.7
Armenia	2.0	1.9	1.5	1.8	1.5	1.4
Azerbaijan	2.5	2.5	1.9	2.0	2.3	1.5
Belarus	1.7	1.8	1.3	1.4	2.0	1.3
Bulgaria	2.9	2.7	2.3	1.9	1.7	1.7
Croatia	2.6	2.8	2.6	2.2	1.9	2.0
Czech Rep.	3.0	2.9	2.4	1.6	1.4	1.3
Estonia	3.1	3.1	2.2	2.0	1.5	2.3
Georgia	2.5	2.2	1.9	1.5	1.7	1.6
Hungary	3.0	3.0	2.2	1.7	1.7	1.7
Kazakhstan	2.5	2.3	1.6	1.7	1.6	1.7
Kyrgyzstan	2.6	2.6	2.1	2.0	2.2	2.0
Lithuania	2.6	2.6	1.7	1.6	2.0	1.7
Moldova	2.5	2.3	1.9	2.2	2.2	2.0
Poland	3.0	3.4	2.6	1.7	1.3	2.2
Romania	2.7	2.9	2.2	1.9	1.5	1.7
Russia	2.3	2.4	1.6	1.8	1.9	2.0
Slovakia	3.1	3.3	2.2	1.6	1.6	1.5
Slovenia	2.8	3.2	2.9	1.8	1.6	2.1
Ukraine	2.4	2.5	1.9	2.1	2.1	1.7
Uzbekistan	2.2	2.3	1.6	1.7	2.2	1.5

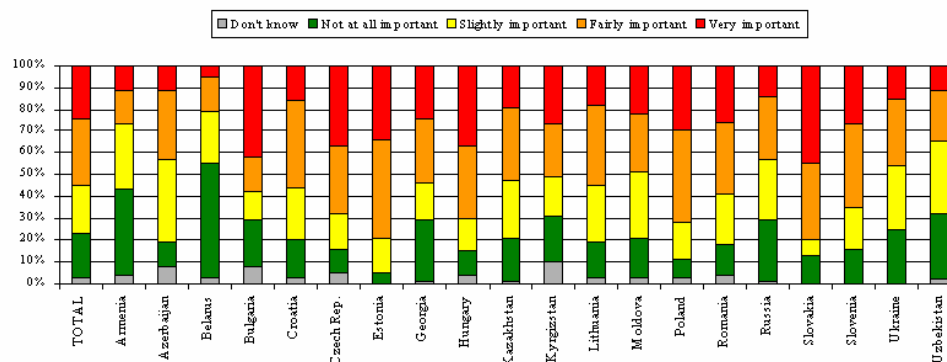


Pressure from Domestic Competitors

Fifty-five percent of enterprises feel that pressure from domestic competitors is fairly or very important with respect to developing new products and markets. The greatest importance is given to domestic competitors in Slovakia (80%), Estonia (79%), Hungary (70%), Poland (72%) and the Czech Republic (68%).

By contrast, 76% of firms in Belarus and 69% of Armenian enterprises feel that they are only slightly or not at all important, compared with a regional total of 42%.

IMPORTANCE OF PRESSURE FROM DOMESTIC COMPETITORS TO DEVELOPING NEW PRODUCTS & MARKETS



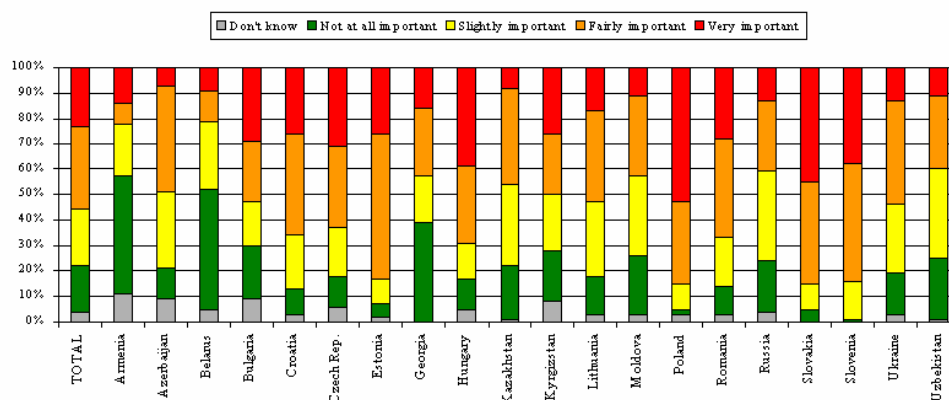
Pressure From Customers

Fifty-six percent feel that customer pressure is fairly or very important. Enterprises in Poland and Slovakia (both 85%), Slovenia (84%), Estonia (83%), Hungary (69%) and Romania (67%)

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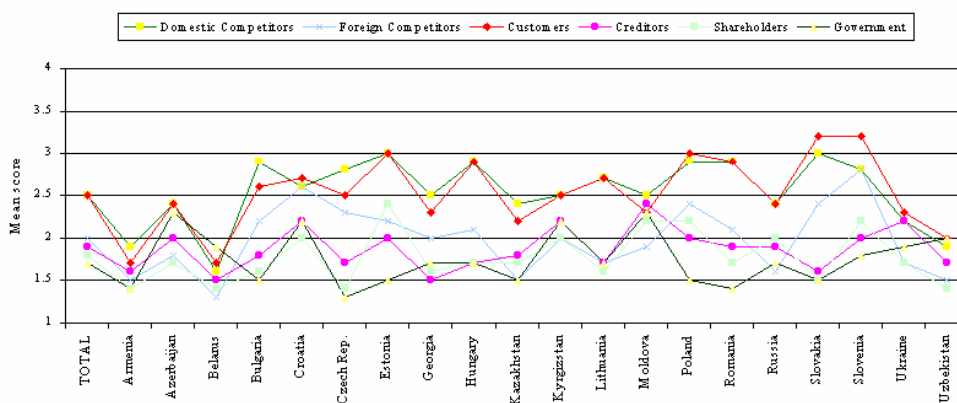
IMPORTANCE OF PRESSURE FROM CUSTOMERS TO DEVELOPING NEW PRODUCTS & MARKETS



Reducing Production Costs

A similar pattern emerges with respect to pressure for reducing production costs. Domestic competitors and customers are the most important pressure groups and pressure tends to be greater in Central Europe than elsewhere.

IMPORTANCE OF PRESSURES ON REDUCING THE PRODUCTION COSTS OF EXISTING PRODUCTS



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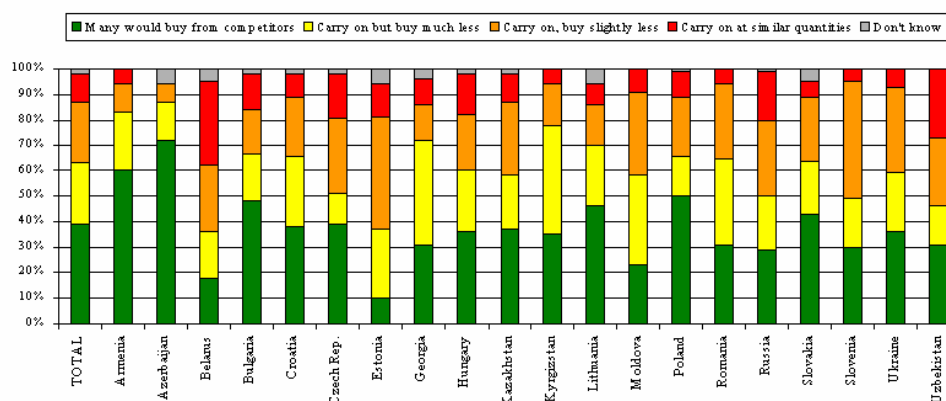


Impact of 10% Price Rise on Customer Base

The most common reaction to a hypothetical 10% increase in the enterprise's price levels would be that many customers would buy from competitors instead. Thirty-nine percent of respondents gave this answer. Azeri and Armenian enterprises have the most price-sensitive customers; 72% and 60% respectively predict that many of their customers would desert them.

At the other extreme, 35% feel that customers would continue to buy, but at slightly lower quantities, or in the same quantities. Enterprises in Belarus are the least concerned, but this may be a function of high inflation levels meaning that a 10% increase in prices is of lower impact than elsewhere.

IMPACT OF 10% PRICE RISE ON CUSTOMER BASE AND VOLUMES PURCHASED





APPENDIX A:

ESTIMATES OF PRIVATE SECTOR UNIVERSE PER COUNTRY



1. Armenia

	Agriculture	Fishing	Mining	Manufacturing	Construction	Trade/Wholesale/Retail	Hotels/ Restaurants	Transport + Distn.	Financial Services	Real Estate	Insurance
<i>Private Sector</i>	1705	116	49	6923	1865	21178	1001	1078	111	1731	50
<i>Estimated sector split - state sector</i>											
<i>Very Small firms (1-9 employees)</i>	1187	10	1	87	71	203	12	13	5	151	4
<i>Capital city</i>	127	2	0	23	25	63	5	2	0	40	0
<i>Others 50-250,000</i>	73	2	0	10	16	63	4	4	1	36	1
<i>Others under 50,000</i>	106	2	0	18	5	21	1	3	1	36	1
<i>Rural</i>	881	5	1	36	25	55	3	5	2	40	2
<i>Small firms (10-49 employees)</i>	377	7	2	153	194	140	22	20	7	150	5
<i>Capital city</i>	27	0	1	42	57	36	10	6	1	82	1
<i>Others 50-250,000</i>	43	0	0	33	47	46	5	6	1	32	1
<i>Others under 50,000</i>	54	0	0	25	19	10	3	2	1	14	1
<i>Rural</i>	253	7	1	53	70	48	4	6	4	23	3
<i>Medium firms (50-199 employees)</i>	104	2	1	99	125	27	5	26	0	86	0
<i>Capital city</i>	5	0	0	28	40	3	1	5	0	72	0
<i>Others 50-250,000</i>	7	0	0	18	30	8	4	8	0	7	0
<i>Others under 50,000</i>	15	0	1	21	15	5	0	2	0	1	0
<i>Rural</i>	77	2	1	33	40	12	0	11	0	5	0
<i>Large firms (200+ employees)</i>	37	0	0	37	20	7	2	9	0	18	0
<i>Capital city</i>	1	0	0	15	12	2	1	1	0	18	0
<i>Others 50-250,000</i>	4	0	0	16	2	2	1	5	0	0	0
<i>Others under 50,000</i>	6	0	0	2	1	0	0	0	0	0	0
<i>Rural</i>	26	0	0	5	5	2	1	3	0	0	0



2. Azerbaijan

No estimates were available of the distribution of enterprises in Azerbaijan. The same distribution was assumed as for Armenia.



3. Belarus

Type and location of firms	All sectors	Industry	Construction	Trade, supplies, restaurants	Transport and other communications	Agriculture and forestry
Total	49594	9451	5609	24219	2335	7980
Very Small firms (1-9 pers.)	28483	4755	2692	14662	1308	5066
Capital city	12611	2278	1592	8275	426	40
Oblast centers	5696	1208	560	3283	409	236
other	10176	1269	540	3104	473	4790
	0	0	0	0	0	0
Small firms (10-49 pers.)	6164	1991	1339	2471	289	74
Capital city	2840	848	639	1212	135	6
Oblast centers	1277	413	303	488	67	6
Other	2047	731	397	770	87	62
	0	0	0	0	0	0
Medium firms (50-199 pers.)	2764	726	379	785	183	691
Capital city	532	138	137	229	27	1
Oblast centers	318	93	82	122	19	2
other	1914	495	160	434	137	688
	0	0	0	0	0	0
Large firms (More than 200 pers.)	2047	477	121	179	69	1201
Capital city	176	80	42	38	15	1
Oblast centers	194	117	28	22	27	0
Other	1677	280	51	119	27	1200



4. Bulgaria

	Manufacture, mining, agriculture	Building & construction	Trade/ wholesale/ retail	Transport	Financial sers.	Business Services
% of enterprises (based on Romanian distribution)						
Private Sector	67%	6%	18%	5%	1%	3%
1-9 Employees	30%	3%	16%	1%	1%	2%
Sofia	1%	0%	1%	0%	1%	0%
Large towns	15%	2%	8%	1%	0%	1%
Medium towns	1%	0%	1%	0%	0%	0%
Small towns	13%	2%	6%	0%	0%	1%
10-49 Employees	7%	2%	2%	2%	0%	0%
Sofia	0%	2%	0%	0%	0%	0%
Large towns	3%	0%	1%	0%	0%	0%
Medium towns	0%	0%	1%	1%	0%	0%
Small towns	3%	0%	1%	1%	0%	0%
50-199 Employees	1%	0%	0%	1%	0%	0%
Sofia	0%	0%	0%	1%	0%	0%
Large towns	1%	0%	0%	0%	0%	0%
Medium towns	0%	0%	0%	0%	0%	0%
Small towns	0%	0%	0%	0%	0%	0%
200+ Employees	25%	0%	0%	1%	0%	1%
Sofia	1%	0%	0%	1%	0%	0%
Large towns	13%	0%	0%	0%	0%	1%
Medium towns	1%	0%	0%	0%	0%	0%
Small towns	10%	0%	0%	0%	0%	0%



5. Croatia

	MFG	Con	Wholesale/Retail	Hotels	Transport	Finance	Real Estate
By Number of Employees							
1-10	21754	82	12186	63757	4513	6933	756
11-50	38340	1230	23100	54540	7500	6360	450
51-500	205575	10875	45975	66450	32325	27675	0
500+	152000	5750	17500	32750	13500	23500	750
TOTAL	417669	17937	98761	217497	57838	64468	1956
By location							
	MFG	Con	Wholesale/Retail	Hotels	Transport	Finance	Real Estate
Zagreb	3773	8	1767	11614	462	1174	195
Big Towns	2180	18	1204	5897	451	719	76
Medium Towns	3852	61	1816	10417	823	1349	96
Small towns	1666	40	649	3707	388	474	21
	11471	127	5436	31635	2124	3716	388