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Enterprise Policy Development in the Western Balkans

Report on the Implementation of the European Charter for
Small Enterprises in the Western Balkans 2007

Prepared by:



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FOR SOUTH EASTERN EUROPE



INVESTMENT COMPACT
FOR SOUTH EAST EUROPE



European Commission
Directorate-General for Enterprise and Industry

In consultation with:



European Bank
for Reconstruction and Development



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REPORT ON THE IMPLEMENTATION

OF THE EUROPEAN CHARTER

FOR SMALL ENTERPRISES IN THE WESTERN BALKANS

2007

ORGANISATION PROFILES

European Commission Directorate General for Enterprise and Industry

DG Enterprise and Industry is tasked with ensuring a well run internal market for goods and promoting the competitiveness of EU enterprise, thereby making major contributions to the implementation of the Lisbon Growth and Jobs strategy. DG Enterprise and Industry pays particular attention to the needs of manufacturing industry and small and medium sized enterprises: it manages programmes to encourage entrepreneurship and innovation and ensure that Community legislation take proper account of their concerns.

Main objectives of the Enterprise and Industry DG

The following general objectives encapsulate the aims of the Enterprise Directorate General:

- Support the Lisbon process
- Lower barriers to entrepreneurs in Europe and encourage potential entrepreneurs;
- Foster innovation both in the technical sphere as an adjunct to research, and in the business process;
- Continue to enhance the efficiency of the internal market, with particular attention paid to its operation in the new Member States, and aim to extend its benefits to other regions; Enhance the global competitiveness of European industry within a framework of sustainable development.

The Enterprise and Industry DG accomplishes its tasks in several ways. It has developed expertise in economic analysis. It manages regulation in the commercial sectors for which it is responsible. It has a budget to support specific actions. And it supports the continual scrutiny of Member States' enterprise policies through the open method of co-ordination.

In addition, the Enterprise and Industry DG ensures that Community policies in general contribute to improving the competitiveness of businesses in the EU. The Enterprise and Industry DG addresses businesses of all types, regardless of legal structure or size, but focuses particularly on the needs of small and medium sized enterprises.

Organisation for Economic Co-operation and Development's Investment Compact for South East Europe

The Investment Compact for South East Europe (South East Europe Compact for Reform, Investment, Integrity and Growth) is a leading programme designed to improve the investment climate and to encourage private sector development in South East Europe (SEE). Under the Stability Pact for South Eastern Europe (Working Table II on Economic Reconstruction, Development and Co-operation) and the OECD Directorate for Financial and Enterprise Affairs (www.oecd.org/daf), the programme has its own institutional structure including a Project Team and an Annual Ministerial Conference.

The Investment Compact supports SEE with practical tools to increase investment, growth and employment and support the European Union (EU) integration process.

The Investment Compact member countries are: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYR Macedonia, Moldova, Montenegro, Romania and Serbia. The work of the Investment Compact is actively supported and financed by the following OECD countries: Austria, Flanders (Belgium), Czech Republic, Ireland, Italy, Japan, Norway, Slovenia, Switzerland, United States and the European Commission (www.investmentcompact.org).

The European Training Foundation

The European Training Foundation (ETF) based in Turin (Italy) is the EU's specialist agency supporting education, training and wider human resource development across 30 partner countries which include prospective candidate countries, the Southern Mediterranean region, Eastern Europe and Central Asia. The ETF also assists the European Commission in the implementation of the Tempus programme for reform of higher education in its partner regions. In keeping with EU policy, central to the ETF's work in its partner regions is the promotion of quality human resources to enhance economic competitiveness and social inclusion.

European Bank for Reconstruction and Development

The EBRD was established in 1991, when communism was crumbling, to support and nurture a new private sector in a democratic environment. Today the EBRD uses the tools of investment to help build market economies and democracies in 29 countries from central Europe to central Asia.

The EBRD supports the economies of its 29 countries of operations by promoting competition, privatisation and entrepreneurship. Taking into account the particular needs of countries at different stages of transition, the Bank focuses on strengthening the financial sector, developing infrastructure and supporting industry and commerce.

Working in both the public and private sectors, the EBRD encourages co-financing and foreign direct investment to complement its own investments. The Bank also provides technical cooperation funding to support project preparation and institution-building. The EBRD works in close cooperation with other international financial institutions and promotes environmentally sound and sustainable development in all of its activities.

FOREWORD

Small enterprises are the backbone of the Western Balkan economies. They make a major contribution to job creation and economic development. Small enterprises are behind the expansion of the services, construction and transport sectors that are driving economic growth in the region. Clusters of small enterprises operating in high value added operations are emerging, spreading innovation throughout many parts of the Western Balkans.

Until a few years ago, small enterprise policy received relatively little attention in the region. The focus of governments was on consolidating macro-economic stabilisation, and on managing the restructuring and privatisation of large companies. Only limited support was available for small enterprises.

The adoption in 2003 of the European Charter for Small Enterprises – a pan-European instrument developed under the framework of the Lisbon Agenda – by all the Western Balkan countries¹ and UNMIK/Kosovo contributed to a change in policy perspective. Since then, the Charter's policy guidelines have become a key reference for enterprise policy development in the region.

This report presents a first comparative assessment of progress in the Western Balkan countries and UNMIK/Kosovo since the Charter was adopted. It is structured around the Charter's ten policy dimensions. The assessment was carried out by applying the SME Policy Index. The Index is a common framework for evaluation, consisting of a set of qualitative and quantitative indicators that capture the critical components of each policy dimension. At the same time, the Index reflects the Charter's broad and comprehensive approach to policy development. The assessment balances the results of government-led self-assessment with an independent evaluation co-ordinated by the European Commission (EC) and the Organisation for Economic Co-operation and Development's Investment Compact for South East Europe (OECD Investment Compact), in consultation with the European Bank for Reconstruction and Development (EBRD) and the European Training Foundation (ETF).

The report is intended to provide a contribution to the debate on enterprise policy development, promoting constructive dialogue among governments and representatives of the private sector, the donor community and other major stakeholders. It is a tool for policy planning and policy co-ordination at both the national and regional levels.

This report would not have been possible without the active participation of all the Western Balkan countries and UNMIK/Kosovo. It responds to the request by Western Balkan governments in the 2006 Belgrade Declaration to continue and broaden the Charter monitoring process.

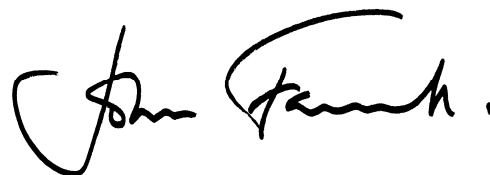
1 Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro and Serbia.

The National Charter Co-ordinators have played a leading role in the process by contributing to the elaboration of the SME Policy Index, co-ordinating the self-assessment exercise, chairing bilateral consultative meetings, and ensuring that all enterprise policy stakeholders are involved.

The report is also the product of fruitful co-operation between the EC's Directorate General for Enterprise and Industry and the OECD Investment Compact. Contributions from the ETF and the EBRD have deepened the analysis of small companies' access to skills and finance, as well as the role of education and training systems in developing a spirit of entrepreneurship in the region. Evaluation of progress on implementing the Charter will continue to be conducted throughout 2008, in order to provide ongoing impetus for reform. The next report is scheduled for early 2009.



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The work was led by Edward Tersmette (EC DG Enterprise and Industry) and Antonio Fanelli (OECD Investment Compact) in cooperation with Anthony Gribben, Efka Heder (ETF), Francesca Pissarides (EBRD) and Jakob Fexer (OECD Investment Compact).

Each Western Balkan country and UNMIK/Kosovo has contributed a comprehensive self-evaluation to the report with the support of the National Charter Co-ordinators (see Annex 4) who co-ordinated the self- assessment and contributions of different government institutions and local stakeholders. The independent assessment was conducted with the support of a team of consultants led by Peter Milford, from the consultancy company Eurecna.

Anthony O'Sullivan, Susanne Szymanski, Erin Hengel and Georgiana Pop (OECD Investment Compact) provided inputs to the report.

The final report was edited and prepared for publication by Jakob Fexer, supported by Antonio Fanelli and Edward Tersmette.

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KEY FINDINGS AND CONCLUSIONS

Overview of the process of implementing the Charter for Small Enterprises in the Western Balkans

This report is the first comprehensive and comparative assessment of progress in the Western Balkan countries¹ and UNMIK/Kosovo since they adopted the European Charter for Small Enterprises (the Charter) in 2003. It has been prepared by the European Commission and the OECD Investment Compact, in consultation with the European Bank for Reconstruction and Development (EBRD) and the European Training Foundation (ETF) and in co-operation with the National Charter Co-ordinators².

The assessment of where the Western Balkan countries and UNMIK/Kosovo stand with respect to enterprise policy development, based on the Charter, has been carried out using a common evaluation framework: the SME Policy Index. The Index is structured around the Charter's ten policy dimensions:

1. Education and training for entrepreneurship;
2. Cheaper and faster start-up;
3. Better legislation and regulation;
4. Availability of skills;
5. Improving on-line access;
6. Getting more out of the single market;
7. Taxation and financial matters;
8. Strengthening the technological capacity of small enterprises;
9. Successful e-business models and top-class business support;
10. Developing stronger, more effective representation of small enterprises.

In the SMEs Policy Index, each dimension has been broken down into sub-dimensions. These sub-dimensions have then been divided into qualitative and quantitative indicators of policy development, on a scale of 1 to 5. The lowest level (1) indicates a lack of policy initiative. The highest level (5) denotes implementation that is close to good practices, as defined by the Charter implementation process at pan-European level³ and the OECD SME Bologna Process.⁴

In arriving at the results for each dimension, weighting is used to reflect the relative importance of each sub-dimension and indicator.⁵ The final scores for each dimension are shown in the tables at the end of this section.

The main objective of the assessment has been to rank countries' performance, and to identify regional and thematic trends in Charter implementation. Thus, it can assist the region's economies to:

- Learn from each other's experience;
- Identify good practices in policy elaboration and implementation;
- Identify strengths and weakness at national and regional levels;
- Improve policy planning; and
- Contribute to the definition of policy priorities and policy targets.

Progress in implementing the Charter

Progress with the implementation of the Charter has been uneven, both across the region and across the ten dimensions.

In some policy areas the Western Balkan economies are advancing together. Soon, for example, each will have an SME Development Strategy and an SME Agency. Concerning entrepreneurship education, pilot projects have been initiated in each of them. In other areas there are clear differences. Croatia, for example, is ahead of the other Western Balkan economies in the dimensions associated with technological development.

Overall progress in the region has been more significant in dimensions directly related to improvements in small enterprises' operational environment: more rapid registration for start-up (dimension 2), taxation and finance (dimension 7), and SME representation and public/private dialogue (dimension 10). In regulatory reform (dimension 3) and the development of access to the Single European Market (dimension 6) progress has been slower and uneven across the region.

Progress has been mixed in the dimensions associated with technological development. There are more encouraging results in technological capacity (dimension 8) and e-business models (dimension 9) than in improving on-line access (dimension 5).

Scores in the two dimensions related to human capital development, entrepreneurship education and training (dimension 1) and availability of skills (dimension 4) are comparatively low. Making good progress in these two dimensions will require the introduction of complex structural reforms in the education and labour market areas. These reforms will only show results in the medium to long term. Progress in these dimensions needs to be carefully assessed in 2009, when the next report is published.

When the results of the assessment are examined in more detail, the dimensions where progress has been most noticeable are:⁶

Cheaper and faster start-up

The company registration process – including registration, notification and compliance – is well-advanced across the region. When the Charter evaluation exercise started in 2003, this was not the case.⁷ Most countries, particularly Croatia, the former Yugoslav Republic of Macedonia and Serbia, have restructured the registration process, thus achieving a substantial reduction of the time and costs associated with company registration. UNMIK/Kosovo's registration system was introduced with the installation of UNMIK.⁸ Bosnia and Herzegovina has made progress on state-wide harmonisation of registration systems. Albania is committed to reforming the company registration process, but concrete results still need to be demonstrated. In the next stage of reform there should be a focus in the region on further progress with respect to one-stop shops, licenses and permits, and the establishment of an electronic company register.

Taxation and financial matters

Taxation and financial matters represent the lifeblood of SMEs, especially in the early stages of their operations. Progress in these two sub-dimensions has greatly improved. The assessment of taxation focuses on total tax payable and on tax administration. Substantial progress has been made across the Western Balkans in reducing the tax burden on all classes of enterprises, and this has benefited SMEs. In particular, there is room for improvement in tax administration, especially the reduction of compliance costs for small enterprises. Concerning financial matters, the assessment focuses on the credit environment and the range of financial products available to SMEs. Restructuring of the banking industry has begun to have a positive impact, in terms of diversification of banking services and improvement of lending conditions. Sectors such as leasing are growing rapidly in the region, with relevant legislation in place and progress being made in implementation. However, financial sector reform has stalled since 2005 except in Montenegro. Collateral requirements remain high across the region, with some signs of improvement in the former Yugoslav Republic of Macedonia and Croatia. Credit Guarantee Schemes, particularly those based on a mutual system, still play a marginal role. The legal and operational credit environment needs to be further developed.

Development of stronger, more effective representation of small enterprise interests

SMEs' interests are better represented than in 2003, when the Charter was adopted. While the extent and quality of SME networks and representation, and of public/private consultation channels, have improved since 2003, it will take a few more years for effective representation of SME interests to reach EU standards. More remains to be done in areas where governments could act decisively, e.g. the reform of Chambers of Commerce and the establishment of real consultative channels. Croatia, Montenegro and the former Yugoslav Republic of Macedonia are generally ahead of the other Western Balkan economies in regard to effective representation of SME interests. There was also a strong push in Serbia in the last two years. All governments should ensure that SMEs have specific forums where their interests are represented, with real mandates to influence policymaking. The capacities of Chambers of Commerce and business associations should improve over time.

In other dimensions, progress has been more uneven:

Getting more out of the single market

Opportunities for small enterprises to take advantage of the single market could be improved through export promotion programmes and policies to enhance SMEs' competitiveness. The development of export promotion and competitiveness programmes has been limited in most Western Balkan economies, with fragmented initiatives that do not follow an overall strategy for export

promotion and increased competitiveness. The Western Balkan countries and UNMIK Kosovo need to prepare small enterprises better to benefit from EU markets, with concrete support in areas such as the adoption of international and EU technical and phytosanitary standards and associated company certification systems. To ensure that there is effective co-ordination and implementation, these actions should follow a clear strategy and be supported by an export promotion agency.

Better legislation and regulations

Regulatory and institutional reform for SMEs has shown mixed results. An institutional framework is generally in place. An SME Agency has been established in almost every country except Bosnia and Herzegovina, where SME policy is largely the responsibility of the entities. In UNMIK/Kosovo an SME Department has been established within the Ministry of Trade and Industry, under the Provisional Institutions of Self-Government. More limited progress has been made in simplifying rules and administrative forms, and in applying the silence is consent principle to a wide range of administrative procedures. Application of Regulatory Impact Analysis (RIA) is still in its infancy. Using an effective RIA approach to legislation that directly affects SMEs has high priority, and progress is being made.

Strengthening SMEs' technological capacity

SMEs' technological capacity, essential for competitiveness and innovation, is slowly being strengthened. Areas such as dissemination of new technology, creation of links between SMEs and research centres to foster co-operation, establishment of research and technology centres, and initiatives to encourage the formation of clusters in key economic sectors are still in the early stages. It is encouraging for foreign investors that all countries in the region have introduced appropriate legislation to protect intellectual property rights. (This legislation is also being prepared in UNMIK/Kosovo.) Policy advocacy and enforcement need to be improved through communication campaigns and training of members of law enforcement and judiciary bodies.

Successful e-business models and top-class business support:

Like technological capacity, e-business solutions can further improve the efficiency and competitiveness of SMEs. They provide more effective approaches to purchasing and sales, facilitating access to European markets. Donor funding has been important for the development of support facilities and services and provision of information services. However, there is a strong need for greater clarity, for quality standards in regard to service provision, and for better co-ordination of business support strategies. While basic legislation is in place on the introduction of e-signatures, only Croatia has introduced a full range of secondary regulations and moved towards their increasing acceptance in on-line transactions.

Dimensions where progress has been slowest are:⁹

Availability of skills

The gap between skills supply and the skills required by the market is growing. The Western Balkan countries and UNMIK/Kosovo have not yet established systematic tracking of training requirements relative to market demand. Furthermore, the issue of quality assurance for the training provided has not been effectively addressed. With increasing evidence of the links between quality manpower and SME performance, there is a need to give further impetus to training initiatives.

Education and training

Entrepreneurship education and training to help increase available skills is just starting to be developed in the region. While the Western Balkan economies have engaged in cross-stakeholder dialogue concerning the development of life-long entrepreneurship learning, policies and financial accountability remain to be defined. The assessment highlights that entrepreneurship is still generally confined to traditional business areas. It recommends treating entrepreneurship as a key competence in early education. There has been good progress at the secondary education level, but efforts have generally been project-based and donor-driven. The assessment also recommends that pilot projects have entrepreneurship policy learning objectives, as a basis for eventual integration into the broader school curriculum.

Improving on-line access

A range of e-government services for SMEs are emerging. They include provision of relevant on-line business information and the introduction of on-line services for filing tax returns or applications for licences and permits. Basic SME portals do not systematically exist in all countries. There are some pilot projects for interactive services. Croatia stands out for its development of e-government initiatives.

Progress in the six Western Balkan countries and UNMIK/Kosovo

In terms of enterprise policy development and Charter implementation, the Western Balkan countries and UNMIK/Kosovo can be divided into three groups:

- The first group is made up of countries and a jurisdiction in the process of completing the legal and institutional framework underpinning SME policy development. On the scale of 1 to 5 used to evaluate stages of policy development, their typical rating is in the range of level 2 (although there are examples of good performance in specific areas). This group is led by Albania. It also includes Bosnia and Herzegovina and UNMIK/Kosovo.

Albania has made relatively good progress in building institutions responsible for elaborating and delivering SME policy and completing the relevant legal and institutional framework. However, policy is still at an early stage of development in the broad regulatory area, particularly with respect to company registration, where Albania actually lags behind the rest of the region. Progress is still too dependent on donor support, raising questions about the medium-term sustainability of a number of programmes. Once these issues are addressed, Albania has the potential to move quickly to the next stage of policy development, where the focus will be on implementation more than elaboration.

For Bosnia and Herzegovina and, to a lesser extent, UNMIK/Kosovo, governance and political decision-making issues have a profound effect on the ability to implement a well-structured policy.

In **Bosnia and Herzegovina** enterprise policy is largely established at entity level. The country lacks an SME strategy, as well as policy design and implementation capability at state level. There are growing disparities in approach and level of development among the two entities and the District of Brčko. Some critical elements for establishing a level playing field across the country are still not in place (e.g. harmonisation of corporate tax, a national company register). There is a need to establish a system allowing regular information exchange, and to create synergies among locally managed programmes at state level.

UNMIK/Kosovo has made substantial progress in some areas (e.g. company registration) and has adopted a light regulatory approach to the enterprise sector. The main issue remains the incomplete

institutional framework, constrained by the territory's unresolved constitutional status. The problem is compounded by the limited human and financial resources available in the Provisional Institutions of Self-Government and, finally, heavy dependence on donor support.

- The second group is made up of the former Yugoslav Republic of Macedonia, Montenegro and Serbia. These countries' legal and institutional frameworks are largely complete. Work on the implementation phase has begun. The typical rating is around level 3.

The former Yugoslav Republic of Macedonia has made notable progress in establishing institutions responsible for policy elaboration and implementation, particularly (and somewhat belatedly) during the last two years. It has introduced innovative programmes to support start-ups, completed a major overhaul of the company registration process, and made a 'second start' on consultations with the private sector. The main areas of concern are related to the human resource development dimensions (entrepreneurship education and availability of skills), regulatory reform and extensive reliance on donor support for programme implementation.

Montenegro has made appreciable progress on company registration, exports and tax policy. It has established a well-structured and well-funded SME agency, but lags behind on improving the regulatory environment, particularly in relation to the role of local administrations and human resource development dimensions.

Serbia has adopted a medium-term approach to SME development. It has established a solid policy framework and implemented reforms in the company registration and tax policy areas. It is the only country in the second group that systematically applies Regulatory Impact Analysis (RIA) to new legislation and regulations. Serbia is developing a pro-active profile on innovation policy. With respect to the remaining dimensions, it is working steadily on the policy-building blocks.

All three countries in this group could score 3 in all the significant areas relatively easily, without major changes in approach, but further progress would require a real renewal of political commitment and budgetary allocations.

The only country in the third group, **Croatia**, is the only Western Balkans economy that has clearly moved from policy elaboration to the policy implementation phase, with a typical rating of 3 to 4 in most dimensions. There are still some weak areas where substantial actions are currently being taken (especially concerning the registration of legal entities), but Croatia leads in six of the ten dimensions. Its advanced status in the EU integration process partly explains this good performance. The accession process influences the pace of reform, with clear targets and well-defined schedules, and imposes closer inter-ministerial co-ordination. This effect should be progressively felt in the other Western Balkan economies, as they move through the steps of EU integration.

The way forward

The assessment indicates that in the last two years there has been measurable progress in meeting the Charter requirements. However, much remains to be done to improve the operational environment for small enterprises, develop good policy practices, and establish the basis for healthy, stable growth in small enterprises.

Government can foster growth by operating in two directions: build a favourable business environment and/or provide targeted support for selected categories of enterprises, addressing specific market failures. The combination of these two types of intervention is determined by the stage of country development and the policy tools available for government action.

Those Western Balkan governments, which have not already done so, need to rapidly establish the basic operational environment for SMEs in areas such as business registration, taxation and access to finance.

Moving beyond the basic operational environment, all the region's economies need to further develop skills – particularly entrepreneurial ones – to better match market needs. Skills are a critical competitiveness factor for SMEs, entailing significant medium- to long-term investment.

Better access to technology, e-business and on-line services can help SMEs to be more competitive and innovative. Croatia should further consolidate its lead in this area, e.g. by expanding its offering of e-government services. The other countries and UNMIK/Kosovo should progressively reinforce their technology networks to prepare for the future. In some countries, such as Albania and Bosnia and Herzegovina, this will first require substantial restructuring of the telecommunications network, but this is key: SMEs cannot operate effectively without basic telecommunications.

Access to the EU Single Market and competitiveness, can be further enhanced through specific government support to promote exports, particularly through the provision of technical and phytosanitary standards and associated internationally recognised certification.

Improved skills, technology and targeted government support for exports represent the next wave of government policy that will help SMEs in the Western Balkans and UNMIK/Kosovo to become more competitive.

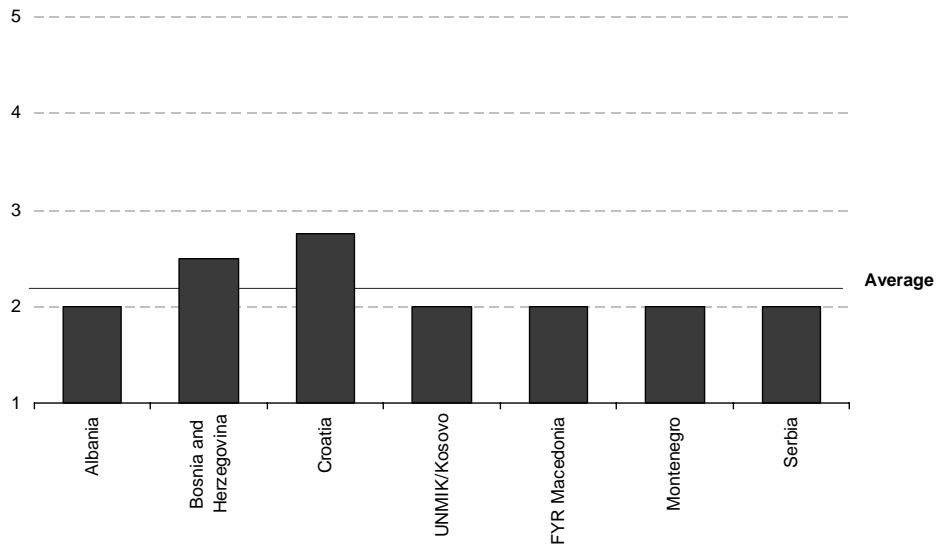
To achieve these ambitious policy targets, donor funds for SMEs need to be more targeted and co-ordinated with priorities defined in national growth plans and SME strategies.

While they are starting from different levels of policy development, all countries and UNMIK/Kosovo are making progress in the same direction. There is good reason to believe that we will see another wave of progress when the next regional report is published in 2009.

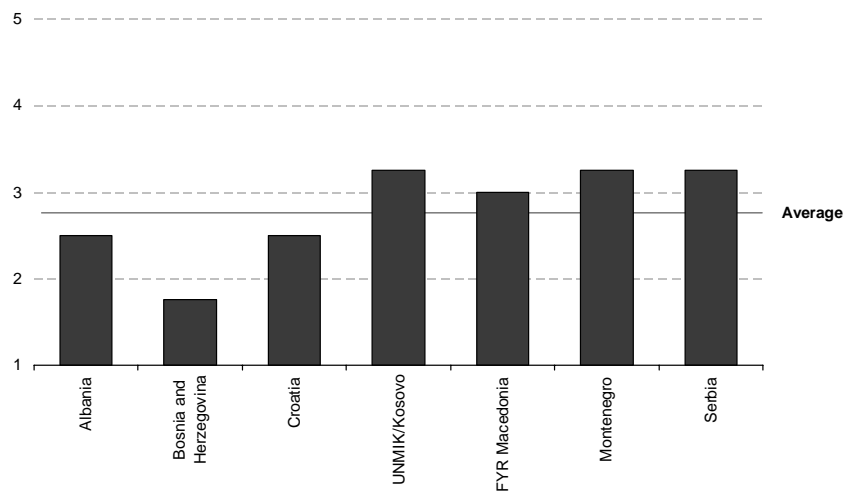
Progress Across the The Charter Dimensions: Overall SME Index Scores

The following figures show the SME Policy Index scores for each country and Charter dimension.

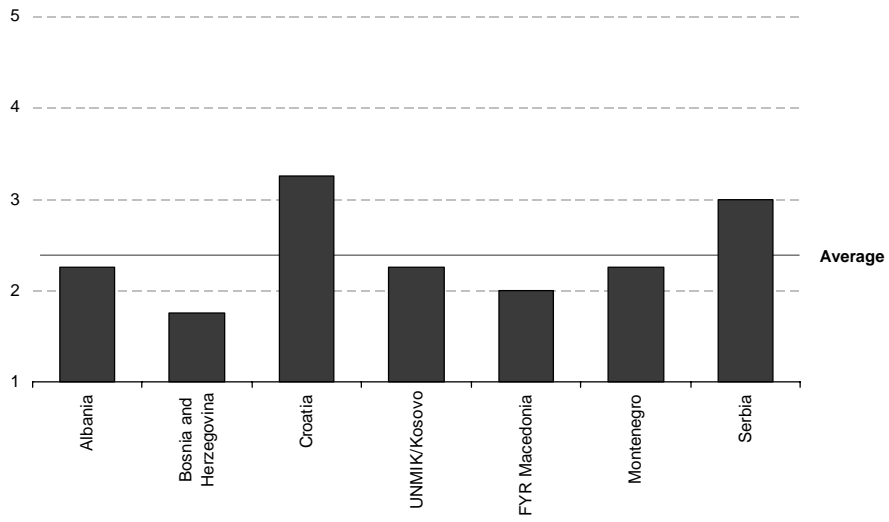
Dimension 1. Entrepreneurship education and training



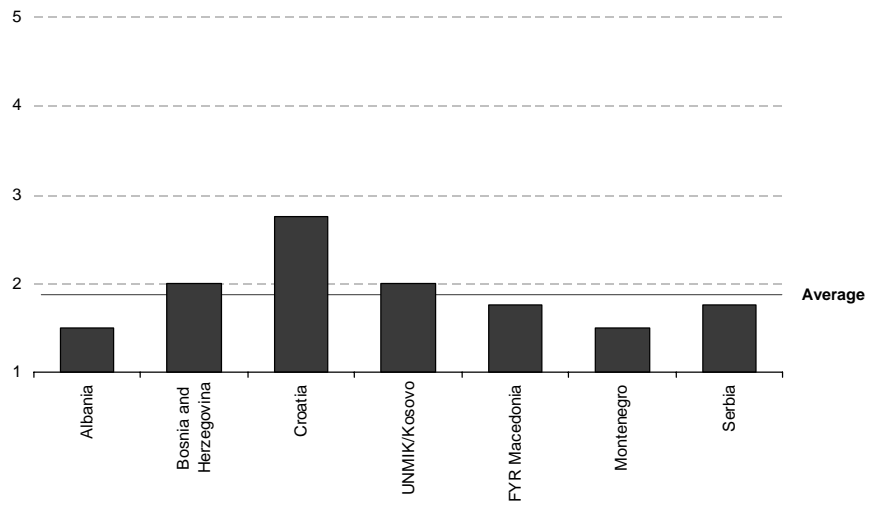
Dimension 2. Cheaper and faster start-up



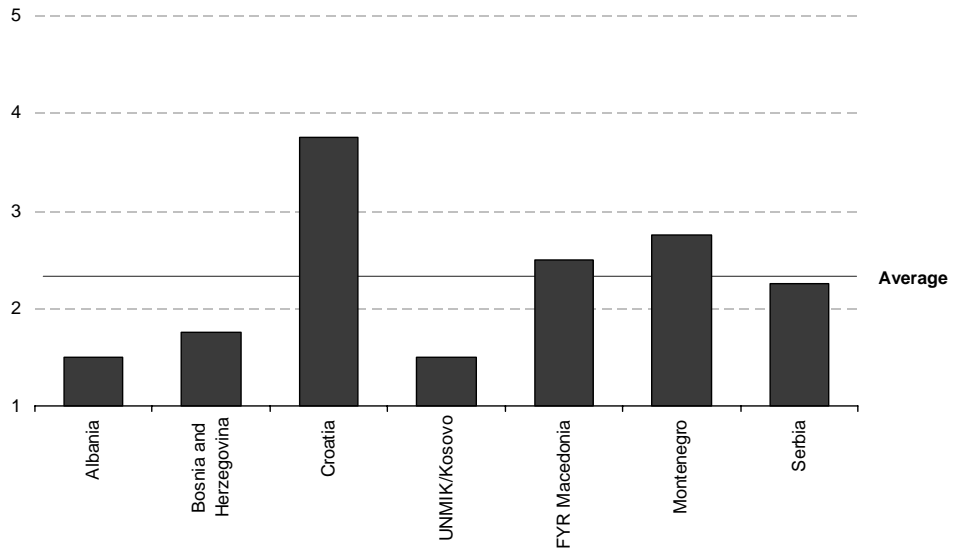
Dimension 3. Better legislation and regulation



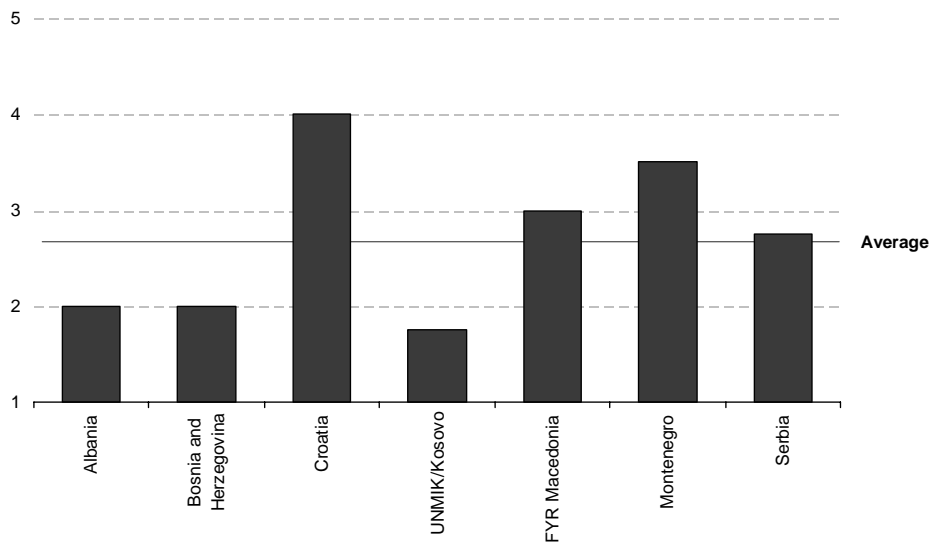
Dimension 4. Availability of skills



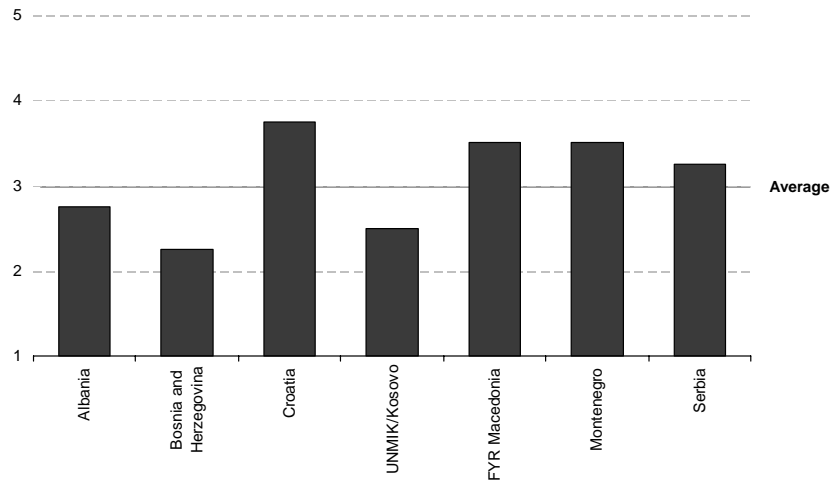
Dimension 5. Improving on-line access



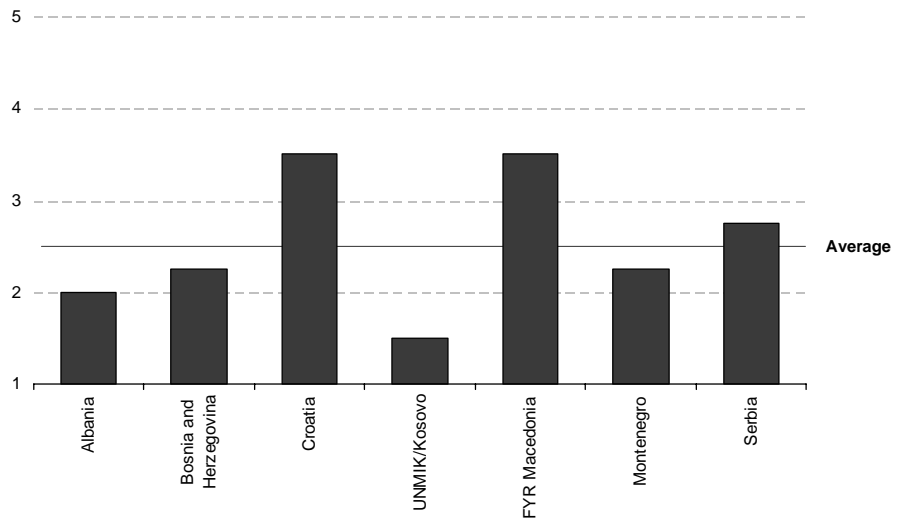
Dimension 6 . Getting more out of the single market



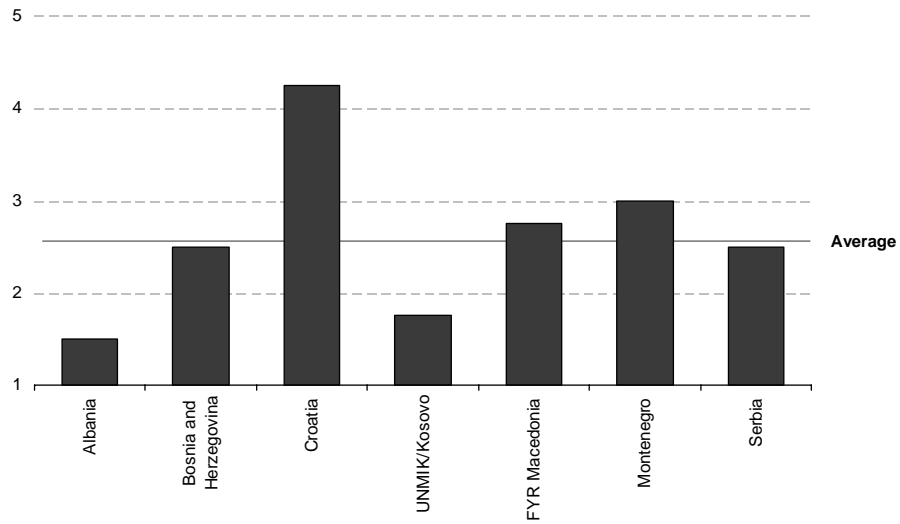
Dimension 7. Taxation and financial matters



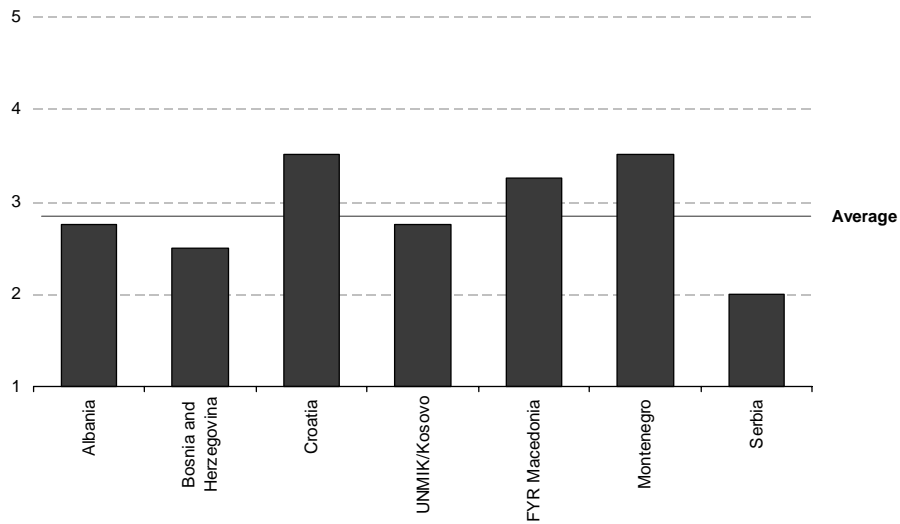
Dimension 8. Strengthening the technological capacity of SMEs



Dimension 9. Successful e-business models and top class small business support



Dimension 10. Representation of small enterprises' interests



NOTES

- 1 Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Montenegro and Serbia.
- 2 See Appendix 4.
- 3 The European Charter for Small Enterprises was approved by EU leaders at the Feira Council on 19-20 June 2000. It calls upon member States and the Commission to take action to support and encourage small enterprises in regard to the Charter's ten dimensions. See http://ec.europa.eu/enterprise/enterprise_policy/charter/index_en.htm.
- 4 For the Bologna Process and the Bologna Declaration on the European Space for Higher Education, see http://ec.europa.eu/education/policies/educ/bologna/bologna_en.html.
- 5 For details of the weighting system, refer to Annex 2 of this report.
- 6 The dimensions listed here are those in which, on average, the Western Balkan countries and UNMIK/Kosovo scored 2.5 or more out of 5.
- 7 With the possible exception of Montenegro.
- 8 United Nations Interim Administration in Kosovo.
- 9 The dimensions listed here are those in which, on average, the Western Balkan countries and UNMIK/Kosovo scored below 2.5 out of 5.

Part I

INTRODUCTION

**THE CHARTER PROCESS IN THE WESTERN BALKANS
AND THE SME POLICY INDEX METHODOLOGY**

**AN OVERVIEW OF THE SMALL ENTERPRISE SECTOR
IN THE WESTERN BALKANS**

THE CHARTER PROCESS IN THE WESTERN BALKANS AND THE SME POLICY INDEX METHODOLOGY

Introduction

The objective of this report is to monitor progress in implementing the European Charter for Small Enterprises (the Charter) in the Western Balkans.

The report covers Albania, Bosnia and Herzegovina, Croatia, UNMIK/Kosovo, the former Yugoslav Republic of Macedonia, Montenegro and Serbia.¹

An analysis is presented of the process of policy elaboration and implementation for each of the Charter's ten dimensions.² Also included is an evaluation of the performance of each country and UNMIK/Kosovo in implementing the Charter's policy guidelines, based on a common set of indicators. This evaluation focuses on policies elaborated and implemented by governments.

The report is structured in three parts:

- Part I contains the introduction, background and methodology, as well as an overview of the small enterprise sector in the Western Balkans;
- Part II contains an assessment of the degree of implementation of each of the ten Charter dimensions, with an analysis of trends and key issues and comparisons of the different countries and UNMIK/Kosovo;
- Part III presents profiles of all the Western Balkan countries and UNMIK/Kosovo, highlighting strengths and areas for improvement in policy implementation.

The Charter process in the Western Balkans

At the 20 June 2003 EU-Western Balkans summit in Thessalonica, Greece, the countries and entities of the Western Balkans (Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Serbia and Montenegro including Kosovo) adopted the European Charter for Small Enterprises. The Charter is a pan-European policy document, adopted in the framework of the Lisbon Agenda to improve co-operation on enterprise policy issues within the EU and between EU Member States.

The 2003 Thessalonica Agenda for the Western Balkans provided a three-year mandate for the European Commission to monitor and support implementation of the Charter in the region.

Following the adoption of the Charter, each country and UNMIK/Kosovo named a National Charter Co-ordinator and established mechanisms for systematic monitoring of its implementation, under the auspices of the European Commission (Directorate-General for Enterprise and Industry) and with the support of the EC Delegations in countries in the region. The European Training Foundation

(ETF) has gradually become an additional source of expertise and advice for monitoring Charter dimensions 1 and 4, which address education, training and skills issues.

In parallel, the OECD Investment Compact, in co-operation with the European Bank for Reconstruction and Development (EBRD), carried out a periodic independent evaluation of government enterprise policy (Enterprise Policy Performance Assessments, EPPAs) which covered most of the Charter's ten dimensions. Two series of EPPAs and accompanying regional reports were published by the OECD in 2003/4 and 2005. A number of seminars and peer reviews on thematic issues were organised to deepen understanding of – and co-operation on – SME policy issues in the region. This programme was partly financed by the European Commission (DG Enterprise and Industry).

The Charter monitoring process resulted in the publication of three sets of country reports, prepared by the National Co-ordinators, and three regional reports on the *Implementation of the European Charter for Small Enterprises for the Western Balkans*, adopted as Commission Staff Working Documents in 2004, 2005 and 2006.

In 2006 the Charter process was mainstreamed in the new Lisbon Agenda ('Growth and Jobs'³) for the 25 EU Member States. Bulgaria and Romania are currently joining the Lisbon Agenda. Faced with the possibility of a discontinuation of the Charter process, the six countries and UNMIK/Kosovo adopted the 'Belgrade Declaration' at a regional meeting in Belgrade, Serbia, on 26 October 2005. It calls on the Commission to continue the Charter process in the region. As a policy response to the Belgrade Declaration, the Commission expressed its readiness to continue the process for another three years (2006-08) in two policy papers:

- The Commission Communication 'The Western Balkans on the Road to the EU: Consolidating Stability and Raising Prosperity' (COM (2006) 27 of 27.1.2006);
- The Commission Staff Working Document 'Report on the Implementation of the European Charter for Small Enterprises in Moldova and the Countries of the Western Balkans' (SEC (2006) 283 of 24.2.2006).

The General Affairs and External Relations Council (GAERC) meeting of 20 March 2006 welcomed the decision of the Commission to prolong the European Charter in the region.

This new phase of the Charter process is characterised by the following features:

- *A multi-agency approach:* The OECD Investment Compact decided to fully align its policy evaluation programme with the Charter process, and to integrate it in one single process on the European Charter for Small Enterprises. Equally, the EBRD decided to continue to support the monitoring activity. The process now involves two lead organisations, the EC and the OECD, and two support organisations, the ETF and the EBRD;
- The development of a specific *measuring tool* to make progress in Charter implementation more tangible, and to raise the stakes and visibility of the overall process. Three meetings were therefore organised in 2006 to develop an SME Policy Index, in co-operation with the National Charter Co-ordinators. The objective of the Index is to measure, on a regular and transparent basis, progress made during the Charter process. The inter-agency co-operation and the consultations with the National Charter Co-ordinators led to the elaboration of a common template based on 56 indicators, on which each country can reach five different performance levels;

- The launching in June 2006 of a new Charter evaluation process, based on a *self-assessment* conducted by each of the six Western Balkan countries and UNMIK/Kosovo under the supervision of the National Charter Co-ordinators. The country self-evaluations, completed in September 2006, were complemented by an *independent counter-assessment* by a team of local and international consultants directed by Eurecna, an Italian consultancy recruited through a restricted call for proposals;
- The self-assessments, structured in a national report, were discussed at bilateral consultation meetings held in each capital under the auspices of government authorities and the EC. These bilateral meetings, in each of which between 40 and 70 key SME policy stakeholders took part, were held between June and September 2006. The counter-assessments were co-ordinated by the OECD Investment Compact, in close consultation with the EC (DG Enterprise and Industry) and with the support of ETF and EBRD. The report is the result of the consolidation of these two assessments, enriched by further desk research by the four partner organisations and inputs from other organisations such as the World Bank, IFC and UNDP, research centres and bilateral development agencies. The information used for the assessment was updated until end of October 2006. Any policy developments that occurred after that date were not considered in this report.
- The process will continue after publication of this report. Based on the results of the SME Policy Index, the Western Balkan governments are expected to identify a number of country-specific priorities and to set three to five well-defined policy targets, complemented by plans of action. The targets should be identified through a process of public/private consultation, involving key members of the stakeholders and relevant members of the SME policy community. The selected targets should preferably relate to the weak points highlighted in the report. Meeting the target should result in concrete improvement of the small business operational environment or tangible progress along the policy development path. In other terms, meeting the target should result in an improvement of scores for a specific policy dimension or sub-dimension;
- The next monitoring cycle (2007-09) will include an assessment of the impact of government policy in priority areas through company surveys and focus groups, systematic monitoring of the target implementation, and a phase of policy coaching through peer reviews, workshops and expert assistance. The next regional report will be published in the spring of 2009.

The SME Policy Index

The SME Policy Index is a key feature of the new phase of Charter implementation in the Western Balkans. It was introduced in response to the demand by National Charter Co-ordinators for a more systematic and analytical tool to track policy developments and identify gaps in policy elaboration and implementation at the national and regional levels. It has been developed by the EC and the OECD Investment Compact in co-operation with the ETF and the EBRD, and in close consultation with the National Charter Co-ordinators of the Western Balkans.

The Index was developed by combining the Charter structure with an assessment approach developed by the OECD Investment Compact for evaluation of the investment climate in South East Europe.⁴ The framework has been adjusted to reflect the conditions of policymaking in the Western Balkans,

SME Policy Index objectives

The main objectives of the SME Policy Index are:

- Structured evaluation
 - Evaluate progress in SME policy reform in the Western Balkans on a comparative basis;
 - Define countries' position on a scale of 1 to 5 (weaker to stronger), corresponding to the various dimensions of reform.
- Targeted support for improvement
 - Prioritise regional and country level policy priorities and support needs.
- Regional collaboration and peer review
 - Encourage more effective peer review through a common evaluation framework.
- Public and private sector involvement
 - Offer a simple and transparent communication tool for potential entrepreneurs or investors;
 - Establish a measurement process that encourages public/private consultation.
- Planning and resource allocation
 - Facilitate medium-term planning, particularly for dimensions that require multi-year programmes;
 - Provide a tool for resource mobilisation and allocation, following the identification of strong points and areas for improvement.

The SME Policy Index methodology

The SME Policy Index is structured around the ten policy dimensions covered by the European Charter for Small Enterprises:⁵

1. Education and training for entrepreneurship;
2. Cheaper and faster start-up;
3. Better legislation and regulation;
4. Availability of skills;
5. Improving on-line access;
6. Getting more out of the single market;

7. Taxation and financial matters;
8. Strengthening the technological capacity of small enterprises;
9. Successful e-business models and top-class business support;
10. Developing stronger, more effective representation of small enterprises.

Each policy dimension is further divided into sub-dimensions that capture the critical feature of policy development in each specific area. For example, the sub-dimensions included in dimension 3 (Better legislation and regulation) are:

1. Regulatory impact assessment for new SME-regulation;
2. Simplification of rules;
3. Institutional framework.

Sub-dimensions are broken down into indicators. For example, the sub-dimension 'Institutional framework' contains the following indicators:

Inter-governmental co-ordination in policy elaboration;

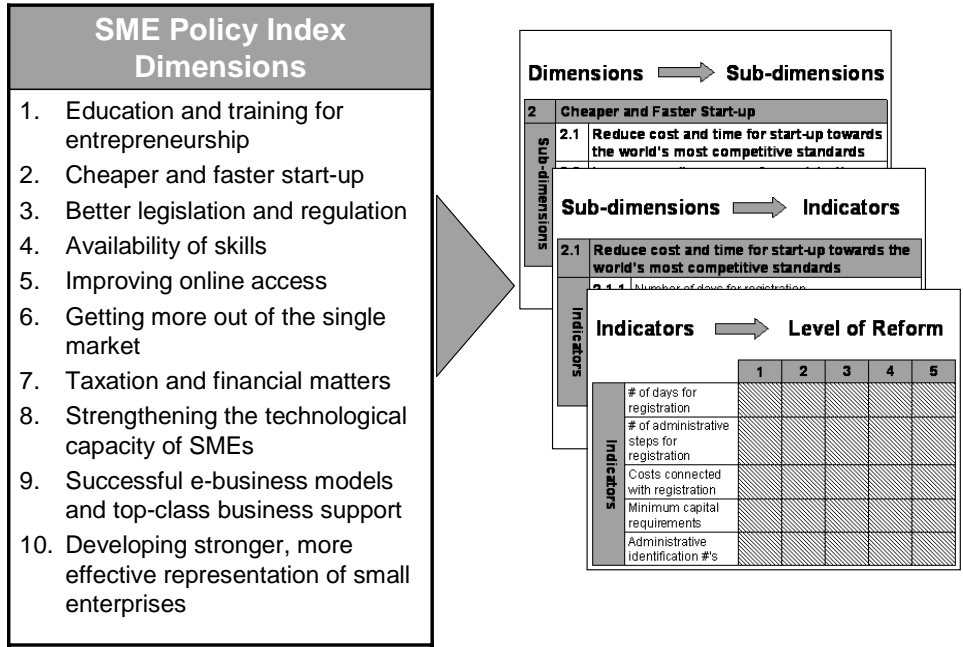
1. SME development strategy;
2. SME policy implementation agency or equivalent.

The indicators are structured around five levels of policy development, with 1 the weakest and 5 the strongest. The policy development path for each indicator is typically structured according to the following lines:

- Level 1: There is no law or institution in place to cover the area concerned;
- Level 2: There is a draft law or institution, and there are some signs of government activity to address the area concerned;
- Level 3: A solid legal and/or institutional framework is in place for this specific policy area;
- Level 4: Level 3 + some concrete indications of effective policy implementation of the law or institution;
- Level 5: Level 3 + some significant record of concrete and effective policy implementation of the law or institution. This level comes closest to good practices identified as a result of the EU Charter process and the OECD Bologna Process.⁶

Where countries were clearly in transition between two levels, or where the actual situation combined elements of two subsequent levels, a half point is attributed.

Figure I.1 Breakdown of the SME Policy Index Structure



Each sub-dimension and indicator is weighted according to its perceived importance in relation to enterprise policy development. The weights have been assigned as result of a process of consultation between the four partner organisations and the National Charter Co-ordinators. The weighting system ranges from 3 (most important) to 1 (least important).⁷ The final score assigned to each policy dimension is therefore calculated as a weighted average of sub-dimensions and indicators.

It was decided not to aggregate the evaluation results for each country or jurisdiction in a single numeric index. It would, in fact, be impossible to correctly determine the weight of each dimension. The SME Policy Index has been designed as a tool to foster policy dialogue among the SME policy stakeholders at country and regional level. It is therefore up to the policy stakeholders to decide on which dimension or specific dimension to concentrate their efforts. In addition to being methodologically unfounded, a single numerical index would risk misleading the policy debate, concentrating the discussion on countries' overall relative performance instead of focusing more productively on relative strengths and weaknesses.

Box I.1 The SME Policy Index process

1. Regional meeting with National Co-ordinators to present and explain the SME Policy Index and ask for comments (Istanbul, Turkey, 7-8 February 2006);
2. Finalisation of the SME policy toolkit: technical meetings of the four partner organisations (EC, OECD, ETF, EBRD) to integrate comments by National Charter Co-ordinators (April-May 2006);
3. Regional meeting to present the final toolkit to National Charter Co-ordinators (Brussels, Belgium, 22 May 2006);
4. Trial meeting with a group of national SME policy stakeholders to test the feasibility of the SME Index (initiative of the Croatian government, Zagreb, 28 June 2006);
5. Western Balkan countries/entities conduct self-evaluations, structured in a national report, corresponding to the ten Charter dimensions (June-September 2006) and organisation of bilateral meetings in capitals with key SME policy stakeholders as a 'hearing' on the national report;
6. Partner organisations conduct second-level measurement (desk research) to further incorporate:
 - Primary data from each Western Balkan country and UNMIK/Kosovo;
 - Input from specialised government bodies (e.g. SME agencies);
 - Input from the private sector (e.g. Chambers of Commerce, SME associations, etc.) (June-September 2006);
 - Input from other studies commissioned by international organisations (e.g. World Bank);
7. A team of independent consultants co-ordinated by Eurecna, use the SME Index to conduct an independent counter-assessment with the help of local consultants and structured interviews;
8. Regional meeting to present the counter-assessment to National Charter Co-ordinators and ask for comments (Belgrade, Serbia, 17 November 2006);
9. Final opportunity given countries by the partner organisations to comment on preliminary scoring (December 2006-January 2007);
10. Final decision on scores by EC, OECD-IC, ETF and EBRD (January 2007);
11. Finalisation and publication of Charter report (January-March 2007);
12. Official launch of Charter report at a regional workshop organised by the Croatian Ministry of Economy, Labour and Entrepreneurship and the EC (Dubrovnik, Croatia, 26-27 March 2007).

NOTES

- 1 In the tables, ISO 3166-1 three-letter international abbreviations for countries (ALB, BIH, HRV, MKD, MNE, SRB) are used. UNK stands for UNMIK/Kosovo.
- 2 These dimensions are referred to as 'lines for action' in the Charter.
- 3 See http://ec.europa.eu/growthandjobs/index_en.htm.
- 4 *Investment Reform Index*, OECD Investment Compact (2006).
- 5 See Annex V for the full text of the Charter.
- 6 See http://ec.europa.eu/enterprise/enterprise_policy/charter/gp/index.cfm for the Charter good practices and to http://www.oecd.org/document/43/0,2340,fr_2649_201185_2505195_1_1_1_1,00.html or the OECD Bologna SME process.
- 7 The exact details of the weighting system can be found in Annex II.

AN OVERVIEW OF THE SMALL ENTERPRISE SECTOR IN THE WESTERN BALKANS

The role of SME statistics

There is increasing recognition of the need for quality statistics on the business sector, and particularly on SMEs. Policymakers require SME demographic statistics (e.g. entry and exit rates, businesses' stock and related measures) to understand the dynamics of the sector, as a measure of economies' ability to shift resources to growing and more productive areas, and to adjust the production structure to meet consumers' changing needs. Business indicators, on the other hand, are required to monitor the performance of the sector and, especially in transition countries, to measure employment creation and poverty alleviation.

This demand for information has fostered the production of internationally comparable SME statistics in the EU and among OECD countries, and of a harmonised methodology for definitions of concepts and indicators. Information about businesses' stock, start-ups, business deaths and survivability is already available from business registers at a detailed sector level, reducing the response burden on businesses. However, the relatively recent development of the business sector in the Western Balkans, combined with the restructuring of the offices of statistics in the Western Balkans, has not yet permitted the collection of SME statistics according to the internationally agreed methodology or the effective dissemination of SME statistics.

Three standard methods for collection of SME statistics

According to international standards, there are three main sources of SME statistics: administrative registers, business surveys and statistical business registers (SBRs). Business censuses (i.e. exhaustive surveys) are expensive and do not allow very specific research. SBRs, which combine inputs from administrative registers and business surveys, are a key element of the statistical infrastructure:

- Administrative registers kept by public institutions and some private organisations (e.g. Chambers of Commerce and business associations) allow the production of cost-effective statistics without increasing the response burden on companies. Indicators that may be produced as a by-product of the administrative activity are usually related to basic statistical information such as location, property and legal form, economic activity and date of birth. Very rarely, administrative registers are updated for measurements of company size, such as turnover or number of employees. Tax registers are a particularly useful source of economic indicators (e.g. turnover, profits and losses, exports, salaries). However, in many countries use of the tax register as a statistical source is limited by confidentiality laws.
- Business surveys are carried out on a sample of firms selected at random from a business register (see below). They make possible deeper investigations of particular topics (e.g. performance indicators, innovation, employment and wages). The costs of business surveys may be high, depending on the data collection procedure (e.g. face-to-face, telephone interviews, mail) and sample size, and increase with the degree of precision required. Inputs from business surveys need to be compared with and complemented by information from

other surveys (e.g. the labour market) and other data sources, in order to address measurement problems due to the presence of an informal business sector;

- Statistical business registers (SBRs) are usually maintained by national statistical offices, based on administrative registers (such as trade registers and tax files) and updated with the results of business surveys. The existence of a quality statistical register is a prerequisite for quality business statistics, as random samples are extracted from the SBRs. Problems of under-coverage (e.g. inclusion of firms only above a certain size, exclusion of single entrepreneurs) and of dormant firms (e.g. inactive ones which are registered but do not engage in any economic activity) may affect the results of statistical surveys. A problem with respect to the accuracy of SBRs in most transition countries is the presence of a large informal sector, especially in retail trade. Economic agents – usually individuals – operating in the informal sector are not adequately covered by SBRs and therefore by economic statistics.

SME statistical indicators in the Western Balkans

SME statistics in the Western Balkans have several shortcomings:

- Weak international comparability;
- Low accessibility and usability;
- Inadequate level of detail and limited reliability;
- Incomplete information about employment and turnover.

One of the main issues concerns the definition of SMEs. All of the Western Balkan countries (except Bosnia and Herzegovina) and UNMIK/Kosovo apply an EC definition of SMEs.¹ Most of the countries adopt the EU employment criterion but use different parameters for turnover and asset classification. Consequently, country data are not fully comparable, generating obstacles to benchmarking country statistics.

Secondly, published SME statistics are patchy and incomplete. Some Western Balkan countries, such as Croatia, Montenegro and Serbia, publish relatively complete sets of business statistics. Others, such as Albania and the former Yugoslav Republic of Macedonia, have started to improve data collection. The former Yugoslav Republic of Macedonia bases its SME statistics mainly on the Statistical Business Register, but it plans to introduce systematic business surveys. Albania regularly conducts business surveys, but disseminates only a small part of the available information. Bosnia and Herzegovina only recently started to develop a statistical data base at state level. A very limited set of business statistics is collected at entity level, on different bases and using different methodologies. UNMIK/Kosovo is developing a new system from scratch, with the support of the international community. The bulk of the business statistics have been provided by the Agency for Business Registration and the SME Support Agency of Kosovo.

Table I.1 presents a set of the SME statistical indicators compiled by using data from official statistics and government sources, together with various reports issued by international organisations, economic research centres and SME observatories. The data are not fully comparable, nor are they complete. Their reliability is partly compromised by the presence of a relatively large informal sector in all the Western Balkan economies, with the possible exception of Croatia. Reporting of employment and company turnover data is particularly affected. Moreover, statistical offices often do not provide information on the adjustments they have made to take account of the informal sector's contribution.

Table I.1 Enterprise statistics in the Western Balkan countries and UNMIK/Kosovo (latest available year)

	Albania	Bosnia and Herzegovina	Croatia	UNMIK/Kosovo	Former Yugoslav Republic of Macedonia	Montenegro ⁴⁾	Serbia
Total registered companies	64 710	103 644	239 131	55 884	180 000	28 950	-
Active companies	45 034	-	111 072	42 153	44 424	-	69 360
Total number of SMEs	64 658 ¹⁾	-	70 000 ²⁾	55 849 ¹⁾	44 340	10 887	68 691
Number of SMEs per 1 000 inhabitants	14.38 5)	-	15.57	22.33	21.79	15.91	9.2
SMEs operating in the manufacturing sector over the total SME population (?)(%)	-	-	-	9.25 ³⁾	17	16.54	~22

1) Registered SMEs.

2) Excluding crafts (natural persons).

3) Manufacturing data for UNMIK/Kosovo include only food and beverages and tobacco products.

4) Data for Montenegro on employment by company size based on data from the Health Fund and a total of 52 485 persons employed in SMEs, including entrepreneurs (14.68%).

5) The number is based on an approximation of active SMEs.

Sources: Albania: Data is from 2005; Source: Institute of Statistics, 2005. Croatia: Data is from 2006; Source: Central Bureau for Statistics, FINA, Crafts Register; Croatian Agency for SME, 2006, Croatian Chamber of Economy, 2004; Ministry of Economy, Labour and Entrepreneurship, 2004. UNMIK/Kosovo: Data is from 2006 (until November 2006); Source: Agency for Business Registration, Tax Administration, 2006. Former Yugoslav Republic of Macedonia: Data is from 2005; Source: Annual Report 2005 for the SME Sector, Agency for Promotion of Entrepreneurship of the Republic Macedonia, November 2006. Montenegro: Data is from 2005 and first nine months of 2006; Source: Strategy of Development of SMEs 2007-2010, Directorate for the Development of SMEs, December 2006; EuroInfo Centre (EICC), 2006. Serbia: Data is from 2004; Source: A Report on Small and Medium-sized Enterprises and Entrepreneurship in 2004, Ministry of Economy, Republic Agency for the Development of SMEs and Entrepreneurship, Belgrade, November 2005.

However, existing SME statistics allow an initial evaluation of the enterprise sector structure and of the SME role in the Western Balkan economies.

In all the Western Balkan countries and UNMIK/Kosovo, micro, small and medium-sized enterprises account for nearly the total number of registered enterprises, with a share ranging between 95 and 98% of total registered enterprises. This is roughly comparable to the situation in many market economies.

Data on enterprise demography are difficult to interpret, given that some data are related to total registrations and other data (more correctly) only to active enterprises. In addition, it is not always clear how many de-registrations are due to company closure or to the reform and clean-up of the company register. Data available from Montenegro and Serbia point to a healthy trend in the enterprise birth rate. This may be due to several concomitant factors, i.e. new business opportunities provided by

sustained economic growth, a reduction of entry barriers, and the progressive formalisation of business ventures that previously operated informally.

The Western Balkans still has a much lower ratio of registered/active companies to total population, around 15-20 SMEs per 1 000 inhabitants, compared with the new EU Member States from Central Europe, where the ratio is three to four times higher. This is a very rough indication of how relatively weak the region still is economically.

Micro and small enterprises (with a maximum of 50 employees) account for the bulk of registered enterprises. Data available for Croatia and Montenegro indicate that most SMEs are registered as a form of 'non-liability company', often family based. In Croatia approximately 60% of small businesses are registered as craft workshops, taking advantage of simplified procedures and the support Croatia provides to this type of enterprise.

Official employment data from the Western Balkans, particularly when based on company reporting and social security returns, are known not to be very reliable given the weight of informal employment. Official data for Croatia, Montenegro and Serbia indicate that SMEs contribute, on average, 50% of total official employment. In Croatia, if crafts workshops are included, small-scale industry accounts for about 65% of total employment. In other countries the incidence is even higher: micro and small enterprises provide two-thirds of jobs in UNMIK/Kosovo and over 50% in the former Yugoslav Republic of Macedonia. We do not have comparable data on the SME contribution to GDP in the Western Balkans, but estimates for Croatia and the former Yugoslav Republic of Macedonia indicate that it is around 55% and 70% of GDP, respectively.

Employment time series by type of enterprise, available for the former Yugoslav Republic of Macedonia and Serbia, indicate that in the last few years small enterprises have been net employment generators, while large enterprises have steadily cut the number of employees as a result of company restructuring. In Serbia the number of employees in small private enterprises increased by 8.6% in 2001-04, while total employment fell during the same period. In the former Yugoslav Republic of Macedonia in 2004-05, the number of employees increased in SMEs and fell in larger companies.² Most employment growth has taken place in the service (retail, trade, catering and tourism), transport and construction sectors. These relatively low value added sectors are traditionally dominated by micro and small enterprises. Restructuring and concentration in the retail sector are at a very early stage in the Western Balkans. Large retail operators still have a limited presence in Croatia, Bosnia and Herzegovina and Serbia. They are mostly concentrated in the capital and some of the largest cities. They are still largely absent from Albania, UNMIK/Kosovo, the former Yugoslav Republic of Macedonia and Montenegro. Manufacturing has relatively little weight, representing around 15% of SMEs in the former Yugoslav Republic of Macedonia and Montenegro. The share is higher in Serbia, at around 20%.

No official data are available on small enterprises operating in the high value added sector. However, a number of surveys indicate a growing presence of clusters in ICT,³ shared services and high value added manufacturing in Croatia, the former Yugoslav Republic of Macedonia and Serbia.

Based on these preliminary and limited data, several conclusions can be drawn:

- The SME sector in all of the Western Balkan economies is made up largely of micro and small enterprises concentrated in low value added operations in the service, wholesale and retail, transport and construction sectors;

- There are high company birth rates in some Western Balkan economies, but the ratio of SMEs per 1 000 inhabitants in the region remains well below that in Central and Eastern European (CEE) countries;
- SMEs tend to be net employment generators, compensating the steady loss of employment in larger companies;
- In some Western Balkan economies there are emerging clusters of innovative small enterprises offering high value added services and products.

NOTES

- 1 For the EC definition of SMEs, see http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/index_en.htm.
- 2 Annual Report 2005 for the SME sector, Agency for Promotion of Entrepreneurship of the Republic of Macedonia, November 2006; report on small and medium-sized enterprises and entrepreneurship, Serbian Ministry of Economy, November 2005.
- 3 See for instance: *An Overview of Information and Communications Technology Sector in Serbia*, OECD IC 2003

Appendix 1

The Western Balkans: key indicators

Land Area '000 Sq km (1)	Population in million in 2005 (2)	Nominal GDP billion € (3)	Nominal GDP per capita in 2005 € (3)	Trade Openness in 2005 Total trade as % GDP (4)	Status in the EU integration process
Albania	3.2	6.96	2 184	70	SAA signed (5)
Bosnia and Herzegovina	3.8	7.36	1 940	87	SAA under negotiation
Croatia	4.4	30.80	6 939	109	SAA Candidate country status
FYR Macedonia	2.0	4.56	2 280	108	SAA Candidate country status
Montenegro	0.7	1.68	2 518	87	SAA under negotiation
Serbia	9.3	19.44	2 587	74	SAA currently suspended
UNMIK/Kosovo (6)	1.9	2.50	1 316	45	N/A

(1) Source: EBRD Transition Report, 2006;

(2) Source: EBRD Transition Report, 2006; CIA World Fact-book

(3) Source: EBRD Transition Report, 2006, original data in USD converted in € at the average exchange rate USD/€ for 2005;

(4) Source: WDI; Trade openness: (Import+Export)/GDP; data from the EBRD Transition Report, 2006;

(5) SAA: Stabilization and Association Agreement;

(6) Data for UNMIK/Kosovo are for 2004; Source: Kosovo in Figures in 2005, Ministry of Public Services;

Part II

POLICY FINDINGS BY CHARTER DIMENSION

Chapter 1

DIMENSION 1

EDUCATION AND TRAINING FOR ENTREPRENEURSHIP

1.1 Introduction

The European Charter for Small Enterprises envisages the following areas for action in this dimension:

- Nurturing the entrepreneurial spirit and new skills from an early age and throughout the education system;
- Developing specific business-related modules in education schemes, both at secondary level and at colleges and universities;
- Promoting the entrepreneurial efforts of young entrepreneurs-to-be.

A closer look at these three areas highlights how comprehensive and complex the promotion of entrepreneurship through education and training can be, under the terms of the Charter.

A distinction needs to be made between *entrepreneurial spirit* and *entrepreneurship skills*, both of which can be promoted through education. Research suggests that children are more likely to demonstrate entrepreneurial aptitudes like creativity and risk-taking at a young age. The Charter's focus on entrepreneurial spirit underlines the importance of an 'early start' in entrepreneurship education, which lies at the heart of *entrepreneurship as a key competence*, now being promoted by education authorities in the EU Member States.¹ This concept identifies an aggregate of competencies and personality traits that typify an *entrepreneurial character* (e.g. creativity, measured risk-taking, leadership, teamwork, opportunity-driven, results-oriented). These elements can be promoted through more open curricula and more flexible approaches to teaching. The aim is to encourage primary and lower secondary schools, in particular, to 'devise and revise' curricula, teaching methods and overall school governance arrangements, all of which have the potential to promote values, mindsets and entrepreneurial capacities as young people move through education and ultimately into the world of work. In short, it is here that the entrepreneurial spirit can be encouraged.

Another important point is that young people who exit the education system with greater entrepreneurial flair will not only be more aware of the possibilities, and ready to consider self-employment or small business as a career option, but even those who do not choose such a career will be more effective employees and contribute to better enterprise performance.

While entrepreneurship as a key competence is the essential building block of an entrepreneurial character, the Charter foresees secondary and tertiary education as building on the development of key competence. These dimensions will be taken up in the next regional report (2009) but were disregarded in this one.

Taken together, entrepreneurship as a key competence and more specific entrepreneurial skills represent a lifelong learning framework which can cultivate an entrepreneurship culture. The question is: given an already overstretched education-reform agenda, how ready are the Western Balkan countries and entities to evolve towards a lifelong, entrepreneurship-oriented learning system?

A starting point for each of them is dialogue, reflection and discourse among all key stakeholders, with a view to ensuring the fullest understanding of the challenges, opportunities and responsibilities associated with strategic entrepreneurship learning.

Overall, the discussion and assessment of this component of the Charter has been set against EU education and training policies, towards which all countries need to evolve as they prepare for accession. A lifelong education environment which promotes knowledge, skills and attitudes conducive to entrepreneurial thinking and behaviour will be a key requirement in addressing the objectives of this component.

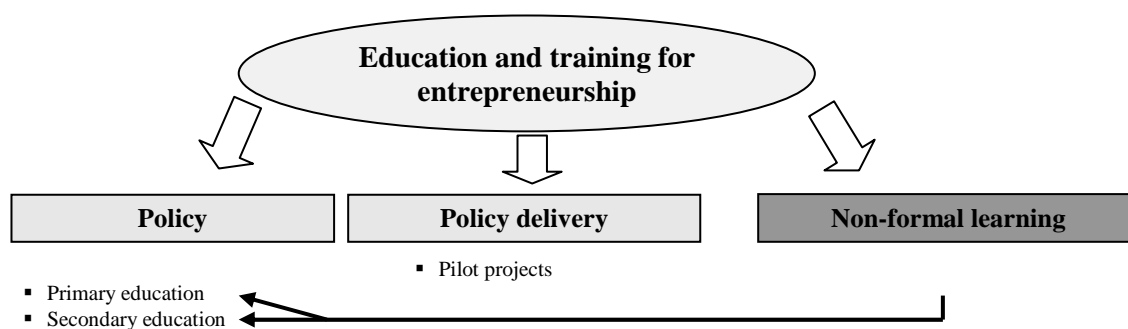
For the purposes of this assessment, reference is made to *entrepreneurship learning*. This encompasses both formal education delivered through the school and university system, and ‘non-formal learning’ – i.e. entrepreneurial knowledge, skills and attitudes, including direct enterprise experience acquired outside the formal education environment.

1.2 Assessment framework

Scores for this dimension are assigned in two sub-dimensions: *policy and delivery* and *non-formal learning*.

Four indicators are used for policy and delivery: the degree to which policy exists and is being implemented (1.1.1); delivery within primary (1.1.2) and lower secondary (1.1.3) education; and pilot projects and experimentation (1.1.4).

Figure 1.1 Education and training for entrepreneurship: assessment framework



Policy is a key indicator. A concerted effort by all actors in the Western Balkans concerned with promoting lifelong entrepreneurship learning (comprising key competence development, enterprise knowledge and more advanced business skills) will require common understanding, policy interfaces, and agreements on strategy and resources. These elements are necessary to ensure that stakeholders work towards a coherent ‘one-system’ approach to entrepreneurship learning in each country.

Table 1.1 Indicators for dimension 1: entrepreneurship training and education

Indicator	Key question	Key actions indicating progress
1.1.1 Policy	Has entrepreneurship been strategically introduced across all levels of the education and training system?	<ul style="list-style-type: none"> • Adoption of a national policy/strategy • Agreement and commitment by all stakeholders to implement the policy/strategy • Action plan to implement the strategy, with clearly defined responsibilities (including donor responsibilities) and performance indicators • Confirmation of stakeholders' budgets to implement various components of the action plan
1.1.2 Delivery within primary education (ISCED 2)	Has entrepreneurship as a key competence been mainstreamed within primary education?	<ul style="list-style-type: none"> • Primary education policy reforms approved to reflect EU policy on entrepreneurship as a key competence • Pilot actions elaborated to determine curriculum reforms, set against policy of phased approach to mainstreaming results across primary system (according to available resources) • Teacher training and retraining plans developed, with phased delivery plan
1.1.3 Delivery within lower secondary education (ISCED 3)	Has entrepreneurship as a key competence been mainstreamed across subjects taught at lower secondary level education?	<ul style="list-style-type: none"> • Lower secondary education policy reforms approved to reflect EU policy on entrepreneurship as a key competence • Pilot actions elaborated to determine curriculum reforms, set against policy of phased approach to mainstreaming results across lower secondary system (according to available resources) • Teacher training and retraining plans developed, with phased delivery plan • School-enterprise co-operation policy agreed by all local education authorities
1.1.4. Pilot projects and experimentation	Are pilot actions being applied with the objective of determining systemic developments of entrepreneurship learning?	<ul style="list-style-type: none"> • All pilot actions have mainstreaming clause to ensure that results are integrated into national entrepreneurship learning developments • Donor-supported pilot actions confirmed as part of national entrepreneurship learning policy/strategy • Public register of pilot actions, including donor-supported activities, is available and regularly updated with evaluation results posted for wider policy dissemination
1.2 Non-formal learning	Do the public, private and non-governmental sectors co-operate and strategically support non-formal entrepreneurship learning?	<ul style="list-style-type: none"> • Non-formal entrepreneurship learning a key feature of national entrepreneurship learning policy/strategy • Information on high-profile non-formal entrepreneurship learning projects mapped and recorded for public access

Entrepreneurial skills and aptitudes require more business related modules, within a broader curriculum. This is where the greatest efforts are currently being made. Ensuring that entrepreneurship as a key competence, particularly in early education will be an important area for development while integrating entrepreneurship knowledge and skills through existing subjects (e.g. geography, languages, history, sciences) will require a paradigm shift in curriculum design, learning methods and teaching skills.

In terms of delivery, the assessment considers primary and lower secondary education, where young people are primarily 'shaped' for the labour market. Generally, the indicators measure the extent to which entrepreneurship as a key competence is being mainstreamed into compulsory education.²

The indicator 'Pilot projects and experimentation' measures the extent to which entrepreneurship education is being tried and tested. Piloting entrepreneurship education reforms allows policy ideas to be tested, and delivery arrangements and resource implications to be determined.

The indicator 'Non-formal learning' considers the extent to which non-formal entrepreneurship learning (particularly the role and contribution of the private sector and other non-statutory bodies) is being developed.

The formal education system has a critical contribution to make to the development of entrepreneurship, but so does informal education (i.e. the development of entrepreneurship knowledge, attitudes and skills outside formal education, but with schools often playing a facilitating role). School-enterprise co-operation, for example, plays an important part in creating enterprise awareness, while the press and wider media can promote awareness of, and interest in, entrepreneurship and provide sign-posting for budding entrepreneurs, enabling them to access available information and training.

1.3 Analysis

In the context of the Charter progress reports submitted for 2003-05, a first general observation based on the overall analysis is that all the Western Balkan countries and UNMIK/Kosovo are becoming increasingly aware that their learning systems can make an important contribution to the promotion of entrepreneurship. Partnerships, co-ordination and synergies in education, training, employment and enterprise policies were central to the feedback and recommendations of the European Commission in the earlier reporting periods. First efforts at cross-stakeholder co-ordination and strategy building are now evident and need to be built upon.

A second observation is that introducing performance indicators has encouraged a focus on critical areas for the strategic development of entrepreneurship learning. Overall, the regional review demonstrates that relatively significant efforts have been made to pilot entrepreneurship learning (the overall best performing area), including promotion of non-formal entrepreneurship learning. For the most part, pilot projects remain outside the formal curriculum.

Thirdly, efforts to promote entrepreneurship learning in secondary schools are more advanced than in primary schools, and are generally biased towards vocational streams where international support (particularly from the EU) is a defining feature. The Charter's 'mindset' criterion will clearly require a greater focus on early education, as well as particular attention to general secondary education.

Box 1.1 Key issues (dimension 1: education and training for entrepreneurship)

1. Entrepreneurship education is not fully understood. In fairness to the Western Balkan countries and UNMIK/Kosovo, the same problem exists in Europe's developed economies, where policies are still evolving including at EU level (e.g. see the Oslo Agenda). The crux of the matter, and what partner country policymakers need to grasp, is that entrepreneurship education involves more than book-keeping and business planning. It also requires consideration of entrepreneurship as a generic competence, to be promoted particularly in early education.

2. Entrepreneurship learning does not have a clearly defined policy home. Policy interest is spread across education, labour and economy ministries, in particular, where both sides of industry need to be fully engaged. Strategic developments therefore require concerted policy co-ordination and consensus.

3. The Western Balkan countries and UNMIK/Kosovo rely heavily on donor support, with the result that most entrepreneurship learning is not subject to assessment and is rarely mainstreamed into the existing curriculum. There is the added risk of lack of sustainability upon withdrawal of donor interest.

1.3.1 Policy and delivery

1.3.1.1 Policy

Establishing a coherent and recognised *national strategy* to promote entrepreneurship learning is the backbone of dimension 1. Assuming that the Western Balkan countries and UNMIK/Kosovo elaborate strategies, and ensure that stakeholders assume ownership of and responsibility for the various strands (including financing), a sound basis for meeting the requirements of dimension 1 provisions will be in place. This is the essence of the entrepreneurship learning policy indicator.

Most countries and UNMIK/Kosovo are engaged in a dialogue or planning process, with the objective of elaborating a national strategy (average score of 2 for the region). Formulation of an entrepreneurship learning strategy is an important building block, as recognised by the Oslo Agenda.³ Countries and UNMIK/Kosovo approach strategy building from different angles. Montenegro stands out for its efforts to ensure the coherence and political positioning of strategy building and monitoring through a proposal to establish an Entrepreneurship Learning Council. In addition, its first entrepreneurship learning perspectives paper has been used to draw down EU financial support for promotion of strategy development and piloting of curriculum reforms, as well as teacher training. UNMIK/Kosovo also has EU support for strategy building. Croatia leads the group, with a strategy nearing completion accompanied by a work programme with financial support for select measures.

Although good work has begun in most countries and UNMIK/Kosovo to create synergies, more concerted efforts are needed to build *national partnerships* and integrated policies which establish a vision and determine responsibilities among stakeholders.

The policy push for entrepreneurship learning emanates from different sources. In Bosnia and Herzegovina, for example, strategy dialogue takes place at entity level only (i.e. in the Republika Srpska). Nonetheless, the Oslo Agenda gives high priority to the promotion of regional entrepreneurship, which could be encouraged, particularly where governance arrangements are particularly decentralised. However, the Charter policy indicator calls for a national strategic framework. In this regard, Bosnia and Herzegovina needs to assume a broader perspective which engages all the entities.

Three cautionary points will be made here, based on the development of entrepreneurship learning in the region:

- The National Charter Co-ordination Office's key role in promoting policy synergies and institutional co-operation should not be confused with eventual policy responsibility in line ministries and particularly the financial responsibility for entrepreneurship learning measures introduced as a consequence of promoting the Charter. In this regard, the range of ministries, executive agencies, voluntary and private sectors working on the development of entrepreneurship learning need to identify with, assume ownership of and take financial responsibility for specific entrepreneurship learning strategy components associated with the Charter. This is where *structured partnership* is important.
- In view of expectations that education authorities will fully engage in the process, the already overcrowded education reform agenda, strategy and delivery timetables may need to be staggered in line with clearly defined priorities. Consequently, short-, medium- and longer-term objectives will be necessary for the development of lifelong entrepreneurship learning as financial resources and capacities (i.e. institutional and human resources) evolve.
- There is a risk that a process of national dialogue can be overwhelmed by policy rhetoric, i.e. the language of reform without proper stakeholder commitment. More efforts should therefore be made to ensure that the rationale and process of the indicators exercise are known and understood throughout the various parts of the learning system, particularly by school boards and their communities. Teachers' unions are an important constituency in this regard. Teachers need to be convinced of the value of further reforms to the curriculum and adjustments to teaching practice. The strategy building process ought to include a comprehensive *consultation and communication process*.

1.3.1.2 Primary education

This is perhaps the most difficult indicator to address. There is very little solid evidence, even within developed economies, on which to draw concerning how entrepreneurship as a key competence can be promoted successfully through the curriculum (including measurements of learning outcomes and assessment mechanisms). Nonetheless, the 'entrepreneurship club' initiative of the national SME Directorate in Montenegro, conducted in co-operation with the Ministry of Education and Slovene partners has stimulated great interest with a mix of key competence issues (e.g. teamwork, creativity) and initial business skills (team business planning). Croatia's new national curriculum for primary education specifically acknowledges entrepreneurship. A national discussion, as a step towards developing the entrepreneurship key competence by Serbia also demonstrates good initiative on the primary education indicator. Bosnia and Herzegovina has identified entrepreneurship in primary education as a feature of its SME strategy, but it is important for this policy prompt to be reflected in education policies if progress is to be ensured.

In performance terms, primary education is the weakest of the entrepreneurship learning indicators in the region. The general picture is of 'one-off' projects on the periphery of the mainstream curriculum. Part of the difficulty is that it is unclear how and why entrepreneurship is to be systematically introduced at primary school level.

As a starting point, partner countries and UNMIK/Kosovo could take note of the EU's policy provision for entrepreneurship as a key competence – which is essentially an aggregate of personal attributes and skills which can be cultivated in the education environment (e.g. creativity, innovative ideas, measured risk-taking). This concept lies at the heart of the primary education indicator. Central

to the entrepreneurship key competence policy is that the learning outcomes may have positive results beyond the economy, underlining how entrepreneurial spirit and skills can be equally applicable outside the world of enterprise.

1.3.1.3 Lower secondary education

All countries and UNMIK/Kosovo are making progress in lower secondary education. Croatia is more advanced in addressing policy specifics for entrepreneurship learning at this level. Overall, countries and UNMIK/Kosovo continue to concentrate their efforts on vocational education, with comparatively little attention given to the general curriculum.

Specific attention is being focused on entrepreneurship in vocational education. The former Yugoslav Republic of Macedonia stands apart because of its emphasis on the principle of lifelong entrepreneurship learning in the 2006 Law on Vocational Education and Science. However, entrepreneurship learning in the region needs to address general secondary as well as vocational education. Moreover, the entrepreneurship as a key competence issue should continue to be a feature of education at this level, while more explicit integration of entrepreneurial phenomena, knowledge and skills through existing school subjects – i.e. mainstreaming – will be an important area for development. How self-employment is promoted in the secondary system, as well as the contribution of career guidance and counselling, are other aspects of secondary (and tertiary) education which also need to be considered⁴.

The secondary education system benefits from good efforts to promote enterprise experience through mini-companies where more advanced enterprise skills are being addressed. The Eco-Net⁵ business education projects, supported by the Austrian Government, include pilot activities (teacher training, enterprise establishment, and participation at international school-based firms) at selected schools in Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, UNMIK/Kosovo and Serbia. Eco-Net is an excellent network, where experience is shared by schools in the region and beyond. The mini-enterprise concept is also supported in most countries by Junior Achievement,⁶ a broader international network promoting young people's awareness of business with school-based activities aimed at developing an understanding of the economics of day-to-day living.

All countries and UNMIK/Kosovo stand to gain from a considered reflection on how the learning principles and more affordable aspects of the Eco-Net and Junior Achievement programmes could be more directly integrated into the school curriculum, teacher development and overall school governance.

1.3.1.4 Pilot projects and experimentation

The objective of this indicator is to determine the value of pilot activities to broader entrepreneurship learning developments in the region. While a variety of projects are being implemented across all countries and UNMIK/Kosovo, it is difficult to determine the extent to which they are actually pilot operations, i.e. can be considered as precursors for the mainstreaming of entrepreneurship in the formal education and training system. Further development and subsequent monitoring of pilots should determine the objectives of pilot measures, juxtaposed with strategic reforms, planning and policy.

The 'pilots' indicator comprises just three scores (1, 3, 5). Most countries are at level 3. The region, which as a rule is above the average score for other indicators, has made significant efforts to promote pilot activities in a number of areas:

- Pupil/student companies;
- Virtual companies;
- Shadowing of businessmen/women by pupils/students;
- Ad hoc teaching in schools by businessmen/women
- Student or teacher away days in companies;
- Company fairs in schools;

The relationship between pilots and the mainstreaming of curriculum reform is still very limited, but the extent to which countries are ‘exploring the field’ is encouraging.

Table 1.2 Scores in sub-dimension 1.3.1: policy

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
Policy	2.00	1.50	2.50	2.00	2.00	2.00	2.00
Primary education	2.00	1.50	2.00	2.00	1.00	2.00	2.00
Secondary education	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Pilot projects	3.00	2.50	2.50	3.00	3.00	3.00	3.00
<i>Overall weighted average for 1.3.1: policy</i>	<i>2.10</i>	<i>1.75</i>	<i>2.20</i>	<i>2.10</i>	<i>1.80</i>	<i>2.10</i>	<i>1.95</i>

1.3.2 Non-formal learning

Self-assessment on this indicator, and follow-up clarifications with stakeholders in countries and UNMIK/Kosovo, suggest that non-formal entrepreneurship learning is not very well understood, often being confused with mainstream curriculum activities. Non-formal learning may take place on the school premises (and with the support of teaching staff) but it is not an integral feature of the school curriculum and is not subject to formal assessment.

Bosnia and Herzegovina and Croatia stand out for their contributions to non-formal entrepreneurship learning. They could provide examples for other countries and UNMIK/Kosovo. In particular, use of the press to promote good examples of small business start-up, and the training offered by the Young Innovators Association in Bosnia and Herzegovina are pioneering while the school-enterprise outreach work and promotion of school fairs underscores Croatia’s non-formal entrepreneurship learning efforts.

Table 1.3 Scores in sub-dimension 1.3.2: non-formal learning

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
Non-formal learning	2.00	3.50	3.50	2.00	2.00	2.00	2.00
<i>Overall weighted average for 1.3.2: non-formal learning</i>	<i>2.00</i>	<i>3.50</i>	<i>3.50</i>	<i>2.00</i>	<i>2.00</i>	<i>2.00</i>	<i>2.00</i>

In conclusion, all countries and UNMIV/Kosovo are essentially in the very first stages of reform and development of entrepreneurship education and training. In all countries and UNMIK/Kosovo good examples can be cited of a range of entrepreneurship learning activities. Overall, Croatia

demonstrates better development compared with its neighbours. Bosnia and Herzegovina's approach to non-formal learning gives it prominence in the overall regional assessment.

The figures below present the scores by sub-dimension and the aggregated average score by dimension.

Figure 1.2 Dimension 1: entrepreneurship education and training, scores by sub-dimension⁷

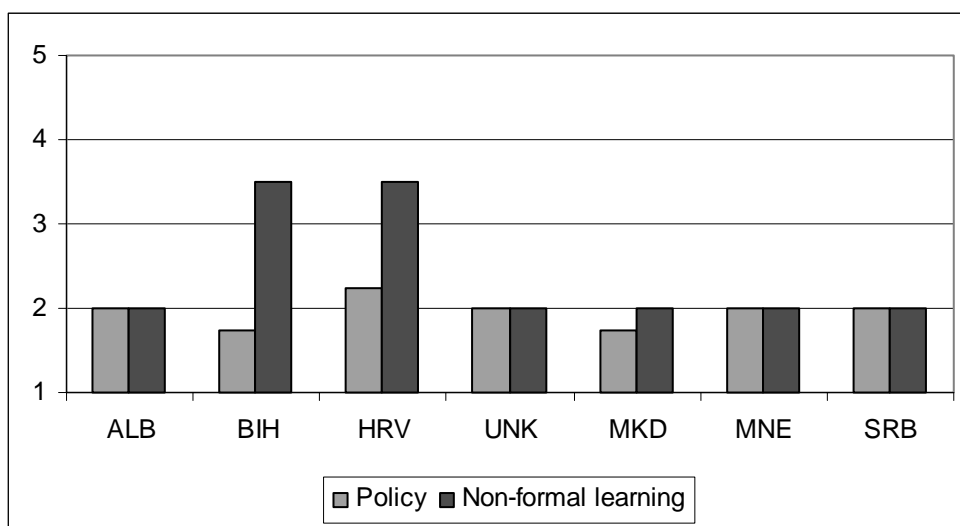
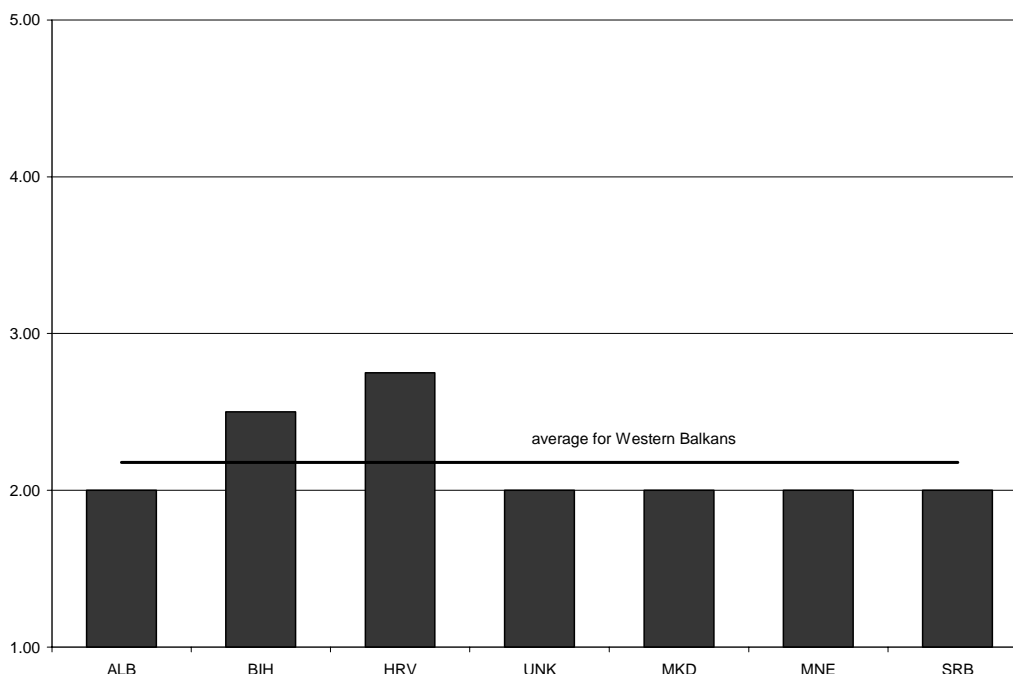


Figure 1.3 Overall scores for dimension 1: entrepreneurship education and training



1.4 The way forward

As all countries in the region are prospective EU Member States, and given a renewed policy thrust within the EU to invigorate entrepreneurship learning by way of the Oslo Agenda, the countries in the Western Balkans and UNMIK/Kosovo would do well to consider the menu of activities recommended by the Agenda and identify priority lines against which further developments in-country could be carried out. The objectives of the dimension 1 indicators feature significantly in the Oslo Agenda, thereby providing impetus for all countries and UNMIK/Kosovo to further engage with the self-assessment and performance management process.

1. *Partnership and strategy*: Countries already working through partnerships to develop lifelong entrepreneurship learning (primary, secondary and tertiary education, non-formal education and training, including work-based learning) should consolidate partnership arrangements. This will reinforce policy synergies and overall efficiency in public spending on entrepreneurship learning activities. Those countries which either have not established structured co-operation for the development of a national entrepreneurship learning strategy (e.g. Bosnia and Herzegovina), or in which co-operation and co-ordination are loose (e.g. Albania, the former Yugoslav Republic of Macedonia, Serbia) could take steps to create (or re-create) the necessary enabling environment which engages all stakeholders in a strategic discourse on entrepreneurship learning. Policy delivery and financial accountabilities need to be clearly spelt out.

National strategies emanating from strategic and inclusive dialogue and consensus will need political support and could be paralleled with action plans, which would need to be monitored and reviewed against realistic targets. A strategy which is well-formulated and has the continued support of all stakeholders will ensure steady progress on all Dimension 1 indicators.

2. It is recommended that National Charter Co-ordinators engage with the education, employment and youth ministries as appropriate, including key players from the private and non-governmental sectors, as part of national strategy building, and define a 'road map' or steps which need to be taken for integration of entrepreneurship in the education system. Part of the problem in promoting entrepreneurship is that there is a missing link between the multiple (donor-supported) pilots and the possible mainstreaming of entrepreneurship into formal curriculum. The guardians of the pilots, often the donors in co-operation with an individual educational establishment, are often not the guardians of education reform, which lies within the education ministries and teachers' representation bodies. A road map could provide this missing link and bring the two communities together.
3. Given the constraints on resources, donor-supported strategic pilots in all countries and UNMIK/Kosovo could be considered an important resource for information and experience to determine curriculum and teacher training implications with respect to the inclusion of entrepreneurship as a key competence at primary and secondary education levels. It is recommended that all countries take stock of entrepreneurship pilots, with the co-operation of the donors which sponsored them, and aggregate these experiences into the national strategy. However, all pilots should be realistic about eventual policy learning and adoption, with particular reference to financial and human resource implications if recommendations for mainstreaming are to follow.
4. *EU developments*: Partner countries and UNMIK/Kosovo would do well to follow all EU policy developments more closely. In this regard, the Oslo Agenda will be an important

reference point for guiding policy and priority-setting in regard to the wider entrepreneurship learning environment. Additionally, candidate countries (Croatia and the former Yugoslav Republic of Macedonia) could consider maximising the potential of the HRD Component of the EU's IPA Programme in their European Social Fund preparations, where support for entrepreneurship learning could be considered, particularly in the post-secondary level (training of the unemployed, under-employed or those at risk of lay-offs) and tertiary level (promoting entrepreneurial career options for university graduates). The remaining countries (potential candidates) likewise should be aware that the education, training, labour market and enterprise support provisions of the IPA Institution Building Component could be engaged to support entrepreneurship learning.

For both candidates and potential candidates, a partnership approach to maximise the value of possible EU support will be essential to ensure that the various entrepreneurship learning measures are co-ordinated and submitted against the range of distinct sector-based programmes, for which partner countries may request IPA finance (e.g. education reform programmes, labour market and employment, enterprise development).

NOTES

- 1 See http://ec.europa.eu/education/policies/2010/doc/keyrec_en.pdf.
- 2 Indicators for post-secondary and tertiary education will eventually be phased into the assessment process, to correspond to the Charter's lifelong entrepreneurship learning perspective.
- 3 The Oslo Strategy is the EU's policy framework for entrepreneurship learning, launched in March 2007. See http://ec.europa.eu/enterprise/entrepreneurship/support_measures/training_education/oslo/oslo_flash.pdf.
- 4 It is expected that additional indicators specifically addressing self-employment and career guidance will be introduced in subsequent reporting.
- 5 See www.econet-see.com.
- 6 See www.ja.org.
- 7 Indicators for sub-dimensions are rated on a scale of 1 to 5 (weaker to stronger). Indicators and sub-dimensions are weighted. The weighting system ranges from 1 (least important) to 3 (most important). All scores are rounded to the nearest 0.25.

Chapter 2

CHEAPER AND FASTER START-UP

2.1 Introduction

Company registration is the first step in the company life cycle; it is also the first formal contact between the entrepreneur and the public administration. The way the company registration process is organised and performed sends a signal about the efficiency of the public administration and its attitude to the company world.

Lengthy company registration and licensing procedures act, de facto, as an entry barrier and discourage entrepreneurial activity. Their impact of lengthy and costly procedures is heaviest on micro and small-scale enterprises, as they divert human and financial resources away from business activity just when the company is most fragile.

Over the last three years, the Western Balkan economies have introduced a number of measures directed at streamlining company registration procedures¹ and reducing registration costs. In a number of cases they have completely redesigned the registration process.

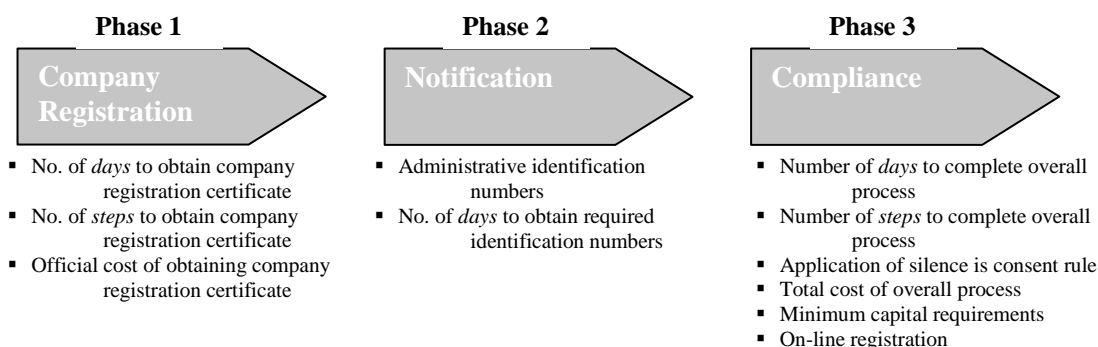
Those measures go in the direction envisaged by the Charter guidelines, encouraging the evolution of company start-up costs, and of the time and procedures required for approval of new companies, towards the world's most competitive standards.

2.2 Assessment framework

The process of formally establishing a new company can be divided into three phases:

- The first phase covers company registration, or incorporation in cases where the process leads to the establishment of a new legal entity. The registration act is issued by a court or specialised company registration agency.
- The second phase covers notification of the establishment of a new company to various branches of the central and local public administration (e.g. tax administration, employment and labour agencies, customs administration, office of statistics) that interact with the business sector.
- The third phase covers all the procedures necessary to ensure compliance with the country's legislative and regulatory framework. When these procedures are completed, licences and permits are issued.

Figure 2.1 Cheaper and faster start-up assessment framework



There have been various approaches to the reform of company registration/establishment. These have ranged from targeted and relatively simple attempts, to the streamlining of the first phase described above. This streamlining may be carried out, for instance, by improving the efficiency of the existing registration body and setting targets for issuing the company registration act while leaving registration procedures substantially unchanged or, through introducing more extensive reforms, including the streamlining of procedures and the creation of a new company register.

A second set of reforms have focused on simplifying the steps in the notification phase, transferring the burden of notification from the company to the public administration. The combination of the reform of phases one and two has often resulted in the establishment of one-stop shops.

Reforming the compliance phase has proved more complicated and far-reaching, as it affects the operation of several government agencies and the local administration, as well as the review of a large number of laws, regulations and procedures. However, what is important for entrepreneurs is the overall time and cost required by the company establishment process – from the beginning of the process to the day the company can effectively start to operate. Reforms of phases one and two that leave phase three unchanged do not produce substantial improvement of the business environment.

Developing cross-country indicators of the time and cost efficiency of the company establishment process is quite complex, given the number of players in the process and the influence of the legal form of registration/incorporation, the level of administrative decentralisation and the sector of activity.

The evaluation for Phase 1 (company registration) and Phase 2 (notification) is conducted using a set of data provided by the Western Balkan governments, adjusted through an independently assessment. Data for the overall process of setting up a business are taken from the 2006 IFC/World Bank *Doing Business* report². The level of discrepancy between the data contained in the set of analytical indicators for Phase 1 and Phase 2 and the overall time and cost indicators provided is an indication of the impact of other factors, particularly the issuing of licences and permits, on the overall process.

To make the Phase 1 and 2 indicators comparable with those of the DB survey, the assessment in this section is based on the time and costs associated with approving new *companies*. We are aware that in this way we do not present a complete picture of the situation in the Western Balkans, since in many

Western Balkan countries there is still a legally defined *craft* sector in which enterprises have a different status and legal structure. Only Croatia has reported separately on the craft sector, demonstrating a considerable difference in approach.³

Creating an electronic company register, regularly updated and properly maintained, could contribute significantly to the collection of reliable business statistics, the exchange of information among government agencies and the dissemination of business information. It could also open the way for integration with European business information networks. The Western Balkan countries are currently focusing on implementing company registration reforms. However, thanks to new technological developments they have the potential to create an electronic company register within a relatively short time.

For a first measurement of the level of on-line interaction between the company register and the entrepreneur, we have introduced a simple indicator referring to the possibility of on-line registration.

2.3 Analysis

2.3.1 *The company registration process*

Concerning the reform of company registration, the Western Balkan countries can be divided into two main groups. The first group includes countries that have already conducted a comprehensive reform of the company registration process: the former Yugoslav Republic of Macedonia, Montenegro and Serbia. UNMIK/Kosovo can also be included in this group. All members of this group have significantly reduced registration time, to an average of less than five days, while also reducing the number of steps required to complete company registration to not more than three steps. The former Yugoslav Republic of Macedonia and Serbia have also established a specialised company registration agency; in the former Yugoslav Republic of Macedonia, this agency performs most of the tasks of a typical one-stop shop.

Table 2.1 The company registration process in figures

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
No. of days to obtain company registration certificate	8	10	2-7	1	2-5	4	5
No. of steps to obtain company registration certificate	7	6	1	3	1	1	2
Official costs of obtaining company registration certificate	EUR 140	Approx. EUR 600	EUR 100 for crafts; approx. EUR 450 for commercial companies	EUR 22	EUR 50-150	EUR 15	EUR 50-100

Source: National self-assessment reports.

The second group is made up of countries at an intermediate stage. These countries are trying to improve the performance of their current company registration system, while more in-depth reforms are planned. This is the case of both Albania and Bosnia and Herzegovina. In Albania company registration is still carried out exclusively by the Court of Tirana, although administrative measures have been taken to reduce the time required to issue company registration from an average of 30 to an average of 8 working days. At the same time, Albania is planning to reform the overall company registration system, including the establishment of a specialised company registration agency.

Bosnia and Herzegovina has already approved a major reform of the overall company registration system. It is moving towards harmonisation of company registration procedures, which are currently set at entity level. Development of a single company register has been delayed due to technical problems.

Croatia is half-way between these two groups. Craft registration has been significantly shortened through the introduction of a simplified and decentralised process. The registration of companies, on the other hand, is still carried out through the court. Implementation of a one-stop shop site (www.hitro.hr) has significantly reduced the time and procedures necessary to establish both companies and crafts, as the officials concerned are authorised to acquire all documentation necessary. This pragmatic solution – effectively placing a single help desk between the entrepreneur and a variety of procedures – is not only very helpful to the entrepreneur but could reduce opportunities for corruption. Nevertheless, it leaves actual procedures unchanged. The medium-term objective should remain the rationalisation of procedures. This is recognised by the Croatian authorities.

2.3.2 *The notification process*

In parallel with progress on the issuing of company registration certificates, there has generally been good progress on reducing the number of company identification numbers issued. Only Albania is currently able to provide a single company identification number that can be used in relations with all key branches of the public administration. In all the Western Balkan countries except Montenegro there are on average three identification numbers or less, substantially reducing the time required for company notification.

Table 2.2 The notification process in figures

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
Administrative identification numbers	1	3	2	3	3	5	2
No. of days to obtain compulsory identification numbers	5	7 for court registration; 15-30 for foreign trade	6-15 for commercial companies; 2-5 for crafts	2-5	2-5	5	15

Source: National self-assessment reports.

In Montenegro five registrations and identification numbers are involved in dealing with different administrative authorities (e.g. statistical office, customs, labour office, tax office). Each of Montenegro's administrative authorities has its own registry and requires corresponding numbers for companies.

2.3.3 *Compliance and overall process*

Looking at the indicators covering the entire business establishment process, a quite different picture to the one that emerges from the previous indicators is obtained.

As mentioned in section 2.2, these indicators are largely based on *Doing Business*. They are expected to represent the reality of being an entrepreneur on the ground. While governments have set specific targets related to company registration and notification (with a good deal of success), it appears that these efforts are compromised by delays associated with the number of post-registration steps required before trading can start. Many actions are required at the local government level, especially obtaining several extra trading permits.

It also appears that the intention to introduce a more streamlined system has not always filtered down to the administrative level where companies are actually dealt with.

According to those indicators, even in the best performing country the overall process of completing the formalities for setting up a new business takes more than three times the official time designated for registration and notification. However, the three countries that have undergone a comprehensive reform of company registration (the former Yugoslav Republic of Macedonia, Montenegro and Serbia) are also the best performers with respect to the time target.

According to the breakdown of the process of setting up a business provided by *Doing Business*, real-time efficiency gains are achieved by shortening the registration/notification phases and removing unnecessary requirements for permits and licences.

For instance, the former Yugoslav Republic of Macedonia and Serbia have eliminated the need to obtain a general business licence for most business activities that carry no environmental, health or security risks. Thus, they have reduced the overall time to 18 days and the number of steps to ten. On the other hand, although Albania has also abolished the general business licence requirement, it still takes 39 days to set up a business in that country – 20 of which are spent completing the 11-step registration process.⁴ Albania is in the process of overhauling the whole system, with the assistance of the World Bank's Business Environment Reform and Institutional Strengthening (BERIS) project. In Montenegro companies cannot start operating until they obtain a municipal licence. This takes 12 days, according to *Doing Business*, reducing the positive effects of introducing a very time-efficient registration process. The same dynamic applies to Croatia, where nearly half the time devoted to the overall setting-up process is spent obtaining municipal certificates of compliance with environmental and work safety regulations – even though the number of steps is ten, similar to the former Yugoslav Republic of Macedonia and Serbia.

Bosnia and Herzegovina appears to lag behind significantly in this area, due in particular to problems of agreement and co-ordination between different levels of government. An important development is the USAID Project SPIRA – Streamlining Permits and Inspection Regimes Activity (for the period 2005-09), which is designed to improve SMEs' access to the marketplace by reducing administrative barriers to start-up and operation. SPIRA targets the pre- and post-registration phases of limited liability and joint stock companies, and all phases for independent craft shop start-ups. The project will remap the procedures associated with business start-up, identify unnecessary or unjustifiable regulatory burdens, and (with the assistance of working groups) propose policy revisions to reduce start-up time. It is therefore hoped that conditions will quickly improve.

The relatively good overall performance of UNMIK/Kosovo can be explained by procedures largely having been developed from scratch – utilising a central registration agency approach,

removing responsibilities for registration from local government and the court system, significantly speeding up the process and creating the same procedure for the whole territory.

The total cost of setting up a company varies considerably, if measured in terms of US dollars (USD). The variations are less marked if the cost is calculated in relation to GNI per capita. Croatia and Bosnia and Herzegovina are the outsiders. In Croatia notary fees account for over 60% of total costs;⁵ in Bosnia and Herzegovina court fees and municipal fees are the two main costs.

An additional cost element is the minimum capital requirement, an obligation common to the countries that were once part of Yugoslavia and indeed to much of Central and Eastern Europe, where minimum capital requirements are seen as a major safeguard of creditor interests with respect to limited liability enterprises. Minimum requirements for incorporated companies are still high, except in Montenegro. However, minimum capital requirements for other forms of business are typically low or non-existent.

Table 2.3 Overall business establishment process in figures

	ALB	BIH	HRV	UNK ⁶	MKD	MNE	SRB
No. of <i>days</i> to complete overall process	39	54	45	23	18	24	18
No. of <i>steps</i> to complete overall process	11	12	10	5	10	15	10
Total cost of the overall process (USD)	578	903	983	N/A	211	242	335
Total cost of the overall process (% of income per capita)	22.4	37	12.2	22	7.4	6.6	10.2
Minimum capital requirement (% of income per capita)	36.7	52	20.6	Over 40%	112.0	0.0	7.6

Source: Doing Business 2007 (for UNMIK/Kosovo, Doing Business 2006).

Application of the silence is consent principle⁷ is a useful way to speed up the overall process of setting up a business. It shifts the costs of delaying the processing of a company application from the entrepreneur to the public administration. If properly applied, it gives the entrepreneur a clearer indication of the timeframe for completing the process and planning activities. On the other hand, this principle can be successfully applied to a number of processes where the risks associated with non-compliance by the applicant are relatively limited (e.g. general business licences, registration with public agencies) but cannot be applied to more complex operations such as the issuing of specific business licences that require meeting specific health and environmental standards. However, these processes, too, can be speeded up by requiring that relevant government agencies complete the necessary inspections before a fixed deadline, and by regularly monitoring their performance.

Only UNMIK/Kosovo, Montenegro and Serbia are currently applying the silence is consent rule to the company registration process.

Table 2.4 Scores in sub-dimension 2.3.1: reducing the cost and time of start-up

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
No. of days to obtain registration certificate	2.50	3.00	3.50	5.00	4.00	4.00	4.00
No. of administrative steps to obtain company registration certificate	3.00	3.00	5.00	4.00	5.00	5.00	4.00
Official cost of obtaining company registration certificate	3.00	1.00	1.00	4.00	3.00	4.00	3.00
Administrative identification numbers	5.00	3.00	4.00	3.00	.300	1.00	4.00
No. of days for compulsory company identification numbers*	4.00	2.50	3.00	4.00	4.00	3.00	3.00
No. of steps for compulsory company identification numbers*	1.00	1.00	1.00	2.00	1.00	1.00	1.00
Silence is consent principle	1.00	1.00	1.00	5.00	1.00	5.00	5.00
Costs connected with overall registration*	1.00	1.00	1.00	3.00	1.00	2.00	1.00
Minimum capital requirements*	2.00	1.00	2.00	1.00	2.00	5.00	4.00
<i>Overall weighted average for 2.3.1: reducing the cost and time of start-up</i>	2.88	2.00	2.63	4.25	3.75	4.25	3.50

Source: * Based on data from Doing Business 2007 (World Bank 2006).

2.3.4 On-line registration

Online registration is in its infancy. Only Croatia and Serbia have a real policy in this regard (although the certification authority for electronic signatures in that country is yet to be established). This appears to be related to on-line registration being part of a wider policy (i.e. e-government); since it is not perceived as essential, it will be implemented at the pace of more wide-ranging reform.

Table 2.5 Status of on-line registration

ALB	BIH	HRV	UNK	MKD	MNE	SRB
A number of steps have been taken towards its introduction.	Law in the process of adoption, but preconditions for introduction of e-signatures in practice have not been created. No relevant institution for certification of e-signatures, so on-line registration cannot be applied.	Project office at the Central State Office for e-Croatia, electronic signature, document, commerce acts are in place.	No steps taken towards introduction; initial exploratory work.	Not yet a special law for on-line registration, but the possibility is actively being investigated.	Evaluation of existing administrative procedures and proposals for introduction of on-line registration.	Law on on-line registration, action plan and budget provisions approved.

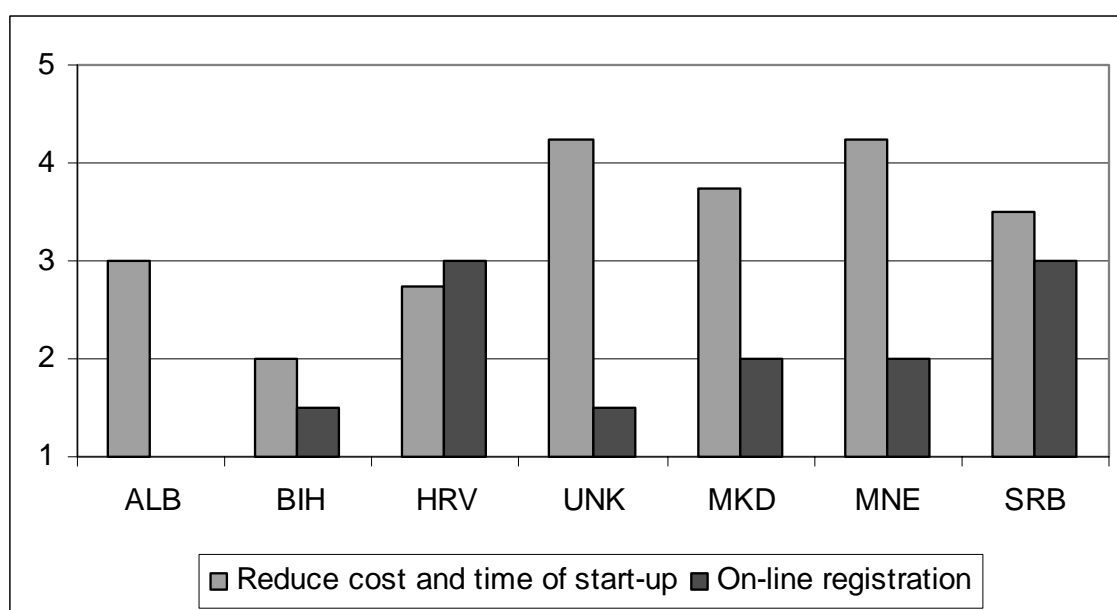
Table 2.6 presents the scores for sub-dimension 2.3.2.

Table 2.6 Scores for sub-dimension 2.3.2: increasing on-line access for registration

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
On-line registration	1.00	1.50	3.00	1.50	2.00	2.00	3.00
<i>Overall weighted average for 2.3.2: increasing on-line access for registration</i>	<i>1.00</i>	<i>1.50</i>	<i>3.00</i>	<i>1.50</i>	<i>2.00</i>	<i>2.00</i>	<i>3.00</i>

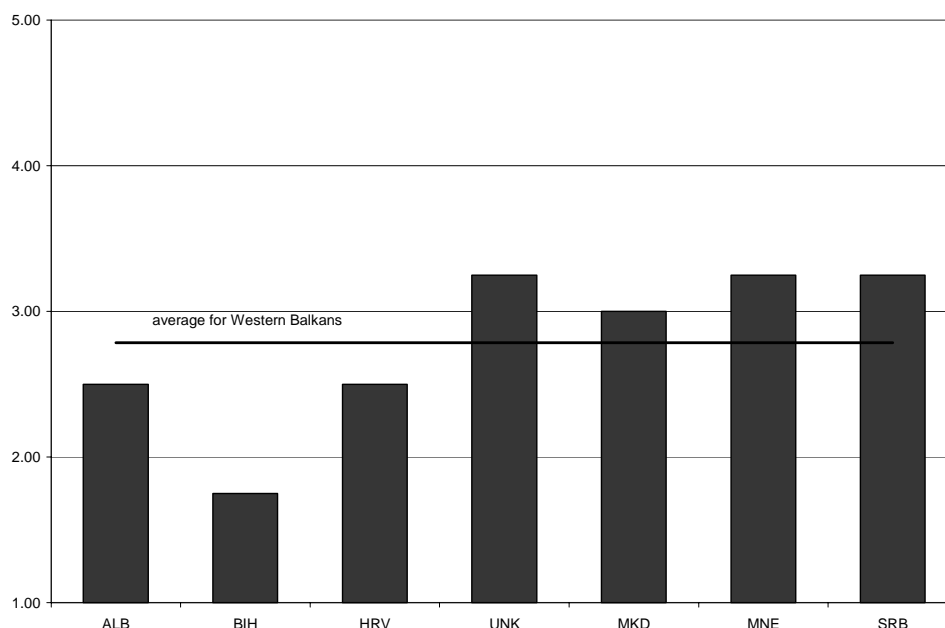
Figures 2.2 and 2.3 present the scores by sub-dimension and the aggregated average score by dimension.

Figure 2.2. Dimension 2: Cheaper and faster start-up, scores by sub-dimension*



*Indicators for the sub-dimensions are rated on a scale of 1 to 5 (weaker to stronger). Indicators and sub-dimensions are weighted. The weighting system ranges from 1 (least important) to 3 (most important). All scores are rounded to the nearest 0.25.

Figure 2.3 Overall scores for dimension 2: cheaper and faster start-up



Overall progress in this dimension is impeded by the post-registration procedures that must be completed before trading can start, and (in some cases) some of the cost elements of company start-up. The countries that have started to tackle these post-registration start-up barriers have made the most progress. Improvements in this area are now the key challenge for all of governments. Finally, it is important to note that the scores of Croatia refer to the company registration process. The crafts sector and small businesses are subject to significantly faster and cheaper registration procedures, and these have not been taken into account in the scores.

2.4 The way forward

The Western Balkan countries have made substantial progress in improving the start-up registration process, both in terms of time and of cost reduction. However, the reform process has not yet been completed and the overall time required to set up a business is on average significantly longer than in most OECD countries, mainly due to post-registration requirements such as permits and licences that delay the beginning of the newly established company's operations.

1. The first priority is to systematically tackle the issue of obtaining licences and permits. This may be a complex process. It should be carried out through applying standard regulatory reform tools, and should start with a review of current legislation, the allocation of tasks between the central and the local administration, and the role and performance of the relevant inspectorate body, and should lead to significant streamlining of the licensing process, particularly for business activities that do not involve public health or environmental risks. It should be conducted in close consultation with the small business sector, involve the local administrations and take into consideration the regulatory requirements imposed by progressive adoption of the *acquis communautaire*.
2. The second area for improvement concerns the notification phase. The Western Balkan economies should progressively implement a one-stop shop system, following the example of the former Yugoslav Republic of Macedonia. This will require good co-ordination and

interaction among the different branches of the central and local administration involved in setting up businesses. New IT developments offer technical solutions that can be tailored to countries' institutional architecture. The main obstacle, again, is the streamlining of existing legislation and regulations and the establishment of efficient channels of communications among the various administrative entities.

3. In the medium term, the Western Balkan economies should start to build electronic business registers covering the entire company population, not only new entries. This will require major work, consisting of updating, clean-up and the transformation of electronic files containing previous company data. It will also involve a significant investment, but will provide a new set of opportunities related to company data management and information dissemination, including the possibility to link with networks such as the European Business Register and to transform the Company Registration Agency into a main provider of business data and statistics.

NOTES

- 1 See *The Business Registration Process in South East Europe: a Peer Review*, OECD Investment Compact (2005), for a comparative review of the status of company registration in 2004.
- 2 *Doing Business* provides standard measurements of the time and cost of setting up a business. It includes a detailed description of the various steps in the process, obtained by replicating the process of registration of a 'standard company' (for the methodology see www.doingbusiness.org/methodologySurvey/StartingBusiness.aspx). The indicators consider the time and cost required to completing each step, without distinguishing between the time required and fees charged by the public administration, and those associated with other players such as notaries, Chambers of Commerce or providers of the company seal.
- 3 While Croatia's craft sector registration process would be rated higher than the company registration process in any of the other countries, it comes fifth out of seven in regard to company registration.
- 4 This figure reflects the situation before the streamlining of the process, adopted in September 2006, and the establishment of an eight-day target for issuing company registration certificates.
- 5 This applies to the establishment of new legal entities.
- 6 *Doing Business 2006*.
- 7 The 'silence is consent' principle relates to the issuance of licenses for one-off deals or transactions and applies only if the relevant law does not stipulate otherwise. In the absence of an administrative decision within the term provided by the law the applicant must inform the administration that it will undertake the steps to start the relevant business activity.

Chapter 3

BETTER LEGISLATION AND REGULATION

3.1 Introduction

Research suggests that there are positive links between high-quality regulation and economic growth¹. Lower legislative and regulatory burdens for citizens, businesses and governments promote sustainable economic development. Regulatory policies that enhance competition and reduce regulatory costs can boost efficiency, bring down prices and stimulate innovation. More precisely, reform that reduces business burdens and increases the transparency of regulatory regimes supports entrepreneurship and market entry, and is therefore integral to the development of SMEs.

Burdensome legislative and regulative environments affect SMEs disproportionately because their capacity to tackle, understand and comply with complex regulations is limited. The report *Business Views on Red Tape* (OECD, 2001) reveals that small companies (1-19 employees) incur more than five times higher regulatory costs per employee than large ones (50-500 employees).

3.2 Assessment framework

There is no single model with fixed stages for improving legislation and regulation applicable to companies within a country/entity. This requires actions on several fronts (legislative, institutional and organisational) over a number of years and affects a considerable number of economic sectors. Policy co-ordination plays a considerable role, as does political commitment. As stated in the Charter, an effective way to work towards a high-quality business regulation environment, particularly in transition countries, is to structure government intervention based on a business simplification strategy – in conjunction with a solid institutional framework and tools for regulatory assessment.

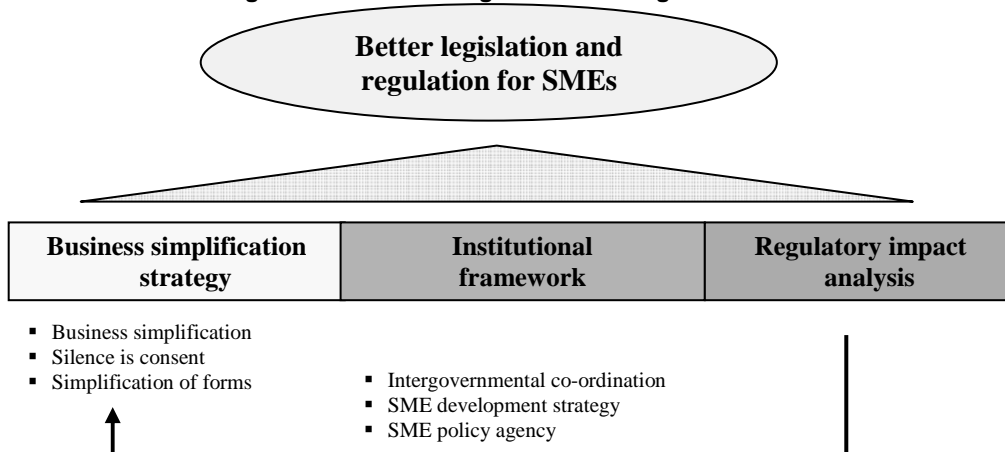
3.3 Analysis

3.3.1 *Simplify rules*

Assessment of this sub-dimension is based on three main components:

- Business simplification strategy;
- Silence is consent principle;
- Simplification of forms.

Figure 3.1 Better legislation and regulation for SMEs



3.3.1.1 Business simplification strategy

Reducing administrative barriers for SMEs is key to successful SME development in the Western Balkans. At the same time, it is a very complex task. The approach should therefore take the form of a broad, multi-year policy agenda explicitly aimed at continuously reducing administrative areas, with evidence that targets are implemented.

The Western Balkan economies are at different stages in drafting, adopting and implementing their business simplification strategies. Overall, only limited progress has been made and only a few countries are at an early stage of the implementation process.

Albania and Croatia have the most advanced and formalised business simplification strategies, and there is some evidence of implementation in these countries:

- Albania adopted a regulatory reform action plan in March 2006. Administered by the Task Force for the Reduction of Administrative Barriers, it focuses on four main pillars:
 - Development of the managerial system of regulatory reform;
 - Improvement of the existing legal framework through removal of administrative barriers for businesses;
 - Improvement of the quality of the new regulatory framework;
 - Systematic monitoring and evaluation of regulations.

Parts of this strategy have already been implemented. Examples include abolition of the requirement for a yearly licence for general business activities.

- The Government of Croatia launched the Regulatory Guillotine initiative HITROREZ, which began in September 2006 as a part of the hitro.hr programme. It is co-ordinated at the highest level, by the Prime Minister’s Office and is already making a significant contribution to the

improvement of Croatia's business environment. The project's first phase, to be finalised by 1 July 2007, aims at the review, evaluation and analysis of current business regulations and procedures at the national level. In the second phase all other regulations and procedures will be assessed, and proposals will be made for their adequate elimination or simplification to the extent necessary. In 2004 Croatia also started a pilot project on regulatory impact analysis (RIA). It has since successfully applied RIA to several acts.

Bosnia and Herzegovina has been active in initiating schemes to move forward on business simplification, but there has been little evidence of implementation:

- A range of laws supporting business simplification are recommended in the proposed SME Development Strategy;
- The 2005-2007 Poverty Reduction Strategy Paper-Action Plan includes a range of recommendations for private sector growth under the sub-heading 'Business Environment and Support for Entrepreneurship'. No implementation of its content is evident to date;
- The internal book of rules for the Ministry of Foreign Trade and Economic Relations (MOFTER), Department for SME Development, stipulates that improvement of the business environment for SMEs is its responsibility. Lack of action in this area is primarily the result of a lack of resources to undertake the responsibilities allocated.

In Bosnia and Herzegovina, business regulations are mostly issued at entity level. The Republika Srpska has made the most progress in regulatory reform among the two entities. It has started to simplify business conditions through the Government's initiation of a 'Guillotine of Regulations'. The goal is to remove all barriers to business start-up and SMEs. There are 351 formalities currently subject to the guillotine, and about 900 initiatives for changing regulations.

A number of international projects also include the issue of business simplification:

- The USAID Streamlining Permits and Inspection Regime Activity (SPIRA) programme;
- The World Bank Business/Environment Adjustment Credit (BAC) project;
- The UK Department for International Development (DFID) Reform of Business Registration Project.

In Montenegro an action plan and task force on business simplification have been agreed and work is about to begin on the evaluation of existing regulations. The Ministry of Finance has signed a Memorandum of Understanding with business associations covering business representatives' participation in legislative working groups.

The Government of Serbia has a policy targeted at removing barriers to foreign investment. It effectively improves the overall business climate and benefits small businesses, but no particular policy attention is given to the needs of small businesses. RIA is well-advanced in Serbia, where it is applied to all draft regulations.

In the former Yugoslav Republic of Macedonia and UNMIK/Kosovo, efforts to simplify rules, forms and procedures are only ad hoc and do not yet substantially contribute to making business easier. The former Yugoslav Republic of Macedonia, a late starter in the simplification process, is receiving assistance through the World Bank's Business Environment Reform and Institutional Strengthening (BERIS) project. The approach in UNMIK/Kosovo is to set up a light regulatory environment.

3.3.1.2 *Silence is consent*

Time is money: SMEs are harmed by delays and uncertainty in obtaining approvals, licenses and permits. The principle of ‘silence is consent’ in standard SME administrative practice switches the burden of action entirely. If administrators fail to decide within time limits, the business is automatically granted approval.

Overall, the use of silence is consent in standard SME administrative practice is undeveloped. It is most advanced in UNMIK/Kosovo, where progress so far has created a mixed situation. Some municipalities and many central government processes operate according to this principle, while other municipalities and some central government processes do not yet apply it.

In Albania the Code on Administrative Procedures establishes the principle of silence is consent. In practice, however, this principle is not widely used although it has gained ground under the licensing reform undertaken within the framework of regulatory reform. In Serbia there is a similar situation: the silence is consent principle has been approved but is only applied to business registration.

In the remainder of the Western Balkans this principle is not applied to standard administrative practice.

3.3.1.3 *Simplification of forms*

If administrative forms for SMEs are complicated, disorganised or redundant, this can significantly lengthen administrative processes and produce an extra burden for SMEs. Governments should demonstrate their efforts to improve administrative forms through concrete plans, based on good-quality drafting guidelines.

Most of the progress within this indicator has been made in Croatia. Many administrative bodies in that country have their own internet sites, where necessary information and forms may be obtained. Interviews with the private sector revealed that the staff of these bodies are generally ready to provide additional information and practical help over the phone, as needed. Deadlines for responding to official requests are also generally respected. Progress is most evident in regard to tax collection (income tax and VAT), where the current e-government project is implementing on-line submission of income tax and VAT, an e-cadaster and e-income tax.

In UNMIK/Kosovo EU standards have been met for administrative forms within the registration system. In other areas of the central government there have been efforts to simplify forms, especially in relation to taxation. However, in areas where municipal authorities are involved the effort is much more erratic and significant improvements still need to be made.

Two countries, Albania and Bosnia and Herzegovina, have plans but have not yet implemented the simplification of administrative forms:

- In Albania the Ministry of Economy, Trade and Energy has approved an Action Plan for Regulatory Reform aimed at reducing administrative barriers for business. Seven technical teams are working to improve the business climate and to simplify forms. Guidelines are currently being drafted to serve as a basis for consideration of specific forms;
- In Bosnia and Herzegovina a process of reviewing the Draft Law on Registration and related procedures is included in the proposed SME Strategy as a recommendation. Simplification of

forms is an integral part of this action. There are some initiatives at the entity level proposing the simplification of VAT forms, but they are not yet formally organised. A number of international projects have started the simplification of forms in specific areas, such as construction permits. These programmes are:

- USAID – Streamlining Permits and Inspection Regime Activity (SPIRA);
- World Bank – Business/Environment Adjustment Project (BAC);
- UN Development Programme (UNDP) – Public Administration Reform PAR);
- Organisation for Security and Co-operation in Europe (OSCE) – Municipal Administration Reform Programme (MAP).

In the three remaining countries – the former Yugoslav Republic of Macedonia, Montenegro, and Serbia – administrative forms are still complicated and are not user-friendly. They contain too many information requests. Anecdotal evidence suggests that institutions ask entrepreneurs to provide information that would be readily available from another institution. Yet efforts to simplify the forms are limited.

- In Montenegro this task is included in the Economic Reform Agenda 2002-07, but little progress has yet been made. The Government is considering an action plan for this area, but it is only partial in scope and has not yet been implemented;
- In the former Yugoslav Republic of Macedonia and Serbia, there is no concerted action/developed plan of action at the central government level to deregulate and simplify forms.

Table 3.1 Scores within sub-dimension 3.3.1: simplifying rules

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
Business simplification strategy	3.00	2.00	3.00	1.00	1.00	2.00	2.00
Silence is consent	2.00	1.00	1.00	4.00	1.00	1.00	2.00
Simplification of rules	2.00	2.00	4.00	3.00	2.00	1.50	1.00
<i>Overall weighted average for 3.3.1: simplifying rules</i>	2.50	1.67	2.50	2.33	1.17	1.58	1.83

3.3.2 Institutional framework

Assessment of this sub-dimension is based on three main components:

- Intergovernmental co-ordination in policy elaboration;
- SME development strategy;
- An SME policy implementation agency or equivalent.

3.3.2.1 Intergovernmental co-ordination in policy elaboration

Intergovernmental co-ordination is essential to ensure transparency and harmonisation when SME policies are elaborated. Ideally, this type of co-ordination should be led by a *single* institution with effective mechanisms for policy co-ordination, involving key ministries, agencies and local administrations when relevant.

Four countries are close to meeting all of these criteria. Each country has a single, fully operational institution responsible for SME policy elaboration, drafting and co-ordination, with a system of regular consultation with the implementing SME agencies:

- In Albania this is the Department of Business Promotion (including the Sector of SME Policies) within the Ministry of Economy, Trade and Energy (METE);
- In Croatia the Directorate for SMEs at the Ministry of Economy, Labour and Entrepreneurship (MELE) has the co-ordinating role in policy elaboration;
- The former Yugoslav Republic of Macedonia has a special unit within the Ministry of Economy dealing with the SME sector, which acts as the key co-ordinator for SME policy issues;
- In Montenegro a separate Directorate for Development of Small and Medium-sized Enterprises is responsible for SME policy elaboration.
- In Serbia, the SME Department within the Ministry of Economy has a clear co-ordination structure and an inter-ministerial SME-Council was recently established. Nevertheless, relatively limited co-ordination between the Ministry of Economy and the Government's SME implementing entity, the Agency for SMEs exists to date.

Co-ordination with other directorates is in place in all five countries. In Croatia, for instance, the Directorate for SMEs regularly consults the Directorate for Employment within MELE, state agencies (e.g. Croatian Agency for Investment and Trade Promotion (AIPU), Croatian Financial Agency (FINA), the Croatian Statistical Institute) and line ministries (beginning with Education, Finance and Tourism). The key effort still required is to effectively integrate local government, which is currently largely outside the system and unreformed.

In UNMIK/Kosovo, the Private Sector Development Department is in charge of developing the private sector (including the SME sector). However, a number of donor-led agencies, as well as the European Agency for Reconstruction (EAR) and other non-governmental institutions, are dealing with specific areas of SME development, virtually substituting for the Government. There is limited evidence of co-ordination of private sector development with other government departments that partially address SME issues, such as the Department of Youth, which deals with entrepreneurship education.

In Bosnia and Herzegovina, due to the complexity of the administrative structure and related governmental levels, several institutions are responsible for SME policy. The SME Unit in MOFTER is responsible for state level policy co-ordination with the entities and Brčko District. Co-operation is still limited, but a future agreement on the state level SME strategy and agency could lead to improvements in co-ordination. In the Republika Srpska there is a Department for SME and production craftsmanship in the framework of the Ministry of Economy, Energy and Development, which is responsible for SME policy elaboration, along with the operational Republic Agency for

Development of SME, which is responsible for SME policy implementation. In the Federation of Bosnia and Herzegovina and the Brčko District there are relevant departments for SME development within the Ministries, but no established leading institution in charge of SME policy elaboration.

3.3.2.2 *SME development strategy*

An effective SME development strategy should comprise a long-term policy agenda explicitly aimed at continuously strengthening the SME sector, with evidence of implementation demonstrated by achieved time-bound targets.

Two SME strategies stand out:

- Croatia's Strategic Development Framework for 2006-13 is a comprehensive and ambitious document, which sets the right targets for Croatia in the next few years. A variety of policies are called for, involving the competence of different ministries and state bodies. A new role is defined for the state as facilitator of the growth process, through constant dialogue with the private sector and the social parties. Although the strategy is long-term, it is coupled with precise yearly SME action plans that include concrete actions and the assignment of funds, as well as the organisations in charge.
- Montenegro recently completed a 2002-06 SME strategy, which saw considerable implementation in areas such as institutional support and enhancement of domestic enterprises' competitiveness. A new strategy has been adopted for 2007-10; the budget is in place and the main pillars include ten clearly defined strategic goals, such as regulating the system for statistical reporting on the SME sector and strengthening financial support for SME development. Discussions with private sector representatives on the scope of the strategy are ongoing.

The former Yugoslav Republic of Macedonia has a long-term SME strategy for 2002-12. Practical implementation of the strategy occurs through the programme of measures and activities for entrepreneurship promotion. The strategy was adopted 2002-06; so far, it has been implemented to a significant extent. The budget for activities related to the strategy and the programme for 2007-12 has been unavailable. It is not clear how all of this programme's activities will be financed, or who will be responsible for which activities.

In Serbia there are two strategic documents (the Strategy for the Development of SMEs and Entrepreneurship 2003-08, and the Plan for Stimulating the Development of SMEs and Entrepreneurship 2005-07) which, however, lack an adequate budget for implementation. It was envisaged that many SME projects would be funded by the Government's National Investment Plan of September 2006. An EU-funded Support to Enterprise Development and Entrepreneurship Programme operated between December 2004 and December 2006.

In the remaining countries/entities, SME development strategies are being elaborated:

- In Albania, METE and Albinvest have closely collaborated on the new SME Strategy for Albania. The strategy programme, in the final stages of preparation, was to be announced at the end of November/beginning of December 2006. The programme will cover activities in the short and medium term in 2007-09 and 2010-13.
- A National Bosnia and Herzegovina SME Strategy was drafted in 2005. Public hearings were delayed because of disagreements among the entities.

- In UNMIK/Kosovo the SME strategy is being drafted as part of a National Development Plan. The national development planning process is in the phase of identifying projects and budget resources. The strategy has not yet been approved. A short-term strategy compiled and approved by the Ministry of Economy in September 2005 has not yet reached the implementation stage due to budget limitations.

3.3.2.3 *SME policy implementation agency or the equivalent*

To ensure that SME policies are implemented, all countries UNMIK/Kosovo need an SME policy implementation agency or the equivalent. Ideally, this agency should:

- Be the main body for implementing and co-ordinating the basic governmental programmes on SMEs;
- Have a recognised advocacy and policy advice role (e.g. ensuring that legislation is consistent with supporting SME-development);
- Be well-funded and well-staffed, with a clear working-structure;
- Show effectiveness in supporting SME development.
- Operate with full political support;

Only Bosnia and Herzegovina and UNMIK/Kosovo have no fully operational national SME agency (or the equivalent) responsible for implementing SME policies which enjoy full political support.

Two agencies stand out, due to a combination of clear and ambitious task division; good, qualified staffing; good funding; and evidence of effective implementation. Montenegro's SME Development Agency (SMEDA) is clearly structured around five departments (Institutional Support; Education; Strategy and Development; International Projects; Research Projects). Serbia's Republic Agency for Development of SMEs and Entrepreneurship is divided into three key sectors (International Co-operation; Support to SMEs; Common Affairs). Both agencies have high numbers of staff: the Montenegrin agency has a staff of 20; of the 19 employees in the Serbian agency, 14 have advanced university degrees and the remainder have secondary school qualifications. The agencies' budgets in 2006 were EUR 3.7 million (Montenegro) and around EUR 500 000 (Serbia). The Montenegrin agency has been particularly successful in implementing programmes to stimulate SMEs (e.g. franchising, leasing, technological parks, incubators). The Serbian agency has predominantly been active in providing legal and financial consulting, as well as training in co-operation with the National Employment Service.

The SME agencies of Croatia and the former Yugoslav Republic of Macedonia closely follow the Montenegrin and Serbian agencies, but are not as consistent in meeting *all* of the above criteria. Croatia's HAMAG has an ambitious programme, is well-funded (EUR 1.2 million in 2007) and has shown evidence of solid implementation. However, it is not the only implementation institution. HAMAG has traditionally been the implementing agency only for credit guarantee schemes, while MELE has directly implemented measures of a non-financial nature. In 2006 a gradual transfer of responsibility towards HAMAG began in regard to implementation of non-financial measures. Two such measures are already the responsibility of HAMAG, and more programmes should be transferred in 2007. The former Yugoslav Republic of Macedonia's Agency for Promotion of Entrepreneurship (APE) is that country's only national SME implementation institution. Its programme is also ambitious, well-structured and transparent (activities realised are published in quarterly reports from the agency) but is limited by a relatively low budget of around EUR 300,000.

In Albania a new agency was recently established. It is yet to be seen how effectively this agency will work. Staff, budget and action plans have been set up; it is very likely that the new agency will soon reach a standard similar to that of the Montenegrin and Serbian agencies. The former agency for SME has been operating in Albania since 2003 and was responsible for implementing government policies for SME promotion. In March 2006 this agency merged with the Foreign Investment Agency and the Export Promotion Agency, creating a single Agency of Albanian Business and Investments, Albinvest. The new agency, responsible for implementing governmental policies in the field of SME promotion, has its own staff and budget. In 2006 Albinvest had a staff of six and a budget of EUR 89 000. In 2007 it is expected to have a budget of EUR 693 500, a considerable increase over the budget for the three previous agencies together in 2006 (EUR 354 300). The staff of the SME and export unit consists of seven people and its budget will be EUR 150 000.

The Department of Private Sector Development within the Ministry of Trade and Industry of the Provisional Government Institutions of UNMIK/Kosovo is in charge of SME policy elaboration and implementation. The Department was established in 2000 by the European Union (Pillar IV of UNMIK), which is in charge of the economic development of UNMIK/Kosovo. This department was given the double role of policy-maker and policy-executor. Its drawback is its reliance on donors and its focus on the Prishtina area, with incomplete coverage of the whole territory.

There is as yet no national SME agency at state level in Bosnia and Herzegovina, although the Ministry of Foreign Trade and Economic Relations (MOFTER) recently expanded its SME unit from one to five people. The current EURED 2 project recently assisted MOFTER to prepare all the necessary discussion documents and other material to introduce an SME framework law and start the agency implementation process. An agreement on the Bosnia and Herzegovina SME Strategy between governments at all levels must be reached before there can be further progress. An operational SME agency currently exists in the country's Republika Srpska, with a staff of eight and a budget of around EUR 300 000.

Table 3.2 Scores in sub-dimension 3.3.2: institutional framework

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
Policy elaboration	4.00	2.00	4.00	3.00	4.00	4.00	3.00
SME development strategy	2.00	2.00	4.00	2.00	3.50	4.00	2.50
SME Agency	3.00	2.00	3.50	2.50	3.50	4.00	4.00
<i>Overall weighted average for 3.3.2 institutional framework</i>	3.00	2.00	3.75	2.50	3.75	4.00	3.25

3.3.3 Regulatory impact analysis

Regulatory impact analysis (RIA) is a tool that can be used to evaluate the costs and benefits of new legislation affecting SMEs. It entails systematically and consistently examining selected potential impacts arising from government action or non-action and communicating this information to policymakers.

RIA should be used when SME-related legal instruments are drafted, in order to optimise the efficiency and effectiveness of the instrument and ensure that it will achieve the intended objectives at minimum cost and with the fewest unintended negative consequences. The objective of RIA is thus two-fold:

- To improve SME-related policy instruments;
- To reduce the number of SME-related legal instruments by avoiding unnecessary legislation.

Use of RIA is most advanced in Serbia, where it is applied to all draft regulations and has been formally introduced into the legislative system through the Rules of Procedure of the Government of Serbia. Through the introduction of RIA, an obligation has been established whereby all draft laws, including those affecting SMEs, must first be submitted to the Council for Regulatory Reform of the Economic System. The Council for Regulatory Reform and the Ministry of Economy are just starting a four-year project to further strengthen RIA, financed by the Swedish Government through Sida, the Swedish International Development Co-operation Agency (EUR 2.4 million). The project has six key components and will be overseen by the World Bank, with the majority of the project components directly implemented by the Bank and some components implemented by the Government to help further ensure country ownership and sustainable RIA capacity building.

In 2004, based on the Government Decision on RIA, Croatia started a pilot project on RIA. Today regulations impacting the operations of SMEs, when first introduced or further changed or amended, undergo RIA prior to their introduction in the Croatian Parliament. So far, RIA has been used in regard to the recent Investment Promotion Act, Free Zones Act and SME Encouragement Act prepared by the Croatian Ministry of Economy Labour and Entrepreneurship.

In the remaining countries and UNMIK/Kosovo, the situation with respect to RIA is as follows:

- In Albania RIA is not yet being applied. It was introduced in 2006 by the Task Force for Administrative Barriers Reduction as an exercise, and included in the action plan for the removal of administrative barriers. The pilot stage has not yet been launched, but the way is being paved by the regulatory reform strategy adopted in March 2006;
- In Bosnia and Herzegovina the proposed Social and Economic Council at the state level has been delayed within the discussion process whose purpose is to try and overcome the disagreement on state level SME activity referred to above. One of the tasks proposed for this body is to conduct RIA. Part of the country, the Republika Srpska, has launched, within the FIAS project, the first phase of reviewing and simplifying regulations. There is a focus on creating a registry of regulations, while the planned second phase will be the establishment of a RIA process;
- In the former Yugoslav Republic of Macedonia, RIA has not been officially implemented. However, each ministry is to submit a memorandum to the Government for acts that it is considering for adoption. The memorandum should contain alternative solutions, positive and negative comments and implications, reasons for adoption of the act, etc. These practices will be further developed in 2007 to comply with good-quality implementation of RIA;
- Montenegro is in the process of setting up an RIA programme, particularly regarding harmonisation with European legislation. According to the Government's Rules of Procedure, assessments of the fiscal impact of each new law, and of its compatibility with European legislation, are prepared as key elements for determining the quality of a new regulation. Full RIA only exists in the form of a pilot RIA programme. It has not yet been made mandatory or formalised;
- In UNMIK/Kosovo sporadic legislation and its impact on SMEs is analysed by the Department of Private Sector Development within the Ministry of Trade and Industry.

Table 3.3 Scores in sub-dimension 3.3.3: regulatory impact analysis (RIA)

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
Regulatory impact analysis (RIA)	1.50	1.50	4.00	1.50	1.50	1.50	4.50
<i>Overall weighted average for 3.3.3: regulatory impact analysis (RIA)</i>	3.00	2.00	3.75	2.50	3.75	4.00	3.25

The figures below present the scores by sub-dimension and the aggregated average score by dimension.

Figure 3.2 Dimension 3: better legislation and regulation, scores by sub-dimension²

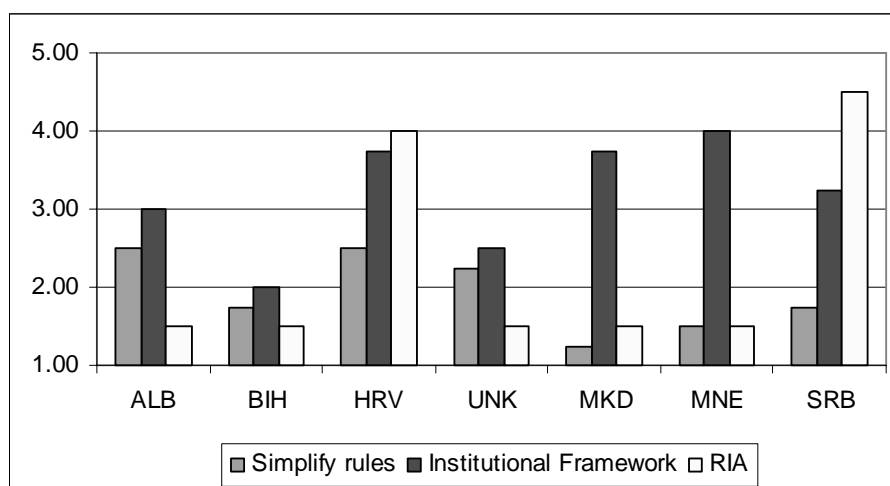
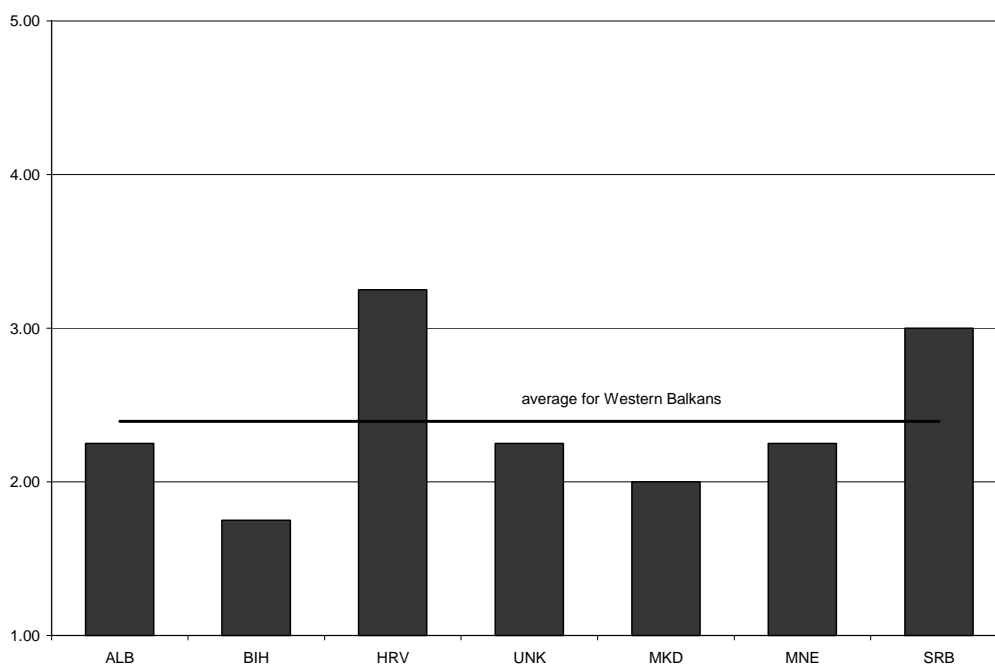


Figure 3.3 Overall scores for dimension 3: better legislation and regulation



In compiling an overall score for this measure, we put more weight on direct efforts to simplify regulations and equal weight on RIA and the institutional framework. As can be seen, Croatia has made the most progress and Bosnia and Herzegovina the least.

3.4 The way forward

Starting a business is already difficult enough for entrepreneurs. Complex and contradictory regulations do not make things easier.

1. All the Western Balkan countries and UNMIK/Kosovo need to streamline existing rules for businesses. The regulatory guillotine launched in Croatia should be accelerated, while the other Western Balkan economies need to show more evidence of implementing their respective simplification strategies.
2. Countries in the region and UMIK/Kosovo should also follow the Croatia's example in the simplification of forms through its e-government project.
3. The silence is consent principle can easily be implemented and further reduces burdens on SMEs when applied to standard administrative SME-procedures.
4. Introducing regulatory impact analysis (RIA), even in a limited manner, will help to optimise regulations for businesses in the future. The application of RIA is particularly relevant in view of the future adoption of the *aquis communautaires*, which will involve many new laws affecting SMEs.
5. Bosnia and Herzegovina should adopt a national SME strategy and establish a national SME agency. While all the other Western Balkan countries have SME agencies, these can be further enhanced by ensuring that they co-ordinate and implement *all* the basic governmental programmes on SMEs.

NOTES

1 *Foreign Direct Investment: Maximising Benefits, Minimising Costs*, OECD (2002)

2 Indicators for the sub-dimensions are rated on a scale of 1 to 5 (weaker to stronger). Indicators and sub-dimensions are weighted. The weighting system ranges from 1 (least important) to 3 (most important). All scores are rounded to the nearest 0.25.

Chapter 4

AVAILABILITY OF SKILLS

4.1 Introduction

The Charter envisages the following areas for action in this dimension:

...to ensure that training institutions, complemented by in-house training schemes, deliver an adequate supply of skills adapted to the needs of small business and provide lifetime training and consultancy.

Three types of activities could help to ensure that meeting the manpower requirements of small enterprises is optimised, thus reinforcing the quality of their services and production:

- In terms of cost-effectiveness, small enterprises need to be ensured of a close ‘fit’ between the training they require and what is available;
- With increasing evidence of the links between investment in training and economic performance, regular updating of the skills associated with changing technologies and work organisation will require small enterprises to regularly assess the relevance of existing workforce competencies and capacities;
- Upgrading the occupational and management skills of the employees of small enterprises will ultimately require these enterprises to take responsibility for training, alone or in co-operation with other small enterprises.

In addressing the manpower development concerns of small enterprises, part of the problem in the Western Balkans is that there is no reliable information base to use in determining the quality and availability of skills within the small enterprise community, while the details of evolving skills requirements are primarily used by public employment authorities in their role of matching the unemployed with existing vacancies. The result is that information on enterprise skills needs is based on the existing low-skilled, low-tech enterprise environment. There is no development perspective against which training providers can determine evolving training requirements. Nor is there much in the way of systematic tracking of skills gaps, skills weaknesses or evolving new competences required within companies or across sectors.

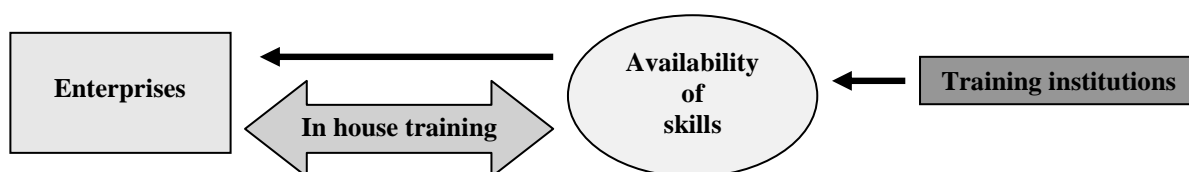
The quality of the labour market was a hallmark of the good economic performance of the former Yugoslavia up to the mid-1980s, but much of the workforce had been trained in the use of narrow, non-transferable skills associated with a command economy. This contrasts with the manpower requirements of the region’s small enterprise sector today, in which businesses increasingly rely on small numbers of employees with a more general skills’ profile, i.e. the range of transferable technical, administrative and managerial competencies required by better performing small businesses (e.g. in marketing, accountancy, communication, ICT). Moreover, adult training provision has been slow to develop in order to meet new requirements from the market.

While small enterprises' interest in and demand for training are set to develop, the costs of training are likely to remain a constraint. Small companies cannot afford to take part in training programmes if participation fees are high and business turn-over is low. Not only may training not be affordable, but time off for training is rarely affordable. In short, the accessibility and affordability of training needs to be adjusted to the specific circumstances of small enterprises. One solution is for small businesses themselves, through locally based clusters or sector-based consortia, to furnish training that is more readily available, at a reasonable cost, corresponding to the specific timing and financial constraints of the small business environment.

It is easy to acknowledge the need to upgrade skills in enterprises. However, barriers to enterprises' using and benefiting from training can be complex. Accordingly, the first stage of the process – ensuring that training needs are systematically determined, and putting institutions and programmes in place to meet demand – will initially only be achieved through public support, with the private sector gradually assuming responsibility as the necessary awareness and resources are developed.

4.2 Assessment framework

Figure 4.1 Education and training for entrepreneurship: assessment framework



To determine the progress of countries and UNMIK/Kosovo in regard to 'availability of skills', four elements have been considered:

- Training needs analysis (TNA) and enterprise training, measured by the existence of TNA policy and the degree of training uptake by enterprises;
- Quality assurance, based on the existence of a countrywide quality assurance framework for training;
- Accessibility (based on geographical availability);
- Affordability (based on pricing and available subsidisation).

Table 4.1 Indicators for dimension 4: availability of skills

Indicator	Key questions	Key actions indicating progress
4.1.1 Training needs analysis (TNA)	Are the training needs of small companies systematically tracked to determine skills gaps, skills weaknesses and new competence requirements?	<p>National TNA system agreed between relevant government departments, social partners and training provider community</p> <p>TNA system comprises a range of data gathering instruments (and analytical capacities), including:</p> <ul style="list-style-type: none"> • Enterprise surveys; • Interviews (enterprise managers, HR personnel, employees); • Sector surveys; • Focus groups; • Employee performance reviews; • Work samples; • Testing arrangements; • Analysis of skills levels and standards at other geographical locations; • Relevant literature and ‘best practice’ information <p>TNA a core feature of the national EL strategy and national development plan, with training needs regularly articulated to the training provider community</p>
4.1.2 Enterprise training	To what extent do enterprises benefit from training programmes?	Steady growth in number of enterprises taking part in training programmes; data on training uptake drawn from national TNA intelligence system
4.2.1 Quality assurance	Does a quality assurance system exist for small enterprise training?	<p>Government, employers and training providers plan and agree on a national quality assurance framework for small enterprise training (including accreditation of training providers, training courses and training professionals)</p> <p>Information on accredited courses, training institutions and training professionals accessible by the public</p> <p>Small business training accreditation interfaces with wider European quality assurance and qualifications arrangements for education and training</p>
4.3.1 Accessibility	Are training programmes readily accessible by small enterprises?	<p>Local and regional development strategies support development of enterprise-oriented training market</p> <p>National and sub-national information campaigns promote awareness of training and its availability</p> <p>Special groups of potential training beneficiaries targeted</p>
4.4.1 Affordability	Are training programmes affordable by small enterprises?	<p>Financial and fiscal policy incentives agreed to promote affordability of training by small enterprises</p> <p>Direct financial assistance available from public budget to support occupational and management skills in small enterprises</p> <p>Specific measures to support in-company, local enterprise cluster and sector-based training initiatives</p> <p>Development of, and competition between, training and service delivers in the market brings down costs of participation</p>

4.3 Analysis

Most scores for availability of skills are 1 or 2, suggesting that there is a need for a concerted effort by all countries and UNMIK/Kosovo to promote development in the areas covered by the indicators. On a positive note, the indicators are interdependent, i.e. progress on one indicator usually implies progress with respect to the others. This should be an incentive for all stakeholders associated with competence development in the region's small enterprise sector.

Briefly, the constraints on Western Balkan countries and UNMIK/Kosovo can be summarised as follows:

- A small enterprise sector which is not fully aware, or convinced, of the need for a workforce with better skills as part of business strategy and development;
- A training provider community which is not sufficiently developed or aware of the market;
- Training providers which, in addition, are unable to respond to market requirements in terms of quality and timing;
- Inability of the small enterprise sector to avail themselves of training services due to costs or other aspects.

None of the West Balkan countries or UNMIK/Kosovo has a systematic training needs analysis (TNA) mechanism in place, although some first steps have been taken. The Montenegrin Union of Employers has EU support for the establishment of a TNA framework. Also with EU support, the UNMIK/Kosovo Chamber of Commerce has initiated planning for the development of a systematic TNA system which will work in close co-operation with national education and employment authorities.

Regarding enterprise training, public funding is currently the main force driving the training market. There will be, however, a need, to develop a company financed market in the near future.

Regarding access to training and affordability, there has been a wide range of donor-funded actions related to training, particularly on start-ups and training activities and based on regional enterprise support centres and initiatives. As a result, initiatives are typically isolated; they are not part of national strategies and do not receive adequate subsidisation from public sources. Inadequate subsidies are a particular problem in motivating companies to use training and in making training for start-ups accessible.

Key issues are:

1. While provision of training is increasing in the region, primarily through public service institutions which ostensibly design and deliver this training according to enterprise requirements, enterprises continue to voice concerns about the relevance of training to the market. Public training services, including the growing number of private sector training providers, need to fine-tune the training provided in order to meet the specific requirements of small businesses. The loose fit between supply and demand needs to be addressed.
2. The greater part of the region's small enterprise sector is unable to participate in or benefit from ongoing training developments, for reasons of accessibility and costs. With the growing recognition of and thrust towards decentralisation, concerns about accessibility need to be addressed jointly by regional planners, representatives of small business and training providers.

3. Quality assurance mechanisms for the training sector remain significantly underdeveloped. If the small business community is to be convinced of the value of purchasing from a training provider market, the quality of the training and accreditation of the training providers will be critical to build confidence. More developed sectors may see the need to address the issue of their own quality assurance frameworks. Moreover, the training provider market will need to engage with wider developments in the region to promote quality, including efforts by each country to align itself with the European Qualifications Framework.¹

4.3.1 Training needs analysis and enterprise skills

4.3.1.1 Training needs analysis policy

As a preliminary to training design and delivery, most training needs analysis in the region is undertaken not by enterprises, their sector representatives or training providers, but by intermediaries. This takes two forms.

- Firstly, with a considerable share of training supported by the international donor community, TNA is invariably a ‘one-off’ for projects of limited duration, confined to one or more sectors and based on localised surveys. It is generally undertaken by international experts; building the capacity of local counterparts for TNA practice receives little attention. In short, TNA is almost incidental to the broader requirements of creating an SME skills support environment;
- Secondly, public employment services or public training authorities appear to have a specific position in all countries and UNMIK/Kosovo with respect to determining enterprise skills requirements. It should be obvious that the primary objective here is part of a social agenda: identifying potential job vacancies, and ultimately matching unemployed people and available posts. Matching people and vacancies, including through training programmes to upgrade the skills profile of candidates for given positions, cannot in the long run be considered a satisfactory exercise for determining the training requirements of the small enterprise sector.

In contrast, the objective of the TNA policy indicator is driven more by the *competitiveness agenda*. In particular, this indicator encourages small enterprise communities to determine more effective and efficient mechanisms for identifying manpower development requirements, against a background of increasing competition. As enterprises move from more locally-based markets, characterised by low skills, to regional and international markets where intermediate and higher skills are key to operating in a more competitive environment, small businesses and the training services that support them will require more organised and professional systems to identify knowledge and skills requirements.

Responses concerning this indicator have varied. All respondents use a mix of *ad hoc enterprise surveys* and interviews with selected enterprises. Croatia has a number of TNA dialogue links in place (e.g. the Ministry of Economy and Labour’s agreement with the Croatian Chamber of Economy, and the co-operation framework of the Ministry of Economy and Labour and the NGO, CARITAS). These may need to be synchronised in order to move forward with a more coherent TNA framework. UNMIK/Kosovo engaged EU support in 2006 to determine how a more demand-driven and systematic TNA framework could be realised. Montenegro’s internet-based TNA tracking system (supported by EU funds) stands out for its innovative approach. Progress on, and an evaluation of, this project could have policy learning potential for countries in the region.

All Western Balkan countries and UNMIK/Kosovo need to move beyond *ad hoc* TNA policy and practice and engage small enterprises more directly in a discussion on *why training is important* in the

medium to long term. They also need to make decisions on *how training needs can be better defined and articulated*, to ensure that training delivery meets real demand against a background of quality and cost factors.

Apart from enterprise surveys, structured interviews (e.g. with enterprise managers, HR personnel, employees) and sector surveys, countries and UNMIK/Kosovo could consider, over time, a more developed and strategic application of TNA in efforts to broaden TNA activities. This could be accomplished, for example, through sector-based focus groups, identification of local SME cluster needs, employee performance reviews, work samples, testing arrangements, analysis of skills levels and standards at other geographical locations, and access to ‘best practice’ information.

4.3.1.2 Enterprise training

Responses for this indicator provide no more than a signal in regard to how small businesses are engaging in training and the development of employee skills. This indicator does not distinguish between trade and management skills or address funding sources.

For the reporting year three countries (Albania, the former Yugoslav Republic of Macedonia and Montenegro) responded that less than 5% of small companies benefited from training. Bosnia and Herzegovina and Serbia reported up to 10%. The situation in UNMIK/Kosovo and Croatia was better (between 11 and 30%). Croatia’s performance logically tallies with its scoring on accessibility and affordability of training (see below), emphasising that its SME sector is becoming more developed and competitive and is articulating greater demand for training services. Private training providers are also responding better to this demand. In UNMIK/Kosovo there is a relatively healthy situation with respect to training provision (70% of small business managers and some 13% of employees had received training, although the scoring trend is not borne out in related variables, particularly accessibility). The high percentage of enterprises benefiting from training could therefore be the result of donor supported training programmes. As this indicator apparently mainly captures the two extreme cases, there may be a need for redefinition in the next cycle of assessments (2008-09).

Access to training, overall costs and short-term business pressures which discourage time off for training were cited by the former Yugoslav Republic of Macedonia as barriers to training uptake. No doubt these factors have universal application, but anecdotal evidence from the region points to negative attitudes to training on the part of entrepreneurs and managers. Better communication concerning the contribution of skills development (management and occupational skills) to business performance and competitiveness is therefore important. The former Yugoslav Republic of Macedonia’s self-assessment, in particular, pinpoints lack of awareness of the small business community as the major challenge to training uptake. It recommends a number of awareness development measures (e.g. seminars, workshops, training events).

Table 4.2 Scores in sub-dimension 4.3.1: TNA and enterprise training

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
Enterprise training	1.00	2.00	3.00	3.00	1.00	1.00	2.00
Training needs analysis	2.00	1.50	2.00	2.00	1.00	2.00	1.00
<i>Overall weighted average for 4.3.:1 TNA and enterprise training</i>	1.75	1.75	2.25	2.25	1.00	1.75	1.25

4.3.2 Quality assurance

The rationale behind this indicator is two-fold:

- Without an independent quality assurance framework, it would be difficult to convince cash-strapped small businesses to use training and advisory services. Therefore, a quality framework for training is a necessary *confidence builder* in the early days of the evolution of a training market.
- As trading capacity evolves and economies move up the value chain, there is likely to be greater demand for training. In an expanding training market, SME training consumers will need to be assured of the value of the training services they are considering purchasing. Quality systems and accreditation of training providers (including training programmes and the professionals who deliver them) will become more essential.

Results from all the Western Balkan countries and UNMIK/Kosovo underline that strategic reflection on quality assurance by key stakeholders remains to be promoted, although some countries are filling this need with *ad hoc accreditation measures* for training providers and training programmes. For example, Croatia's HAMAG has developed an accreditation system for trainers, while the Macedonian Trainers Network (MTN) has established standards with which to assess the quality of trainers. An association of business consultants in Bosnia and Herzegovina provides its own accreditation of members in the area of consulting services and training for micro, small and medium-size enterprises. At a different level, Serbia is making good efforts to promote quality monitoring of modules delivered through a network of regional enterprise agencies.

UNMIK/Kosovo has taken a more strategic position regarding its quality development plans, initiating a first reflection on how its entrepreneurship learning developments will interface with wider plans for quality assurance and a national qualifications framework. This is an important step. Countries should ensure that quality assurance of small business training services is knitted into broader *quality assurance and qualification frameworks*. These frameworks are now a key feature of human resource development (HRD) sector plans in all the Western Balkan countries and UNMIK/Kosovo.

Table 4.3 Scores in sub-dimension 4.3.2: quality assurance

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
Quality Assurance	1.00	2.00	2.00	2.00	1.00	1.00	1.00
<i>Overall weighted average for 4.3.2: quality assurance</i>	1.00	2.00	2.00	2.00	1.00	1.00	1.00

4.3.3 Access to training

Central to progress concerning the accessibility indicator is a reasonable spread of training provision in each country. While a training market is clearly evolving, most developments are supported by the public sector, with bilateral and multilateral support key to all significant developments. A primary player in this regard has been the TAM/BAS (TurnAround Management/Business Advisory Services) programme, an EBRD facility² that supports development of new business skills for senior management in strategically placed SMEs. In particular, it contributes to regional economies in the countries under study. The TAM facility is open to all Western Balkan countries, with operations beginning in Albania in 2007. BAS, especially, helps to develop a local consultancy market.

Most countries (Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Serbia) and UNMIK/Kosovo have demonstrated a trend towards more regionally-based SME development activities, the majority of which are donor-supported. Bosnia and Herzegovina, in particular, is making concerted efforts to develop training and advisory services at the regional level, with an emphasis on SME management training (e.g. strategic planning, turn-around management, growth strategy, marketing) and entrepreneurship training for young people.

As regional economies evolve within each country, it will be important for the life-span of regional SME initiatives, planned or currently being supported, to be sufficiently ensured. The closure of regional SME support centres in UNMIK/Kosovo, for example, suggests that the incubation periods which allow such centres to attain the minimum conditions necessary for financial and administrative autonomy may not have been fully appreciated.

Given the wider perspective of EU integration by all countries in the region, particularly Croatia and the former Yugoslav Republic of Macedonia (which have been confirmed as EU candidates), evolving towards policy and practice associated with the EU's structural reform instruments (particularly European regional and social funds), and where training and advisory services for small businesses at regional level constitute a primary feature of support, will be important.

Table 4.4 Scores in sub-dimension 4.3.3: accessibility

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
Access to training	2.00	2.00	4.00	2.00	3.00	2.00	3.00
<i>Overall weighted average for 4.3.3: accessibility</i>	2.00	2.00	4.00	2.00	3.00	2.00	3.00

4.3.4 Affordability

The costs of training have already been cited as a disincentive to SMEs' uptake of training. With economies struggling during the transition process, and increasing exposure to wider markets, expenditure on training and advisory services is beyond the means of most enterprises.

All countries in the region and UNMIK/Kosovo have demonstrated that enterprise training depends, for the most part, on state or donor funds. Public support for developing both management and occupational skills is likely to remain an important feature of the small business support environment in the foreseeable future. In this regard, ensuring that the training provided more directly meets the needs of enterprises (in terms of appropriateness and timing) will be important.

Given the limited public resources available for training (Albania, in particular, highlighted the constraints on training for SMEs supported by limited public funds), it will also be important for existing scarce resources to be applied more efficiently.

A second feature of activity in the region is more direct financial measures, supported by public funding, to assist small businesses in the uptake of training. UNMIK/Kosovo and the former Yugoslav Republic of Macedonia, for example, operate voucher schemes enabling enterprises to obtain training and counselling in areas such as business planning and marketing. Nonetheless, while direct financial support for training is a welcome feature in the small enterprise environment, publicly supported training often falls victim to austerity measures imposed by governments or international financial institutions. More consideration should therefore be given, in this region, to both financial and fiscal policy incentives to upgrade the competence base of small enterprises.

Economies of scale are already developing and affecting eventual costs for enterprises, thus contributing to increased affordability.

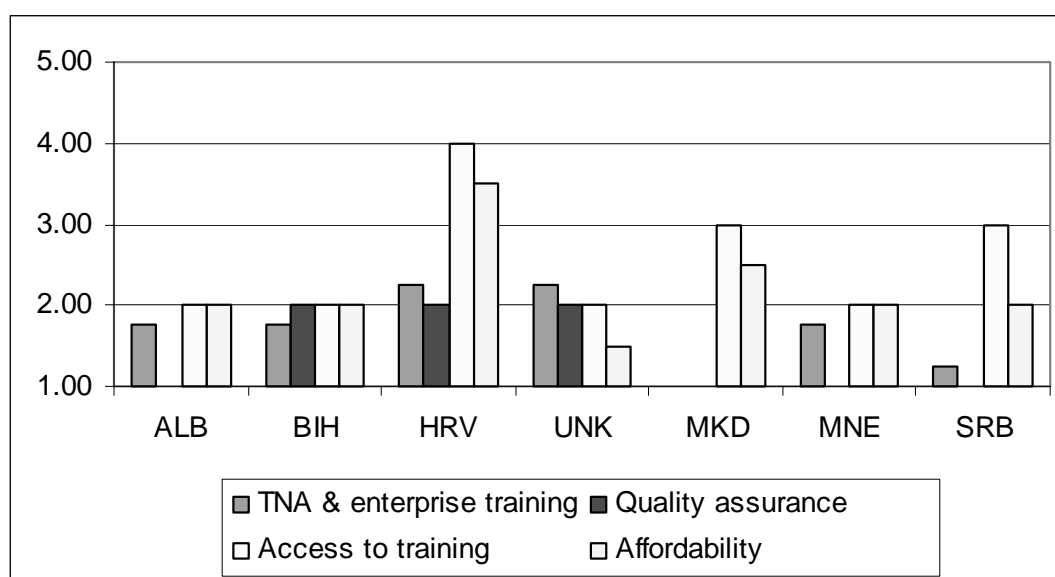
The self-assessments of these two countries support this hypothesis. Firstly, the former Yugoslav Republic of Macedonia links its country-wide availability of services to ‘reasonable costs’ of training. Secondly, Croatia has developed a co-financing framework for business start-ups seminars, business development seminars as well as for occupational skills’ development in selected sectors underscoring a shift in the country to enterprises assuming at least some financial responsibility for training acquired.

Table 4.5 Scores in sub-dimension 4.3.4: affordability

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
Affordability	2.00	2.00	3.50	1.50	2.50	2.00	2.00
<i>Overall weighted average for 4.3.4: accessibility</i>	2.00	2.00	3.50	1.50	2.50	2.00	2.00

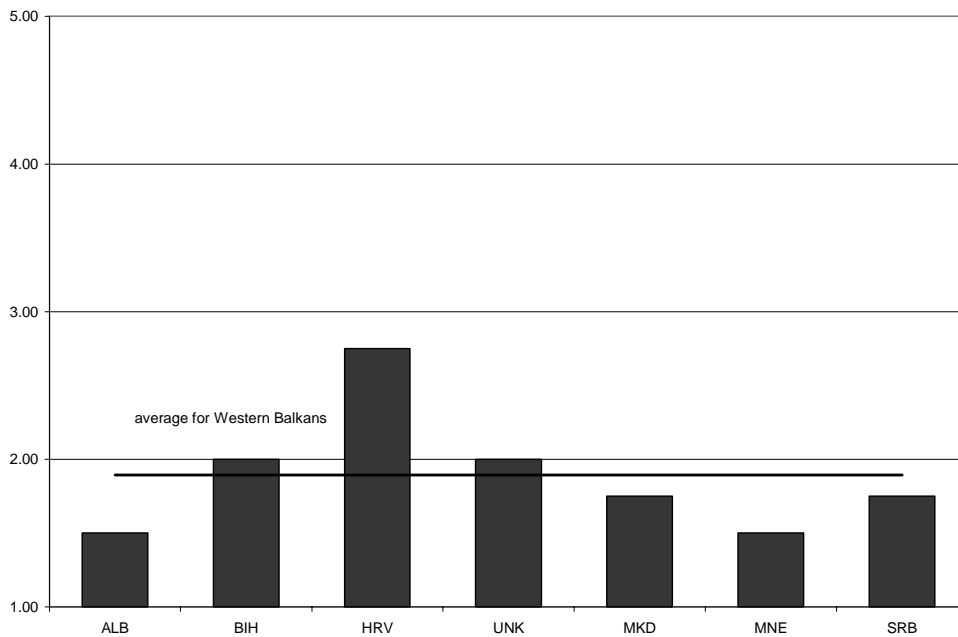
The figures below present the scores by sub-dimension and the aggregated average score by dimension.

Figure 4.2 Dimension 4: availability of skills, scores by sub-dimension³



Overall, the picture provided by the assessment of the five indicators for availability of skills underlines the need for further progress in developing the training market. Systematic reforms in terms of TNA development and quality assurance will be key to ensuring that scarce funds are better allocated. Croatia’s more developed training market ensures its lead in the regional assessment: wider accessibility, training uptake and affordable costs of training are the main factors in its good performance.

Figure 4.3 Overall scores for dimension 4: Availability of skills



4.4 The way forward

The axiom for next phase of development in this dimension is ‘demand should determine supply’. Consequently, until a professional and systematic training needs framework for the small business sector is in place, the risk remains that training will not be sufficient to meet enterprise requirements, and thus there will be continuing inefficiencies in both public and (increasingly) enterprise funded skills development. Given the interdependencies between the TNA policy indicator and others for this dimension, and assuming that all countries in the region and UNMIK/Kosovo can move strategically on TNA developments, progress across all indicators is likely.

1. All of the Western Balkan economies need to systematise enterprise TNA development as an essential condition for a more competitive SME sector in the region. The National Charter Co-ordinators and SME agencies should target finalisation of a broad, publicly supported TNA by 2008.
2. The example of Croatia shows that once an economy picks up and the SME sector starts to become more competitive, the demand for training and service providers will increase. It is important, therefore, to put mechanisms in place to facilitate this increase in demand (i.e. to develop actions which promote the private market for training and advisory services, as developed by EBRD/BAS and similar initiatives) and to put mechanisms in place which can give entrepreneurs a sense of orientation in this market (i.e. quality assurance and accreditation schemes). In view of economic developments, Montenegro, the former Yugoslav Republic of Macedonia and Serbia, in particular, would be well advised to move ahead in this area.

NOTES

- 1 The European Qualifications Framework (EQF) is currently being followed by all EU Member States. Turkey and the Western Balkan countries are accommodating it in their existing qualifications arrangements. The EQF aims to develop a common framework for qualifications in European countries. In particular, it will enable a better match between the needs of the labour market (for knowledge, skills and competences) and education and training provisions; facilitate the validation of non-formal and informal learning; and promote the transfer and use of qualifications across different countries and education and training systems.
For details, see www.ec.europa.eu/education/policies/educ/eqf/index_en.html.
- 2 See www.ebrd.com/apply/tambas/index.htm.
- 3 Indicators for the sub-dimensions are rated on a scale of 1 to 5 (weaker to stronger). Indicators and sub-dimensions are weighted. The weighting system ranges from 1 (least important) to 3 (most important). All scores are rounded to the nearest 0.25.

IMPROVING ON-LINE ACCESS

5.1 Introduction

The Charter envisages the following areas for action in this dimension:

Public authorities should be encouraged to increase their electronic communication with the small business sector, [permitting companies] to receive advice, make applications, file tax returns or obtain simple information on-line...

The clear intention of this line for action is to support e-government measures that encourage small enterprises to adopt electronic forms of communication, linking them with an increasing number of government support services. Within the EU, several governments now provide sophisticated on-line support services related to filing of annual returns by individuals or companies, and advice on various tax matters, export support, etc.

Encouraging enterprises to adopt ICT (information and communication technology) solutions is perceived as a critical aspect of the Lisbon agenda for building an internationally competitive knowledge-based economy. As small enterprises adopt ICT solutions, they will be able to establish electronic links with other businesses, begin to engage in e-business activities, and access new and richer information sources in order to enhance innovation and competitiveness.

On-line access to e-government is of particular importance to *small companies* in which entrepreneurs cannot carry out their core business (i.e. running their company) during time spent on administrative matters in the offices of public officials. Governments that adopt ICT approaches to the provision of services to small enterprises will be able to improve their services, while reducing their own costs and enabling enterprises to reduce the costs of meeting legal requirements.

5.2 Assessment framework

To assess progress by each country and UNMIK/Kosovo in providing on-line services to businesses, three specific sub-dimensions have been evaluated:

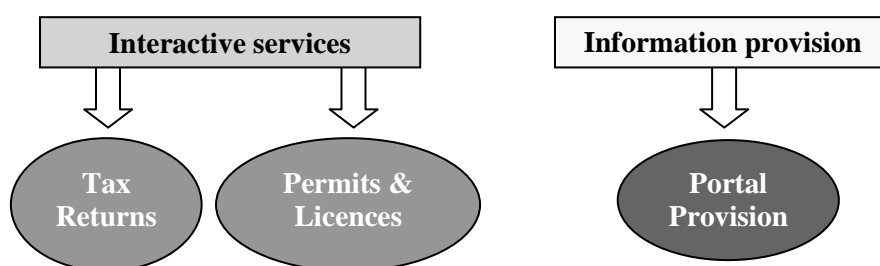
- *On-line filing of tax returns.* This area of interaction between governments and enterprises is of central importance to both. Creating the possibility of on-line filing requires reviewing existing procedures and adapting and simplifying them for the on-line environment. It should lead to a reduction of the compliance costs to enterprises with respect to government tax requirements, as well as enhancing their ability to estimate tax liabilities. On-line filing will also reduce collection costs, enabling the authorities to devote more resources to information provision and support for taxpayers.
- *On-line applications for permits and licenses.* The need to acquire and maintain permits and licences is a key cost to all enterprises, which proportionally falls hardest on small

enterprises. As noted in Chapter 2, this is a key area requiring the longest time period before trading can start. Many licenses and permits must be renewed periodically, creating ongoing problems and costs for enterprises. Facilitating on-line applications for permits and licenses would greatly speed up and reduce the costs of applying for and providing them.

- *On-line information for SMEs, including a dedicated portal with interactive capacity.* With the internet explosion, the range and variety of information available on-line has grown exponentially. This normally includes government generated information covering the services and programmes they provide to businesses and the requirements of the business community. In this area we investigated the level of information available and its accessibility. In particular, this section looks at the availability of a dedicated SME portal to help direct an individual business to the information required and the extent of interaction between SMEs and government-sponsored services in developing information tailored to individual requirements.

These indicators of progress complement some of the other areas considered in this report, notably ‘on-line registration of companies’, acceptance of an ‘e-signature’ and ‘compliance costs of taxes’.

Figure 5.1 Improving on-line access: assessment framework



Box 5.1 General background to the development of on-line services in the region

Appropriate digital infrastructure is a precondition for on-line access. In the Western Balkans region, only Croatia is classified by the ITU (International Telecommunications Union) as ‘upper digital access index’ (DAI). The other countries and UNMIK/Kosovo are classified as ‘medium’. Infrastructure is generally considered insufficient to provide acceptable penetration rates. Internet services are not completely liberalised, but the ICT sector is making steady progress.

Concerning fixed telephone lines, the situation is still variable. In some areas there are long delays before a line can be obtained, with poor quality service once connected. Even where penetration is high, the level of charges and services continues to reflect a low level of competition. High costs restrict the use of internet, in particular.

UNMIK/Kosovo, Albania and, to a lesser extent, Montenegro lag behind in fixed telephone line penetration, as well as in internet infrastructure (hosts, users per 100 inhabitants). However, penetration is only one indication of the service level. The high costs of telephone service continue to represent a serious barrier to ICT access. However, the situation is improving due to the growing number of internet service providers (ISPs) and extensive mobile phone access. All countries and UNMIK/Kosovo have more than one mobile operator. Competition has had a positive influence on the market, except in Bosnia and Herzegovina.

Table 5.1 Fixed telephone line penetration

Country/region	Penetration (%)	Note
Albania	39	Calculated per average household of 5 persons
Bosnia and Herzegovina	>95	Calculated per average household of 4 persons
Croatia	>95	
Former Yugoslav Republic of Macedonia	>95	
UNMIK/Kosovo	27	
Montenegro	62	
Serbia	>95	

Source: *The ICT Sector Status Report*, Stability Pact for South Eastern Europe (2004).

Table 5.2 Mobile operators and internet service providers

Country/region	Mobile operator(s)	Internet service providers (ISPs)
Albania	AMC, Vodafone, Eagle	15 active
Bosnia and Herzegovina	GSM BiH, MOBI's, Eronet	>40
Croatia	HTmobile, VIPnet	7 major
Former Yugoslav Republic of Macedonia	Mobimak, Cosmofon	8 major
UNMIK/Kosovo	VALA900, Mobtel	4 major
Montenegro	ProMonte, Monet	2 major
Serbia	Mobtel, Mobilna, Telefonija Srbije	>60

According to *The ICT Sector Status Report for South Eastern Europe*, there is still a significant lack of a cyber-market in the Western Balkans. While many companies have an internet presence, very few provide services such as on-line sales or other kinds of business-to-consumer (B2C) e-commerce models, and limited internet penetration further restricts demand. The ability to make on-line submissions is also linked to progress on the acceptance of electronic signatures (section 9.3). This has been an inhibiting factor, restricting movement beyond the decision in principle to accept on-line submissions.

5.3 Analysis

Currently, only Croatia has a clear e-government strategy. The e-Croatia programme was initiated to strengthen the use of modern technologies in communications between public authorities and citizens/the private sector. It is clearly leading to an overall reduction of private sector costs in relations with governmental bodies. The programme for 2007 has several parts: e-Administration, e-Justice, e-Education, e-Health Services and e-Business. The Central State Administrative Office for e-Croatia was established with the aim of co-ordinating all e-initiatives. A number of e-programmes (e.g. e-Land Registry, e-Cadaster, e-REGOS, e-VAT, e-Government) have significantly contributed to better business access to public authorities and regulations.

5.3.1 Tax returns

Croatia and Montenegro allow tax calculations to be dealt with on-line, but some restrictions remain to be removed before all tax-related activities can be performed on-line. Croatia has made the greatest progress in removing these restrictions. In Montenegro the software is available to allow on-line credit/debit compensation; the Government is working on developing and testing a common

protocol and has established a telephone help line. Tax returns cannot yet be filed on-line in Montenegro, and there are no plans to introduce this feature. Croatia allows on-line submission of tax returns.

The former Yugoslav Republic of Macedonia has approved legislation to allow on-line tax submissions and a budgetary provision to develop the necessary software. In Bosnia and Herzegovina, the Brčko District and the Republic Srpska are considering proposals to allow on-line filing.

The other governments have yet to consider this issue seriously.

Table 5.3 Scores in sub-dimension 5.3.1: tax returns

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
Tax returns	1.00	1.00	4.00	1.00	3.00	4.00	1.00
<i>Overall weighted average for 5.3.1: tax returns</i>	<i>1.00</i>	<i>1.00</i>	<i>4.00</i>	<i>1.00</i>	<i>3.00</i>	<i>4.00</i>	<i>1.00</i>

5.3.2 Applications

5.3.2.1 Permits and licences

The least progress has been made on provisions to allow on-line applications for permits and licenses. Each permit has its own requirements. Many are administered by local governments and/or specialist agencies. Several governments are reviewing their legislation with a view to eliminating unnecessary requirements and simplifying administration (Chapter 3). This will be an important first step before a serious attempt can be made to introduce on-line access for a growing range of permits and licences. To date, only Croatia has reached the stage at which enabling legislation has been approved and software is being developed. Serbia is considering the potential benefits of reforming and authorising pilot projects. The other governments are still at stage one, where no serious consideration has been given to the issue.

Table 5.4 Scores in sub-dimension 5.3.2: applications

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
Permits and licenses	1.00	1.00	3.00	1.00	1.00	1.00	2.00
<i>Overall weighted average for 5.3.2: applications</i>	<i>1.00</i>	<i>1.00</i>	<i>3.00</i>	<i>1.00</i>	<i>1.00</i>	<i>1.00</i>	<i>2.00</i>

5.3.3 Availability of on-line information

5.3.3.1 On-line information for SMEs

All governments in the region have begun to provide information on-line, but the quality and quantity of this information varies. Only Croatia has developed a single national portal; elsewhere a number of unrelated sites are maintained by different institutions and programmes. Many of these sites are financed by donor programmes. Their future sustainability and maintenance are unclear.

Table 5.5 Availability of on-line information

	Address	English + local language	Government information	Official forms	e-business services	FAQs	Fully interactive
Albania	http://www.seebiz.net.al ¹⁾	X	X				
Bosnia and Herzegovina	www.fbihvlada.gov.ba www.kfbih.com www.rars-msp.org www.bdcentral.net www.brckopkomora.com	✓	✓	X	X	X	X
Croatia	www.hitro.hr	✓	✓	✓	X	✓ ²⁾	✓
UNMIK/ Kosovo	www.odaekonomike.org www.kosovo-eicc.org www.mti-ks.org www.kosovatenders.org www.kosovabiz.com	✓	✓	X	✓	X	X
The former Yugoslav Republic of Macedonia	www.economy.gov.mk www.uslugi.gov.mk www.apprm.org.mk www.gov.mk www.ebiz.org.mk www.euroinfo.org.mk www.sojuzkomori.org.mk	✓	✓	X	X	X	X
Montenegro	www.nasme.cg.yu	✓	✓	X	X	X	X
Serbia	www.pks.co.yu www.sme.sr.gov.yu	✓	✓	X	X	X	X

1) This site has experienced technical difficulties. It has not been accessible for almost 12 months.

2) In Croatia, frequently asked questions (FAQs) is currently restricted to specific government services. Interactions are limited to taxes, pensions and registration areas.

A wide variety of information is available on the above sites. However, it is generally not well co-ordinated, and there are many duplications and obvious gaps. In addition to the local language version, in almost all cases these sites exist in English. Often they also exist in other European languages.

Only Croatia has a single national portal dedicated to providing access to a range of government support services for SMEs, including submissions and guidance on tax, pensions and other matters. Most sites include information on tendering opportunities for government contracts and links to a broad range of information provided by the European Commission. Apart from this, information tends to concern the activities of ministers and the publication of major policy proposals, with little about direct practical government actions. While it would be relatively easy to do, there are few opportunities even to download the relevant forms businesses need for their interactions with governments. Many of the information sources cited above are financed by donor projects, with limited time horizons. A strategy is needed for sustainability and maintenance. Another shortcoming is that www.hitro.hr is closed in on itself and provides no access to web based information from other sources.

In Serbia the portal operated by the SME agency gives access to a range of specific information on its work, background legislation and basic business advice, in addition to links to other relevant sites. The EU portal developed by the Serbian Chamber of Commerce is not an SME-dedicated portal with special attention given to SME needs. Instead, it serves Serbia's entire business community.

The former Yugoslav Republic of Macedonia makes a great deal of information available, but the information is spread across many different sites and access is difficult. There are very few opportunities for interaction. Most of the sites ‘broadcast’ topical information rather than details of procedures and activities that might directly influence small business activities (with the exception of potential tendering opportunities).

In Montenegro the use of portals is very low and only some specific information can be found, including the action plans of the Directorate for Development of SMEs.

In Bosnia and Herzegovina specific on-line information for SMEs can be found on different portals at entity levels and in the Brčko District. Furthermore, different portals at the state level providing state level legislation contain information of interest to SMEs.

In UNMIK/Kosovo there is no unique portal for SMEs where all the needed information can be found, but a great deal of information is available – much of it duplicated over several sites. Registration and support services for SME e-business launching activities are a special feature of two sites.

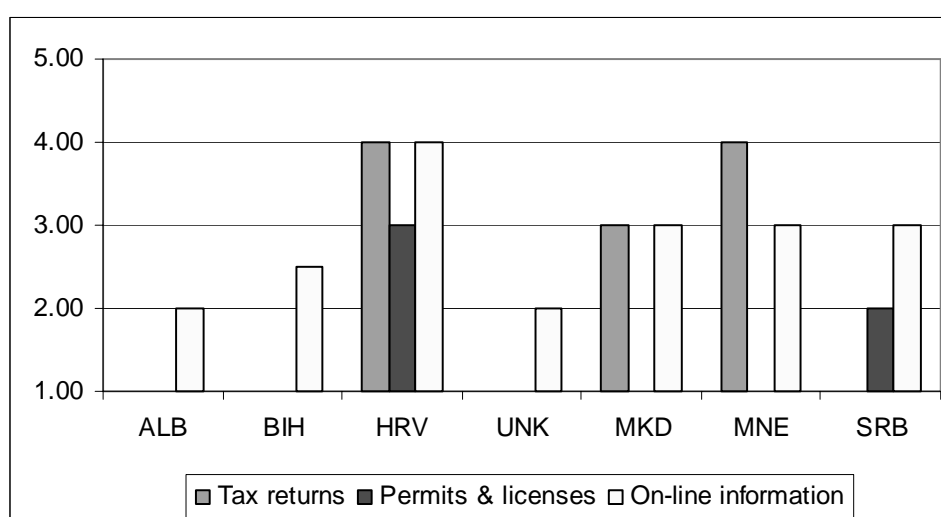
Three governments still face significant challenges in providing a basic level of on-line services before they tackle the improvement of on-line access to government services.

Table 5.6 Scores in sub-dimension 5.3.3: availability of on-line information

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
Availability of on-line information	2.00	2.50	4.00	2.00	3.00	3.00	3.00
<i>Overall weighted average for 5.3.3: availability of on-line information</i>	<i>2.00</i>	<i>2.50</i>	<i>4.00</i>	<i>2.00</i>	<i>3.00</i>	<i>3.00</i>	<i>3.00</i>

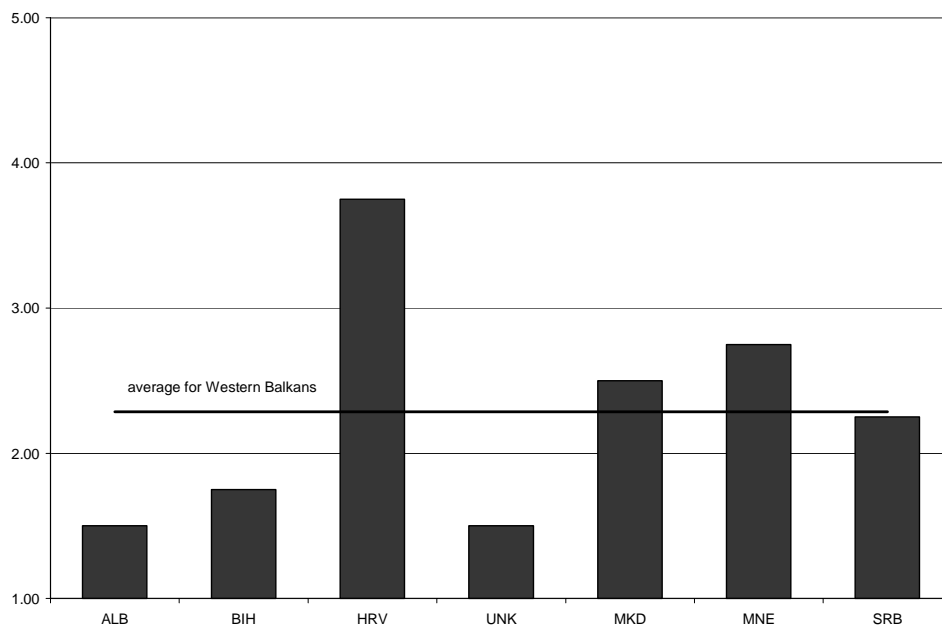
The figures below present scores by sub-dimension and the aggregated average score by dimension.

Figure 5.2 Dimension 5: improving on-line access, scores by sub-dimension



Note: Indicators for the sub-dimensions are rated on a scale of 1 to 5 (weaker to stronger). Indicators and sub-dimensions are weighted. The weighting system ranges from 1 (least important) to 3 (most important). All scores are rounded to the nearest 0.25.

Figure 5.3 Overall scores for dimension 5: improving on-line access



5.4 The way forward

1. The development of on-line services that can be used by small enterprises should be considered in the context of wider e-government issues and strategies designed to improve relations with citizens and to encourage ICT activity.
2. Basic processes should be reformed before e-solutions are put in place. For example, on-line tax returns and issuance of permits should not be implemented until the administrative procedures for tax returns and licenses have been streamlined.
3. On-line service and information portals have considerable maintenance costs. Governments should establish realistic budgets for the ongoing maintenance and development of on-line information for small enterprises, as a major part of their e-government strategies.
4. Online information for SMEs should focus on practical information and resources rather than 'news' about government activities. Croatia's information portal comes closest to focusing on practical information for entrepreneurs.

Croatia is clearly ahead of the other governments in the region in developing a comprehensive e-government strategy, of which on-line services for SMEs are a part. Its experience can provide helpful insights for other governments in the region.

GETTING MORE OUT OF THE SINGLE MARKET

6.1 Introduction

Establishing a presence in the EU single market is both a challenge and a huge opportunity for Western Balkan entrepreneurs. Although they are not yet an integral part of the EU, the Western Balkan countries and UNMIK/Kosovo are highly integrated in the EU trade block. The EU is their main trading partner, and they are adopting key EU trade regulations and technical standards. All of the Western Balkan economies regard the EU as their key export destination and a major source of FDI, technology and innovation.

Since 1999 the EU has granted these economies almost totally quota and duty free access to the European single market. Stabilisation and Association Agreements (SAAs) signed by some countries (Albania, Croatia, the former Yugoslav Republic of Macedonia) further underpin the process of trade integration and have expanded market access in both directions. Nonetheless, small enterprises in the Western Balkans continue to face considerable obstacles in accessing the EU single market. They must meet EU technical and quality standard requirements; moreover, there is a lack of trade information and export promotion support and a general lack of programmes directed at improving SME competitiveness.

The Charter envisages the following actions in relation to these opportunities:

- Pursuing reforms aimed at completion in the EU of a true internal market, user-friendly for small businesses in areas that are critical to these businesses' development, including electronic commerce, telecommunications, utilities, public procurement and cross-border payment systems;
- Applying European and national competition rules to ensure that small businesses have every chance to enter new markets and compete on fair terms.

These actions are directly relevant to the EU candidate countries, Croatia and the former Yugoslav Republic of Macedonia, but also to Albania, which has signed an SAA with the EU. They are medium-term targets for the other Western Balkan economies, which are still in the SAA negotiation phase. However, at this stage it is already important for the Western Balkan countries and UNMIK/Kosovo to develop a platform strategy to reap the potential benefits associated with access to the EU single market.

The OECD Investment Compact recently conducted an assessment of competition policy in South East Europe, including the Western Balkans.¹ For this reason, we have decided not to cover that particular area in this report.

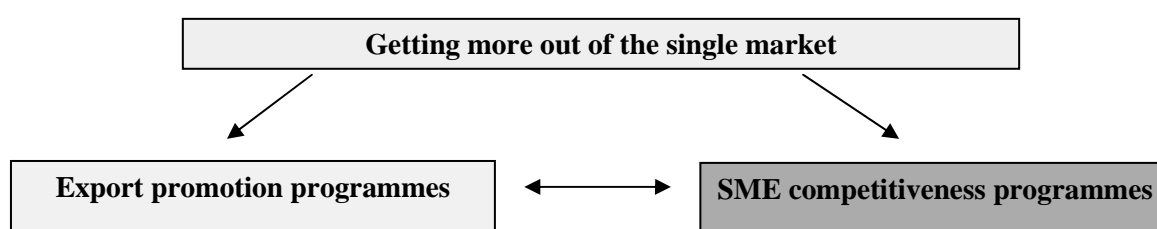
6.2 Assessment framework

In looking at issues related to the single market, the assessment focuses on two practical policy areas that will assist enterprises in preparing for the opportunities and threats of the Single European Market:

- Export promotion programmes;
- Competitiveness programmes.

Export promotion and competitiveness are key in a region that is experiencing important trade deficits and sluggish export growth.

Figure 6.1 Getting more out of the single market: assessment framework



6.2.1 *Export promotion programmes*

Export promotion programmes typically include provision of trade information, assistance to exporters, organisation of trade missions, support for participation in international trade fairs, training of managers and staff responsible for export sales, and adoption of technical and quality standards with access to internationally recognised certification. Under this heading we have assessed the range of available export programmes, their comprehensiveness and co-ordination, and the degree to which they remain funded by donors.

6.2.2 *Enhancing SMEs' competitiveness*

Competitiveness is a broader concept that involves improving firms' ability to sell and supply goods or services profitably. It can be increased through effective export promotion – namely, access to technical and phytosanitary standards – but also through many other dimensions covered in this report, including development of skills, access to technology and e-business, and access to finance. Governments can play an important role in enhancing SME competitiveness through a range of actions. For the purpose of this chapter, we focus the analysis of the competitiveness component on:

- Government provision of SME competitiveness programmes;
- The degree of co-ordination with other related policy areas;
- The existence of planning and co-ordination bodies such as National Competitiveness Councils.

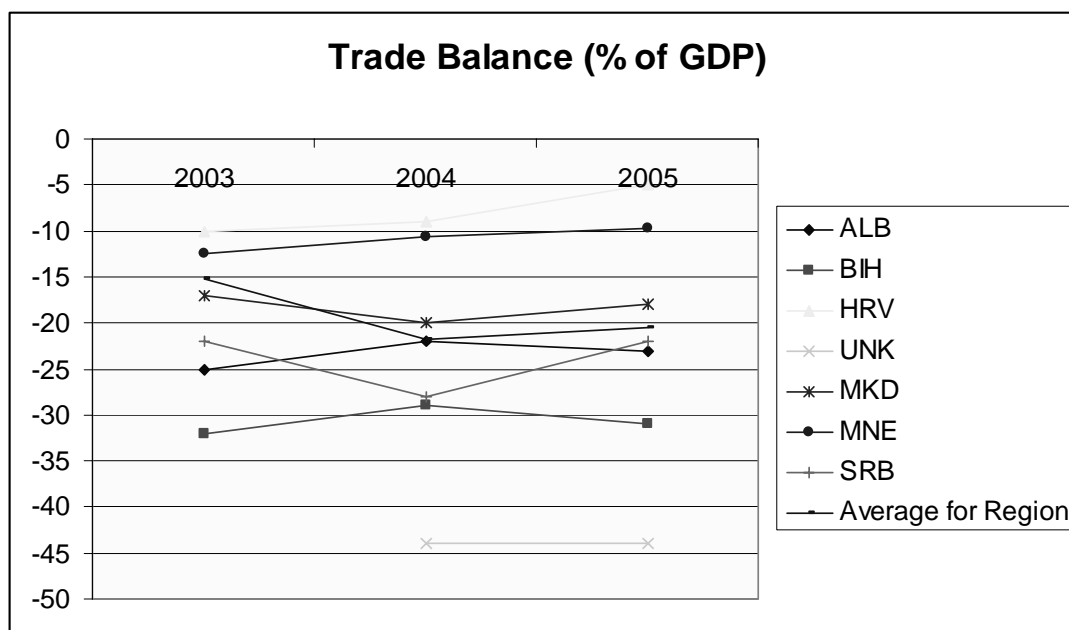
Box 6.1 General background

Trade liberalisation is well-advanced in all the Western Balkan countries and UNMIK/Kosovo. Quantitative trade restrictions have been entirely removed. The liberal trade regime is underpinned by a network of multilateral, regional and bilateral trade agreements.

Under the Autonomous Trade Measures (ATMs) granted by the EU in 2000, the region benefits from almost completely unrestricted access to the EU market. At regional level, in December 2006 the Western Balkan countries and UNMIK/Kosovo signed a new free trade agreement, the SEE FTA, upgrading the previous system which was based on a network of bilateral free trade agreements. Regional trade integration is particularly significant for small enterprises, as the regional market presents an opportunity for expansion. However, trade expansion is still hampered by high non-tariff barriers, notably local companies' difficulty in meeting EU technical, sanitary and phytosanitary standards and limited intra-regional standard recognition.² Import/export procedures are still quite cumbersome all across the Western Balkans, but shorter customs clearance times have started to progressively improve the efficiency of the customs administrations.

All the region's economies have significant negative trade balances, partly compensated by capital inflows generated by remittances, tourism (particularly in Croatia and Montenegro) and FDI.

Figure 6.2 Trade balance (% of GDP)



6.3 Analysis

6.3.1 Export promotion

All governments in the region have recognised that export promotion is an important component of enterprise development. To date, however, this component is seldom integrated in the SME development strategy or the broad competitiveness agenda. In most cases export promotion consists of a set of fragmented initiatives with limited cohesion. Donor funding is still decisive, with a large share of programmes receiving donor support.

Box 6.2 Euro Info Correspondence Centres

Euro Info Correspondence Centres (EICCs) represent the Euro Info Centre (EIC) network in third countries. EICCs provide assistance to SMEs on issues relating to transnational business co-operation, as well as information on legal, administrative and statistical matters in the context of commercial opportunities involving the EU and third countries. EICCs are well-represented in the Western Balkans, with centres in Bosnia and Herzegovina, Croatia, UNMIK/Kosovo, the former Yugoslav Republic of Macedonia and Montenegro.

Concerning the implementation of export promotion programmes, the Western Balkan economies can be divided into three broad groups:

- The first group consists of Croatia and Montenegro, where export promotion programmes are relatively well-developed;
- The second group consists of the former Yugoslav Republic of Macedonia and Serbia, which have active trade policy promotion programmes that initially began with donor support but are now increasingly an integral part of the government enterprise support programmes;
- The third group consists of Albania, Bosnia and Herzegovina and UNMIK/Kosovo, which are at different stages of establishing pilot export promotion programmes.

Croatia's main export promotion programme is funded by MELE. It focuses on supporting participation by Croatian companies in international trade fairs, and is complemented by a number of other programmes operated by APIU and the Croatian Exporters Association. The latter recently announced the launch of an Export Promotion Offensive (to start in 2007) with financial support from USAID. Among other activities, it will provide training and support services to actual and potential exporters on marketing research, penetration of new export markets, standardisation for the EU market, and dealing with customs regulations. In parallel, APIU is building an information data base for exporters, developing a specific trade portal and launching a number of trade promotion initiatives.

Montenegro is not far behind Croatia in developing its export promotion programme. The Government of Montenegro adopted an Export Promotion Strategy document, prepared by the Montenegrin Ministry for International Economic Relations and European Integration (MIEREI), in December 2005. To implement this strategy and create conditions for export support, a special Export and Competitiveness Promotion Department has been established within SMEDA. The following types of assistance are provided to enterprises:

- Information on export markets;
- Advice on marketing;
- Training in marketing and other management disciplines;
- Improvements to quality standards;
- Quality certification;
- Improvements to marketing and promotional materials;
- Opportunities to meet international buyers.

In the second group of countries, the former Yugoslav Republic of Macedonia promotes trade through the Chamber of Commerce system. In Serbia trade promotion programmes are managed by the country's investment and trade promotion agencies, in collaboration with the Chamber of Commerce and other organisations.

Table 6.2 Export promotion agencies in SEE countries

Country	Organisational Structure	Linkage Promotion	Information/ Consulting Services	Training Offered
Albania Agency for Business and Investments (AlbInvest)	Merged functions: SME + Investment + Export Promotion	✓	✓	✓
Bosnia and Herzegovina	Department within the Ministry for Foreign Trade and Economic Relations			
Croatia Trade and Investment Promotion Agency	Merged functions: Investment + Export Promotion		✓	
UNMIK/Kosovo Ministry of Trade and Industry with the PGI	Department within the Ministry of Trade and Industry	NA	NA	NA
The former Yugoslav Republic of Macedonia	Chamber of Commerce	✓	✓	
Montenegro	Department within the Directorate for SME Development	✓	✓	
Serbia Investment and Export Promotion Agency	Merged functions: Investment + Export Promotion	✓	✓	✓

Source: OECD Investment Compact.

The Serbian Government currently provides the bulk of funding for export promotion, in terms of training and marketing/participation in trade fairs (EUR 1.2 million), managed by the Serbian Investment and Export Promotion Agency, all of which is targeted at SMEs.

Albania, Bosnia and Herzegovina and UNMIK/Kosovo have not yet progressed beyond the pilot stage in export promotion programmes. Albania is the most advanced, having introduced an export promotion programme in 2004 and established a Trade Promotion Agency with EU technical and financial support. This agency recently merged with the investment and SME promotion agency, forming an integrated government business service agency. A range of new export promotion initiatives are being considered with donors.

In Bosnia and Herzegovina some activities and pilot programmes related to export promotion are in place. The Foreign Trade Chamber implements programmes on export promotion (matchmaking, exhibitions of products in the country's embassies, a Directory of Exporters, organisation of trade missions). FIPA, the investment promotion agency, is receiving EU technical assistance to establish an export promotion section. Export promotion activities are also taking place in entity and cantonal level Chambers and regional development agencies. Examples are:

- The Regional Export and Investment Support (REXIS) project, implemented by the REZ development agency with funding by the Netherlands, to increase the export competitiveness of central Bosnia and Herzegovina;

- The Banja Luka Enterprise Development Agency (EDA) project on increasing the export potential of SMEs from the northwest.

Many donor programmes (EU EXPRO, EU CIC, USAID CCA, CBI-Centre for Promotion of Import from Developing Countries, LEBID neighbourhood programme) are focused on export promotion, but only a small number of SMEs in strategic sectors actually benefit from them. Co-ordination of export promotion programmes is generally insufficient.

In UNMIK/Kosovo competitiveness and export issues have started to be considered as part of the new private sector development strategy. However, there is as yet no clear action programme to support small enterprises. A number of donor programmes have launched individual export support measures, but their impact has been relatively small.

Table 6.3 Scores in sub-dimension 6.3.1: export promotion programmes

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
Export promotion programmes	2.50	2.00	4.00	1.50	3.00	3.50	3.00
<i>Overall weighted average for 6.3.1: export promotion programmes</i>	2.50	2.00	4.00	1.50	3.00	3.50	3.00

6.3.2 Enhancing SME competitiveness

As in the case of export promotion, governments have introduced a variety of different initiatives to support SME competitiveness. However, these have generally been isolated projects that were not always focused on the most important issues. For example, limited attention has been paid to quality standards, or to the difficulty of increasing the human resources and productive capacity required. Only Croatia has really attempted to address these challenges together in a comprehensive programme that covers critical components of competitiveness, many of which are included in the Charter. Croatia still needs to fully deliver on this programme, namely in areas such as skills development. Competitiveness programmes for other countries have often been driven by separate donor inspired programmes that are not co-ordinated into a comprehensive strategy to increase competitiveness. USAID and the EC have been the main supporters of competitiveness enhancement programmes. USAID, in particular, has promoted the establishment of National Competitiveness Councils in several Western Balkan economies.

Croatia's National Council for Competitiveness (NCC) is now the highest forum in which representatives of the Government and business community regularly meet to discuss the main challenges faced by the country's economy and propose ways to increase the competitiveness of the business sector. It should be noted that the 55 Policy Recommendations for Raising Croatia's Competitiveness, prepared by the NCC in 2004, were recently adopted by the Government as an integral part of its economic reform and development policy.

Another positive achievement has been the launch of a Competitiveness Facility, co-funded by the EC and managed by Deloitte, which offers a 50% rebate on costs incurred by Croatian enterprises that purchase professional services for competitiveness improvement. Finally, the Business Innovation Centre-Croatia (BICRO) has recently started the Croatian Business Competitiveness Upgrading Programme (KONCRO), which co-funds acquisition of consultancy services for SMEs that want to increase their competitiveness. It supports the creation of a network of qualified consultants for R&D and innovation. As is often the case with such complex programmes, involving many different stakeholders, better co-ordination of the relevant ministries and state agencies would increase the impact of the NCC.

The Government of Montenegro and the private sector (business associations) have collaborated to create a policy framework fostering competitiveness and export growth. SME competitiveness programmes fall under the export promotion programmes of SMEDA. Collaborating with the Montenegrin Business Association (MBA) and the Ministry of International Economic Relations and European Integration, SMEDA provides a range of specific services tailored to the individual needs of exporting enterprises and designed to enhance their international competitiveness. In collaboration with USAID, cluster based approaches within this framework are being developed to help enhance competitiveness.

The former Yugoslav Republic of Macedonia and Serbia have established their own National Competitiveness Council or equivalent institutions, but they have lacked continuity. In Serbia a National Competitiveness Council was established in 2003 but disbanded in 2004. It was launched as part of a US-funded Serbia Enterprise Development Programme (SEDP) which initially aimed to assist Serbia in formulating a national competitiveness policy and establishing cluster development programmes. However, the project changed its focus to assisting individual private companies directly, abandoning the essential concept of creating competitive advantage at individual enterprise level. Currently there is still no national policy to enhance competitiveness, but cluster development is proposed in the Strategy for Stimulation and Development of Foreign Investment adopted in March 2006. The programmes currently in place can only be considered pilot programmes.

The Government of the former Yugoslav Republic of Macedonia, with the support of USAID, has established an active NCC and planned a range of measures to enhance competitiveness. Pilot programmes have been approved by the Government. As the USAID programme comes to an end, however, there is a risk that the programme will not be sustained.

In Albania no national competitiveness policy is in place beyond direct support for exports. The USAID donor programme to develop competitiveness through a cluster focus abandoned this approach in favour of a programme targeting individual enterprises.

In Bosnia and Herzegovina only initial pilot programmes are in place, funded by donors. These pilot programmes are oriented to industries recognised as strategic for the country's economy (wood processing, tourism, metal processing, automotive). The USAID Cluster Competitiveness Activity aims to develop wood processing and tourism clusters. Pilot programmes include cluster development and education activities.

Table 6.3 Scores in sub-dimension 6.3.2: enhancing SME competitiveness

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
Enhancing SME competitiveness	1.50	2.00	4.00	2.00	3.00	3.50	2.50
<i>Overall weighted average for 6.3.2: enhancing SME competitiveness</i>	1.50	2.00	4.00	1.50	3.00	3.50	3.00

The analysis shows that Croatia has made the most progress in developing a significant programme that combines export promotion with strengthening of the competitiveness of key industries within the country. Montenegro has progressed rapidly in the last two years but still needs a few more years before it can match the comprehensiveness of the Croatian competitiveness programme. The former Yugoslav Republic of Macedonia and Serbia have also introduced a range of programmes, although many are still fragmented and depend on donor support. Albania, Bosnia and Herzegovina and UNMIK/Kosovo are in the earlier stages of developing competitiveness programmes, with a few pilot projects.

Figures 6.2 and 6.3 present scores by sub-dimensions and the aggregated average scores for this dimension.

Figure 6.3 Dimension 6: getting more out of the Single Market, scores by sub-dimension³

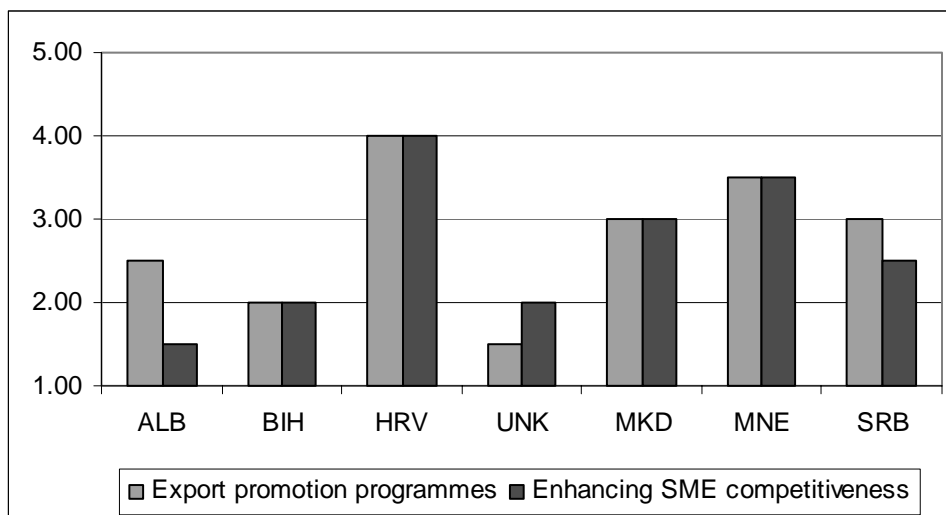
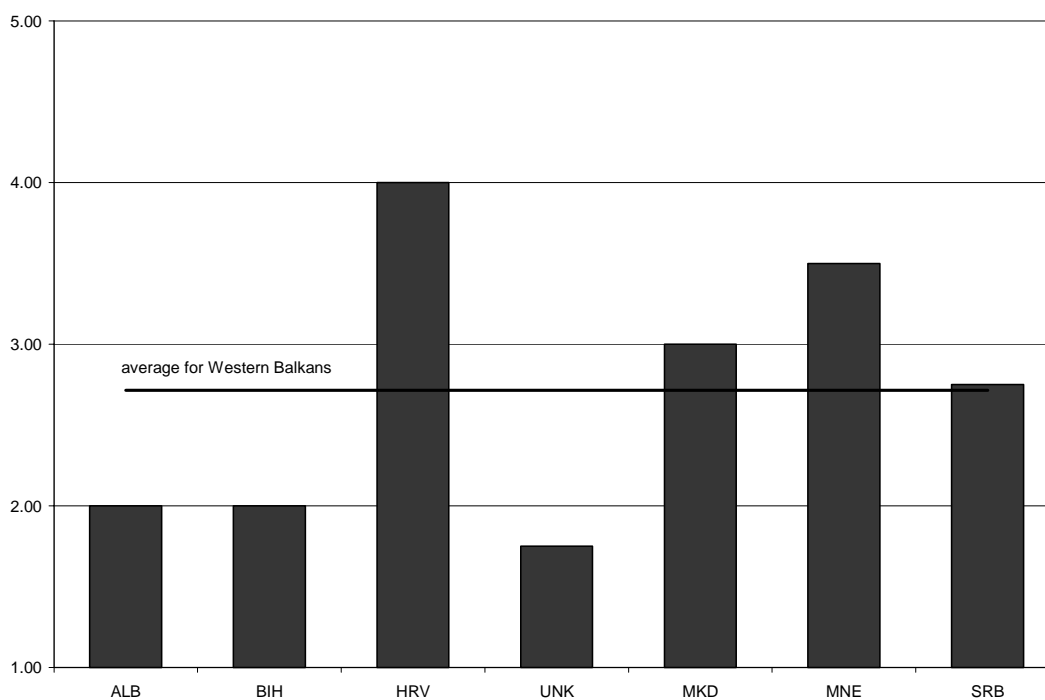


Figure 6.4 Overall scores for dimension 6: Getting more out of the single market



6.5 The way forward

Getting more out of the single market is one of the most challenging dimensions for both SMEs and governments that support them. Enhancing the competitiveness of SMEs in the Western Balkans

and UNMIK/Kosovo and increasing exports requires a multi-pronged effort covering at least half of the dimensions of the Charter. Countries can learn from the experience of Croatia and its National Council for Competitiveness, which has been successful in addressing some of the most challenging competitiveness issues (e.g. access to technology/e-business) while involving a broad spectrum of key stakeholders to ensure greater relevance and impact.

1. A critical component of export promotion for SMEs will be the adoption of technical, sanitary and phytosanitary standards, supported by the appropriate internationally recognised accreditation and certification bodies.
2. Linkage programmes between foreign investors and SMEs can further increase SME competitiveness through skills development, upgrading of standards and access to EU markets.
3. Governments should ensure that individual donor financed programmes for export promotion and increased competitiveness are fully in line with their national strategy, are co-ordinated with other initiatives in the area, and have realistic budgets in order to ensure sustainability and impact.

NOTES

- 1 See Chapter 7 of *Investment Reform Index*, OECD Investment Compact (2006). This report does not cover UNMIK/Kosovo.
- 2 *Investment Reform Index*, OECD Investment Compact (2006).
- 3 Indicators for the sub-dimensions are rated on a scale of 1 to 5 (weaker to stronger). Indicators and sub-dimensions are weighted. The weighting system ranges from 1 (least important) to 3 (most important). All scores are rounded to the nearest 0.25.

TAXATION AND FINANCIAL MATTERS

7.1 Introduction

Taxation and access to finance have a major impact on small enterprise operations and growth in the Western Balkans, as indicated by numerous studies to date.

Taxation influences small companies' operations in three ways:

- The tax regime defines how much company profit is retained by company owners and how much goes to the government, at the central or local level. Therefore, tax policy plays a major role in establishing incentives for starting and expanding a business operation;
- Tax administration and tax compliance (including preparation of tax returns, regular payments of taxes, and assistance during tax audits and inspections) can absorb a significant amount of resources in terms of management time and administrative costs, particularly in small enterprises;
- Tax collection schedules, reimbursement and reconciliation rules can often have a major impact on a company's cash flow, even if temporarily.

Access to external finance through debt, equity or other financial instruments makes it possible to leverage a company's capital base, spread and better manage financial risks, and expand at a faster rate than that determined by the use of internally generated funds alone.

The Charter envisages the following areas for action on taxation and financial matters:

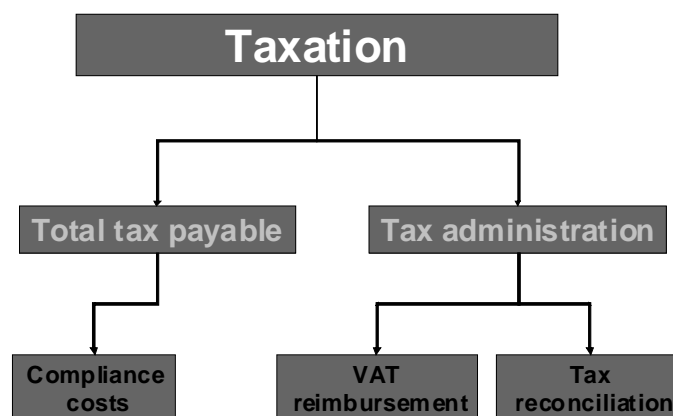
- Adapting tax systems to reward success, encourage start-ups, favour small business expansion and job creation, and facilitate the creation of (and success in) small enterprises; application of best practice to taxation and to performance incentives;
- Improving the relationship between the financial sector system and small enterprises by creating appropriate conditions for accessing bank credit, leasing and venture capital.

7.2 Assessment framework

In this chapter two different assessment frameworks are used, one to address taxation and the other to address access to finance.

The tax assessment framework includes indicators covering both tax policy for small enterprises and the quality and performance of the tax administration. The OECD Investment Compact recently produced a comprehensive evaluation of tax policy and tax administration in South East Europe, including the Western Balkan countries.¹ The SME Policy Index builds on this evaluation while examining taxation from the perspective of SMEs,

Figure 7.1 SME taxation assessment framework



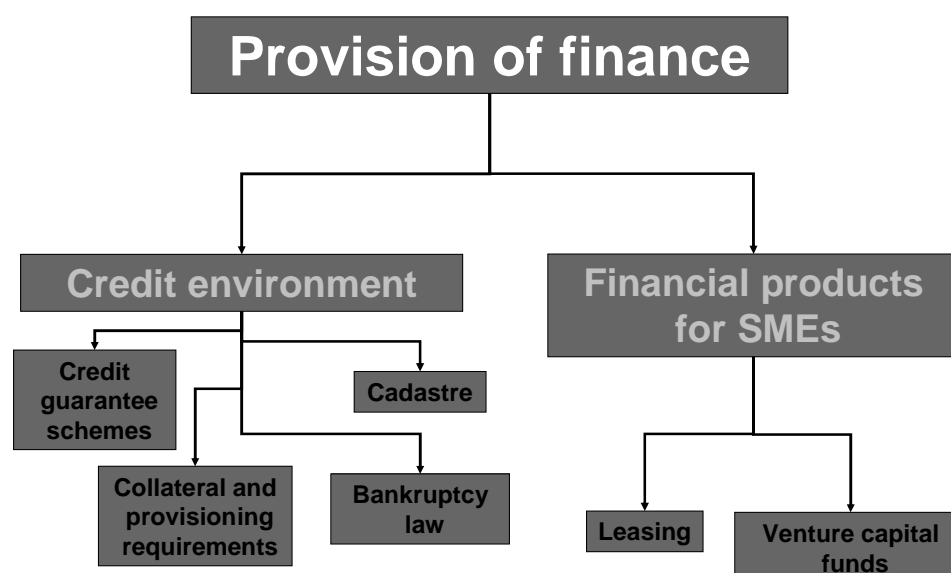
The smaller the business, the less clear is the dividing line between different types of taxes. Small entrepreneurs tend to lump together the total amount of taxes collected by the state and the local administration, including corporate income tax, municipal taxes, personal income tax and social contributions. Although individual taxes are sometimes very small, the accumulation of such taxes often weighs heavily on a company's cash flow. It can be especially burdensome when they face competition from companies operating informally. A high total tax burden limits firms' ability to compete and acts as an incentive to evade taxes, particularly by incorrectly reporting turnover, profits and salaries.

Therefore, instead of referring to the nominal corporate income tax we consider total tax payable, which takes into account all sums paid by a company to the central and local administration as a percentage of the total company profit.²

In the area of tax administration we consider compliance costs, in particular how the system addresses the special needs of small enterprises. Two indicators that provide a first measurement of the impact of taxation on the company cash flow were used: speed of VAT reimbursement, and ability to reconcile different taxes.

A full assessment of access to finance for SMEs would evaluate the degree to which there is a competitive market for SME finance. Even within more developed economies, the significance and operation of various tools such as credit guarantee funds or venture capital can vary greatly. However, there are still a certain number of preconditions for access to finance that all countries should meet and that are included in our assessment framework below:

Figure 7.2 Assessment framework for provision of finance to SMEs



7.3 Analysis

7.3.1 Adapt tax system to favour SMEs

7.3.1.1 Total tax payable

Over the last three years, corporate income tax rates in the Western Balkans have been drastically reduced. The region currently offers some of the most competitive tax rates in Europe, ranging from 9% in Montenegro to 20% in Albania and Croatia. The exception is the Federation of Bosnia and Herzegovina, where the corporate tax rate is 30%.³

Table 7.1 Corporate tax rates, 2007 (%)

	Rate
Albania	20
Bosnia and Herzegovina:	
• Federation of Bosnia and Herzegovina	30
• Republika Srpska	10
Croatia	20
UNMIK/Kosovo	20
Former Yugoslav Republic of Macedonia	12 ¹
Montenegro	9
Serbia	10

Source: Individual countries' corporate tax legislation; KPMG's Corporate Tax Rate Survey, 2006.

Western Balkan governments view low corporate tax rates as a critical tool to stimulate private direct investment and fight the informal economy. Tax competition, both among the Western Balkan countries and with other low-tax jurisdictions, has also played an important role in spreading a general reduction of corporate income tax rates.

According to a recent review of tax regimes in Southeast Europe,⁴ once other elements that determine a firm's effective tax rate (e.g. depreciation and loss carry forward allowances) are taken into account, the impact of a competitive corporate income tax rate is more limited than some governments might want to believe. This review also showed that Croatia, the Former Yugoslav Republic of Macedonia, Montenegro and Serbia have implemented relatively robust tax regimes, just behind those of Romania and Bulgaria, the countries attracting the largest flows of FDI in South East Europe. Albania and the two entities of Bosnia and Herzegovina (as well as the Brčko District) lag being their Western Balkan peers in developing an attractive corporate tax environment.

Personal income tax rates also have a significant impact on individual and family-based companies.

Table 7.2 Personal income tax: top bracket rates (2007)

	Rate (% of taxable income)
Albania	30
Bosnia and Herzegovina	
• Federation of Bosnia and Herzegovina	25
• Republika Srpska	20
Croatia	45
The former Yugoslav Republic of Macedonia	10
Montenegro	23
Serbia	14

The top personal income tax rate across the region is generally low except in Croatia. The former Yugoslav Republic of Macedonia and Serbia have recently introduced a flat rate for personal income tax set, respectively, at 10 and 14%.

Albania is the only country that has introduced a specific tax regime for small enterprises, applying a flat rate of 1.5% of enterprise turnover and up to a total turnover of Lek 8 million (approximately EUR 63 000). All the other governments have adopted a neutral regime, applying the same rate to all companies, independent of volume of turnover and number of employees.

The impact of generally low corporate tax rates is partly offset by a number of other taxes and fees for various purposes paid to the local and state administration. These smaller amounts, when accumulated, can weigh significantly on a small company's cash flows.

Table 7.3 presents data on total tax payable as calculated for the *Doing Business* survey. The indicator captures the total tax payable for a 'model company' as a percentage of the company's profit, allowing cross-country comparison.⁵

Table 7.3 Total tax payable (% of company profit)

	Albania	Bosnia and Herzegovina	Croatia	UNMIK/ Kosovo	The former Yugoslav Republic of Macedonia	Montenegro	Serbia
Corporate income tax*	16.1	26.2	15.4	NA	11.5	7.1	14.2
Local taxes	0.3	0.9	-	NA	0.1	0.4	-
Other miscellaneous taxes	3.8	6.0	1.3	NA	2.5	7.8	3.9
Social security contributions	35.6	13.3	20.3	NA	29.5	18.7	20.8
<i>Total tax payable</i>	55.8	50.4	37.1	NA	43.5	33.9	38.9
<i>Total number of payments</i>	42	73	39	NA	54	75	41

Source: Elaboration of data from *Doing Business 2006*.

From the table, it is clear that the share of company profits absorbed by corporate income tax, based on taxable income after deductions, is generally quite low across the Western Balkans. The same is true for local taxes and other miscellaneous taxes (mostly property and property registration taxes). Far more significant is the weight of social security contributions on firms' total tax burden. As social security contributions are actually a cost item, they are excluded from the taxable income base. But given the high incidence of social security contribution evasion in the Western Balkans,⁶ the full payment of these charges is often perceived by entrepreneurs as a reduction of company profits.

7.3.1.2 Compliance costs

The analysis of the tax environment in the OECD Investment Compact's *Investment Reform Index* highlighted that most Western Balkan countries have created largely favourable corporate tax regimes but failed to implement efficient tax administrations. In particular, tax compliance costs are often very high and can arguably sometimes offset the economic incentives introduced by low corporate income tax rates.

However, most Western Balkan governments have introduced special measures to reduce compliance costs, including establishing a single tax collection point for various taxes (as in Albania and Croatia) and a simple reduction of the number of tax payments (as in Serbia).

7.3.1.3 VAT reimbursement

All the Western Balkan governments, with the exception of Bosnia and Herzegovina and Serbia, have adopted EC guidelines for a 30-day deadline for refunding VAT payments, with a shorter deadline for exporters. However, requests for VAT reimbursement are rarely systematically monitored and anecdotal evidence indicates that the actual reimbursement time often exceeds the deadline.

Table 7.3 VAT reimbursement deadlines (number of days)

Country	Deadline: non-exporter	Deadline: exporter
Albania	30	30
Bosnia and Herzegovina ⁷	60	30
Croatia	30	30
UNMIK/Kosovo	60	60
The former Yugoslav Republic of Macedonia	30	30
Montenegro	60	30
Serbia	45	15

The final indicator measures the possibility of reconciling different types of taxes and even social security contributions, offsetting tax liabilities against tax credits and therefore limiting the need for working capital to cover tax obligations. This is an important facility for small enterprises, given their structural lack of working capital and the relative high cost of capital.

7.3.1.4 Tax reconciliation

In the former Yugoslav Republic of Macedonia and Montenegro tax reconciliation covers direct taxes, indirect taxes, VAT and social security contributions. In UNMIK/Kosovo it covers all major taxes and social contribution but it is carried out by the tax administration. Similarly, in Serbia it is carried out by the tax authorities upon request by a company. In Albania tax reconciliation is applicable to the amount, defined as excess tax payments by tax authorities, while in Croatia it excludes VAT and social security contributions although there are plans to extend the coverage.

Table 7.4 Scores in sub-dimension 7.1: adapt tax system to favour SMEs

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
Total tax payable	1.00	1.00	2.00	3.00	2.00	3.00	3.00
Compliance costs	3.00	2.00	4.00	2.00	3.00	3.00	3.00
VAT reimbursement	3.25	3.50	4.25	3.00	4.00	4.00	3.00
Tax reconciliation	3.50	1.00	3.00	3.50	4.50	4.50	3.50
<i>Overall weighted average for 7.3.1: adapt tax system to favour SMEs</i>	2.75	1.75	3.50	2.75	3.50	3.75	3.25

7.4.2 Finance

Financial sector reform has stalled in the region since 2005 except in Montenegro, where growth of credit to the private sector, financial deepening and the presence of an independent supervisor (as well as the introduction of deposit insurance) have marked a step forward. EBRD ratings of reform in the banking sector and interest rate liberalisation are reported in Table 7.5, where ratings range from 1 to 4.5, with 1 indicating little or no progress compared with the standards of a command economy and 4.5 indicating that the standards in the sector are those of a well-functioning market economy.

Table 7.5 Banking reform and interest rate liberalisation (scores, ranging from 1 to 4.5)

Country	2004	2005	2006
Albania	2.67	2.67	2.67
Bosnia and Herzegovina	2.67	2.67	2.67
Croatia	4.00	4.00	4.00
The former Yugoslav Republic of Macedonia	2.67	2.67	2.67
UNMIK/Kosovo	NA	NA	NA
Montenegro	2.33	2.33	2.67
Serbia	2.33	2.67	2.67

Source: EBRD.

Despite strong growth rates in bank lending to the private sector (Table 7.6), financial intermediation through banks in the private non-financial sector remains very low in all countries except Croatia.

Table 7.6 Real growth in credit to the private sector (in %)

Country	2004	2005	2006
Albania	30.0	49.6	26.6
Bosnia and Herzegovina*	18.0	27.4	NA
Croatia	11.0	13.1	20.5
The former Yugoslav Republic of Macedonia	27.4	21.1	15.3
UNMIK/Kosovo	NA	NA	NA
Montenegro*	37.8	42.1	NA
Serbia	34.1	34.8	NA

* Data for Bosnia and Herzegovina and for Montenegro refer to total domestic credit as a share of GDP.

The data in Table 7.7 show the extent of bank lending to households and enterprises as a share of GDP. However, they reflect very different situations in different countries. For example, low bank intermediation in Albania needs to be seen in the context of a highly liquid banking sector (demand for bank loans is low in that country). Elsewhere, the low level of bank intermediation reflects a variety of other factors such as lack of an operational bankruptcy law (in UNMIK/Kosovo), relatively onerous collateral requirements, and poorly functioning credit registries. In some countries, including Bosnia and Herzegovina, despite a competitive banking sector and falling cost of credit, the absence of term finance limits the expansion of financial intermediation.⁸

Table 7.7 Domestic credit to the private sector as a share of GDP, official data (in %)

Country	2004	2005	2006
Albania	9.0	12.4	14.6
Bosnia and Herzegovina	20.8	22.6	NA
Croatia	55.8	55.6	NA
The former Yugoslav Republic of Macedonia	21.5	25.4	28.1
UNMIK/Kosovo	NA	NA	NA
Montenegro*	20.9	27.8	30.0
Serbia	20.0	25.5	NA

Source: EBRD.

* Data for Montenegro refer to total domestic credit as a share of GDP.

A large enterprise survey run by EBRD, the 2005 Business Environment and Enterprise Performance Survey (BEEPS), contains insights into difficulties for enterprises trying to access bank credit. Almost half the firms surveyed in the Western Balkans indicated that lack of access to

financing was a problem in doing business. The time required to process a loan and the collateral required by banks were other problems identified by respondents. The survey found that in some cases it could take on average of 35 days for banks to decide on MSME loan applications.

7.4.2.1 Credit guarantee schemes

This report looks at the presence of credit guarantee schemes as a tool to support SMEs' access to credit by reducing collateral requirements. However, not all credit guarantee schemes have the potential to produce the same desired outcome. Efficient allocation of resources can best be achieved through the incentive structure of a well-functioning private sector mechanism. Thus, EBRD recommends that credit guarantee schemes be privately managed. This is not currently the case in any of the Western Balkan economies.

The experience of the Western Balkans in setting up guarantee funds has shown mixed results.

In Croatia, HAMAG is the agency traditionally in charge of a guarantee fund but with a relatively low level of commitments. Recent evidence suggests that a change in management and a more developmental approach to fund management led to a marked increase in use of the fund in 2006. A new guarantee fund has been set up in the former Yugoslav Republic of Macedonia, but it is not yet active.

In Serbia the government operates a guarantee fund under a special law of 2003. However, this law also targets agricultural production. It is felt that the law may require some redesigning to focus more specifically on small companies in manufacturing and services. Some discussions on this have occurred recently.

Albania has a history of almost three years' delay in launching a guarantee fund, supported by a EUR 30 million contribution by the Italian Government. For a variety of reasons on both sides of the Adriatic, this fund is still not operational. Montenegro is committed to launching some sort of guarantee fund. The European Agency for Reconstruction has developed potential models for a fund, which are being discussed with stakeholders. There is no guarantee fund operating nationally in Bosnia and Herzegovina, but there are design initiatives by some international donors, with some funds operating at the level of the entities (and in Brčko, in particular), and municipal projects such as in Mostar. Cross-entity projects are being developed as part of the EU-RED regional development scheme.

7.4.2.2 Collateral and provisioning requirements

Collateral requirements for extending bank loans to enterprises are still high (ranging between 150 and 200% of the loan amount). In Croatia bank loans under EUR 25 000 are not subject to the same provisioning rules as those for larger loans, which means that more flexible collateral requirements are adopted for small loans.

7.4.2.3 Bankruptcy laws

Bankruptcy laws are legal mechanisms to enforce debt contracts where there are multiple creditors. They allow lenders to make claims on a defaulting borrower's income and assets without resorting to violence. Where a bankruptcy law is not in place, or is not functioning well, banks are reluctant to lend to enterprises as they would have no legal system for recourse in case of non-repayment of the loan. Table 7.6 shows the average time, cost and expected outcome of bankruptcy legislation in the Western Balkans. Ratings given in this study range from 1 for UNMIK/Kosovo,

which has no bankruptcy legislation, to 4 for Montenegro, which has the shortest average time, lowest cost (together with Bosnia and Herzegovina) and highest recovery rate.

Table 7.8 Bankruptcy legislation indicators

Country	Time (years)	Cost (% of estate)	Recovery rate (cents on the dollar)
Albania	4.0	38.0	26.4
Bosnia and Herzegovina	3.3	9.0	33.7
Croatia	3.1	14.5	28.9
The former Yugoslav Republic of Macedonia	3.7	28.0	15.5
UNMIK/Kosovo	NA	NA	NA
Montenegro	2.0	9.0	41.0
Serbia	2.7	23.0	22.6

Source: World Bank Doing Business 2007.

7.4.2.4 *Cadasters*

Cadaster systems are in place throughout the Western Balkans. However, their existence alone is not sufficient to support the use of land as collateral where registration of land has not been completed. In particular, in Serbia the Land Register is not up-to-date and exists only for a part of the territory.

7.4.2.5 *The leasing industry*

The extent to which governments have facilitated the development of the leasing industry by enacting appropriate legislation and assigning institutional responsibility was measured, as was the extent of implementation. The majority of governments have passed relevant legislation and made progress in implementation. Nonetheless, very few financial intermediaries have yet engaged in sustainable and profitable SME lending, with the bulk of lending volumes still concentrated in mid-sized corporations with significant assets to pledge. In all the Western Balkan economies except Croatia, the financial needs of the smallest companies are served by well-functioning microfinance banks and a number of NGOs. Leasing, particularly micro-leasing, is emerging as an important funding source for asset-poor small enterprises which is just starting to develop.

Formal financial channels for larger SMEs (e.g. bank finance, leasing finance and equity funds) are not functioning as well as could be wished. In countries at similar stages of development in other parts of the world (e.g. Vietnam and Korea) leasing finance has helped to reduce the widespread recourse to internal funding. Table 7.7 compares data on alternative sources of finance tapped by small firms for investment purposes in several countries. The greatest difference between the Western Balkan economies and mature market economies lies in the higher share of internal funding and loans from family and friends used in the Western Balkans, and the relatively higher use of equity and lease finance in the mature market economies.

Table 7.9 Sources of finance for small firms

Country	Internal funds / retained earnings	Equity (i.e. issue new shares)	Borrowing from banks	Loans from family/friends	Money lenders or other informal sources (excluding family/friends)	Trade credit	Leasing arrangement	Government (other than state-owned banks)	Other
Western Balkan countries	71.8	1.1	15.4	4.7	0.6	1.8	2.4	0.7	1.7
Mature market economies	63.0	11.1	13.8	2.3	0.3	2.3	5.3	0.3	1.8
Korea	63.8	1.6	20.6	1.1	0.3	2.7	7.9	0.6	1.4
Vietnam	45.3	0.2	29.4	2.2	0.0	0.9	18.9	0.6	2.4
Turkey	55.7	30.6	5.7	4.3	0.6	1.4	0.7	0.9	1.2

Source: BEEPS 2005 (EBRD).

Restrictive policies on minimum reserve requirements for commercial banks favor the establishment of leasing subsidiaries, which are subject to fewer restrictions on their activities than banks. Thus, they can be used by banks as tools to meet high credit demand.

The strong expansion of leasing companies in Serbia has been driven by restrictive monetary policy. The National Bank of Serbia (NBS) hiked the reserve requirement ratio for foreign currency loans several times in 2005. It also widened the base on which mandatory reserves are applied in order to limit the growth of domestic lenders' external indebtedness. Because of the rising cost of lending, banks have used their leasing units more actively to transfer external funding. As a reaction, the NBS decided soon after it started supervising the leasing sector to introduce a 10% requirement ratio for external financing by leasing companies, later increased to 20%.

In countries including Bosnia and Herzegovina, the leasing sector is growing very fast despite the absence of relevant legislation. Although this may be seen as temporary relief for credit constrained enterprises, it is an area of concern in so far as lack of an appropriate framework for supervision affects the stability of the financial sector. The former Yugoslav Republic of Macedonia is very advanced as regards implementation of relevant legislation and regulation and supervision of the sector, but leasing is currently used only to finance the purchase of vehicles.

7.4.2.6 *Venture capital funds*

A poor investment climate, exit prospects limited to direct sales, and difficulties in completing straight equity investments in companies have stimulated recourse to quasi-equity instruments such as debt-like financing with participation in company profits. In Albania, UNMIK/Kosovo and Serbia, for example, experience in recent years demonstrates that the absence of relevant legislation is an impediment to the development of financial sources for the enterprise sector. Serbia is becoming active in this area, with the adoption of a specific law on investment funds in 2006, but the by-laws required for the legal framework to come into force have not yet been adopted. Croatia has introduced specific regulation for this area, including a dedicated regulatory body, so that the venture capital industry has been given a foundation for growth. In Montenegro a Law on Investment Funds has been adopted. Where equity funds operate, they do so on a regional basis with a very limited number of investments in the sector.

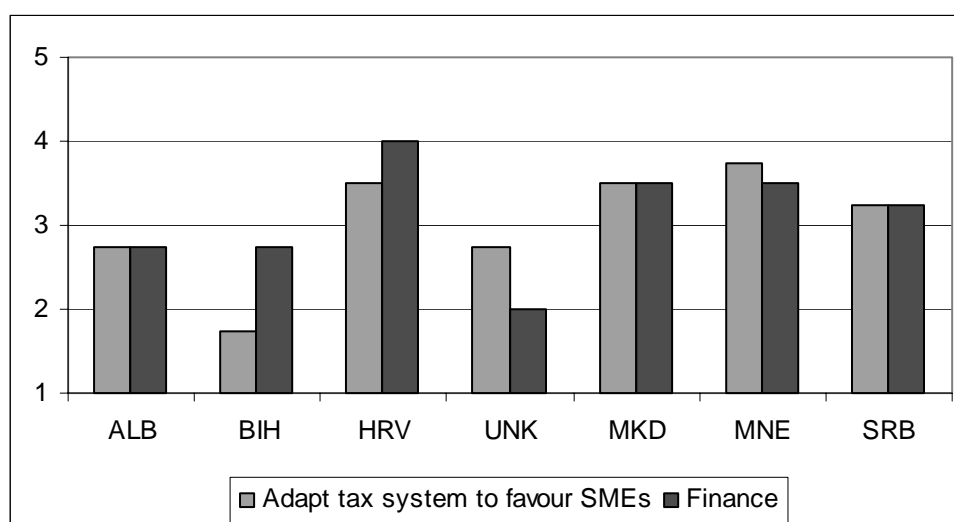
It is important to note that the case for venture capital cannot yet be made for all countries, as it is a function of the need for such instruments in the market. Poor scores by some countries may sometimes reflect that the demand/need for venture capital is not yet very significant.

Table 7.10 Scores in sub-dimension 7.2: finance

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
Credit guarantee schemes	2.50	2.00	3.50	2.00	3.50	2.00	3.00
Collateral requirements	2.00	1.50	3.50	2.00	4.00	2.00	2.50
Bankruptcy law	3.00	3.50	4.00	1.00	3.00	4.00	4.00
Cadaster	3.00	3.00	4.50	3.00	3.00	4.50	3.00
Leasing industry	3.00	2.00	4.00	2.00	4.00	4.00	5.00
Venture capital funds	2.00	3.50	4.00	1.00	4.00	4.00	2.50
<i>Weighted average for sub-dimension: finance⁹</i>	2.75	2.75	4.00	2.00	3.50	3.50	3.25

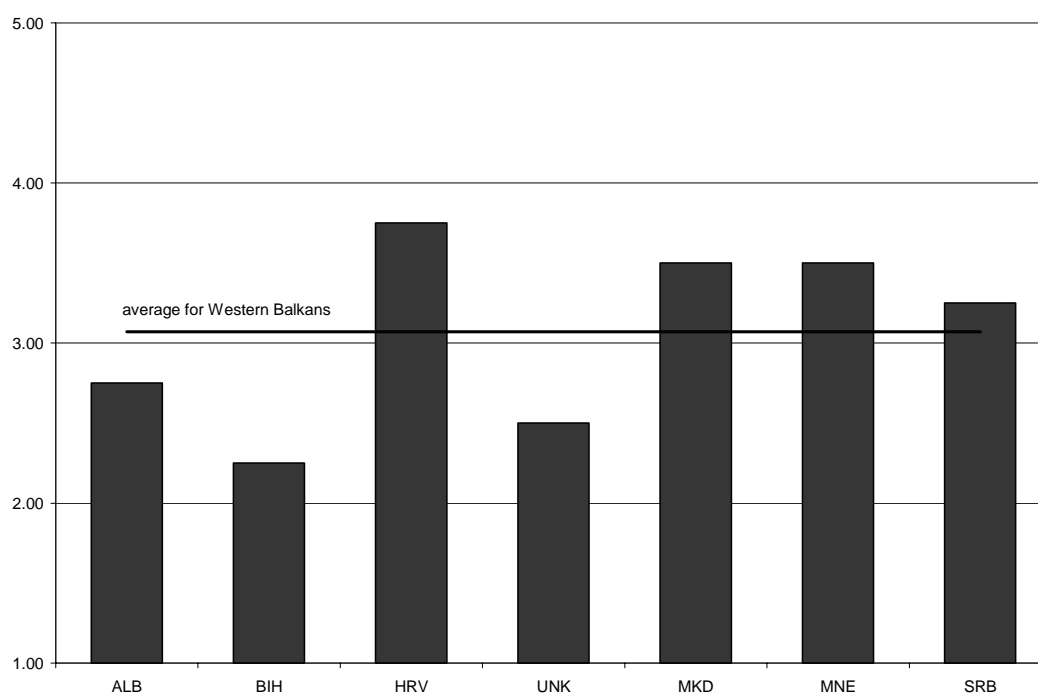
Figures 7.3 and 7.4 present scores by sub-dimensions and the aggregated average scores for this dimension.

Figure 7.3 Dimension 7: taxation and financial matters (scores by sub-dimension)^{*}



* Indicators for the sub-dimensions are rated on a scale of 1 to 5 (weaker to stronger). Indicators and sub-dimensions are weighted. The weighting system ranges from 1 (least important) to 3 (most important). All scores are rounded to the nearest 0.25.

Figure 7.4 Overall scores for dimension 7: taxation and financial matters



7.4 The way forward

Taxation

1. Across the Western Balkans, substantial progress has been made in reducing the tax burden for all classes of enterprises. Small businesses have generally benefited from this trend, and from measures aimed at reducing compliance costs.
2. Corporate income tax rates are already generally low in the region. This leaves limited room for further reductions of direct taxation. The Western Balkan countries and UNMIK/Kosovo should focus on initiatives directed at better defining taxable income, taking into account the needs of SMEs, and considering, for instance, the introduction (adapted to small enterprises) of investment tax credits, innovation incentives and allowances for staff training..
3. The next area for improvement is tax administration. Governments need to conduct a careful review of tax compliance costs for small business, systematically monitor VAT reimbursements and allow greater flexibility in tax reconciliation.

Provision of finance

1. Increasing domestic bank lending to the private sector, particularly SMEs, is an important challenge for the financial sector. Although this does not necessarily require government intervention, there are a number of measures authorities could take to facilitate the deepening of financial intermediation. In this respect, perhaps the most important challenge (where this is not already in place) is to allow banks to shift to cash flow based lending for small loans, as opposed to standard collateral based lending.

2. Other challenges include promotion of non-cash transactions (the most recent example is shifting to the payment of public sector salaries into bank accounts in Albania), strengthening of property rights, improvement of land registries and cadasters to facilitate use of property as collateral by local firms, enforcement of contractual obligations and broader availability of creditor information.
3. Lowering administrative barriers and costs for transferring emigrants' remittances from abroad into the banking system is also important with respect to increasing access to finance for new investments.
4. To supplement the low levels of bank lending, promotion of new financial instruments (such as leasing) within the appropriate legal and regulatory regime is an important challenge in regard to the development of non-bank financial institutions.

NOTES

- 1 See Chapter 5 of *Investment Reform Index*, OECD Investment Compact (2006). This report does not cover UNMIK/Kosovo.
- 2 For the methodology, see www.doingbusiness.org/methodologysurveys/payingtaxes.aspx.
- 3 *Investment Reform Index*, OECD Investment Compact for South East Europe (2006).
- 4 *Investment Reform Index*, OECD Investment Compact (2006). This report does not cover UNMIK/Kosovo.
- 5 Indicators based on the effective tax rate for different classes of enterprises across the Western Balkans would provide a more precise indication of the tax burden. Such indicators are currently unavailable due to the complexity of building them, particularly for cross-country analysis.
- 6 A widespread practice is to report salaries at close to the minimum wage and pay social contributions on that basis, while paying employees the difference between the officially reported salary and the actually salary in the black.
- 7 VAT legislation and administration are at the state level, under the state level VAT law and state level Indirect Taxation Administration.
- 8 A number of institutional donors have committed a total of EUR 132.1 million over the last seven years to establishing funds in Southeast Europe to promote MSME and housing finance in the region. The European Fund for South Eastern Europe (EFSE) was established in 2005 to consolidate these existing operations, and to expand the volume of funding available for MSMEs by leveraging significant IFI and private sector finance. The European Fund for Southeast Europe (EFSE) is a privately managed public/private investment fund to provide financing on a commercial basis for MSMEs, as well as housing and rural finance, through financial intermediaries in a number of countries in Southeast Europe. See www.ebrd.com/projects/psd/psd2005/36415.htm.
- 9 Rounded up or down to nearest 0.25.

Chapter 8

STRENGTHEN THE TECHNOLOGICAL CAPACITY OF SMALL ENTERPRISES

8.1 Introduction

A flexible, knowledge based economy requires enhanced levels of innovation. Innovation would clearly be improved through better and more effective links between research and development centres and SMEs. A great deal of evidence points to the importance of cluster development in creating competitive advantage. Measures that foster the growth of such clusters, especially where they are linked with innovation and technology transfer, will help develop the European industries of the future.

Concerning the ‘technological capacity’ dimension, the Charter envisages three types of activities:

- Strengthening programmes aimed at promoting the dissemination of technology towards small enterprises, as well as the capacity of small businesses to identify, select and adapt technologies;
- Fostering technology co-operation and sharing among companies of different sizes (particularly among European small enterprises), developing more effective research programmes focused on the commercial application of knowledge and technology, and developing and adapting quality and certification systems that are easily accessible by small enterprises;
- Supporting actions at the national and regional levels aimed at developing inter-firm clusters and networks, enhancing pan-European co-operation among small enterprises using information technologies, spreading best practice via co-operative agreements, and supporting co-operation among small enterprises to improve their capabilities to enter pan-European markets and extend their activities in third country markets.

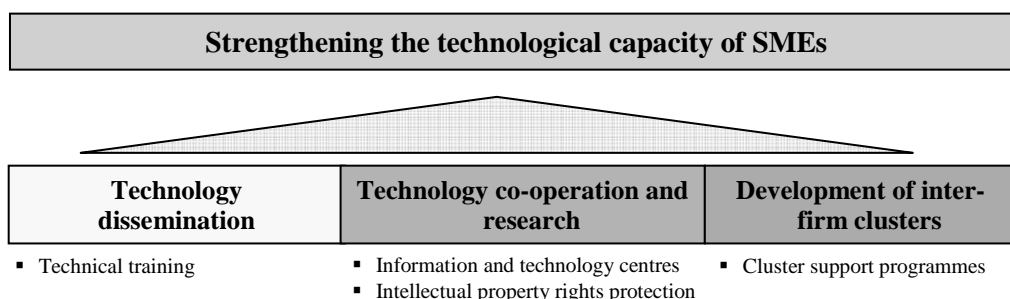
The Western Balkan countries and UNMIK/Kosovo lag behind the EU with respect to their levels of competitiveness and innovation. Tackling this problem is central to the ability of these economies to benefit from closer integration within the Single European Market.

8.2 Assessment framework

To assess the progress that the six Western Balkan countries and UNMIK/Kosovo have made in creating support mechanisms to strengthen SMEs’ technological capacity, three specific policy areas (sub-dimensions) have been examined: technology dissemination; technology co-operation and research; and development of inter-firm clusters. The indicators for these sub-dimensions are, respectively:

- Support for training in technology applications suitable for SMEs, with the evaluation based on the existence of specific training programmes and their range;
- The existence of programmes designed to foster commercial applications of knowledge and technology development, based on measures to develop and implement a framework to encourage co-operation between SMEs, universities and research and development centres, including support for specific innovation and technology centres. In addition to these collaboration measures, there was an assessment of the impact of legislation and its enforcement on the protection of intellectual property rights (IPRs), which is clearly central to collaboration between organisations;
- Development of inter-firm clusters and networks, based on programmes and action plans designed to encourage cluster activities among enterprises in target sectors.

Figure 1. Figure 8.1 Assessment framework for dimension 8: technological capacity



8.3 Analysis

Legislation on intellectual property rights (IPRs) is in place in all the Western Balkan countries and is being prepared in UNMIK/Kosovo. However, enforcement of IPR legislation is far from being fully operational, although in this regard Croatia is approaching international norms.

In other areas the overall picture is one of isolated and fragmentary initiatives, generally funded by donors. In Croatia and the former Yugoslav Republic of Macedonia, the situation is somewhat better.

In Croatia the ongoing programme of the Ministry of Economy, Labour and Entrepreneurship offers support to 14 local clusters in five sectors (wood and metal processing, food, textiles and tourism) which correspond to traditional export sectors. Despite government support, evidence suggests that clusters are still struggling – with a lack of integration of participating companies, and inadequate relations with R&D centres and top service providers. Achieving excellence would require a better articulated range of cluster support measures to produce joint initiatives for creating value chains and thus improve the quality of products and services.

In the former Yugoslav Republic of Macedonia clusters are supported by a number of donor initiatives. There is also a donor financed programme to facilitate technology transfer. The National Council for Entrepreneurship and Competitiveness, established with the help of USAID, has functioned over the last three years as a focus for these activities. Financial and organisational support is donor based; at the end of the period of donor funding, merging of activities with the recently established SME national consultative arrangements is planned.

8.3.1 Support for technology training

8.3.1.1 Support for technology training

There has not been much progress in this sub-dimension across the region. Technology training initiatives should be seen within the context of dimension 4 (Chapter 4).

The best performer in this area is the former Yugoslav Republic of Macedonia, where a number of training programmes are in place involving both public and private providers. This reflects the active interest of the Ministry of Education and Science and the more active involvement of the Ministry of Economy, through its Department for Technology Policy Development. Due to the impetus developed through close collaboration between the two ministries and with some key local authorities (supported by a GTZ donor programme), concrete programmes for technological training are in place and are being delivered by a mix of public and private providers.

Albania and UNMIK/Kosovo currently have no measures in place to support technology training. Other countries have experimented with pilot projects in this area. All of them are in the process of developing strategies to support technology training.

Table 8.1 Scores in sub-dimension 8.3.1: promote technological dissemination towards SMEs

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
Support training on technology	1.00	2.00	2.00	1.00	3.00	2.00	2.00
<i>Overall weighted average for 8.3.1: promote technological dissemination towards SMEs</i>	1.00	2.00	2.00	1.00	3.00	2.00	2.00

8.3.2 Fostering technological co-operation

In this sub-dimension two areas are assessed:

- Direct measures to foster technology transfer between universities and SMEs;
- Legislation on and enforcement of IPRs.

In the Western Balkans action to enforce IPRs is seen as particularly important, both to help countries meet international obligations and to create a firm foundation on which collaborative innovation developments can proceed.

8.3.2.1 Innovation and technology (I & T) centres and co-operation

Concerning innovation and technology (I & T) centres and co-operation, three main groups can be identified:

- Croatia, the former Yugoslav Republic of Macedonia and Serbia have established a policy framework and have active programmes to foster technological co-operation;
- Bosnia and Herzegovina and Montenegro are still in the policy elaboration phase, but have started to implement pilot projects;
- Albania and UNMIK/Kosovo have not yet developed significant initiatives to encourage technology transfer.

Croatia is the leading performer in this area. It has a good policy framework in place, supported by a consistent action plan and adequate budgetary resources. Pilot projects have been implemented (HITRA), with mixed results, and the lessons learned have been used in designing the new schemes operated by BICRO.¹ To achieve further progress, the new sub-programmes of the National Technology and Innovation System need to become fully operational and demonstrate their first concrete achievements. The performance of the country's four established technology centres has not been ideal; there is a need for a performance review to focus attention on their role in facilitating collaboration between research and business in their respective territories.

The former Yugoslav Republic of Macedonia, with support from Germany, has established a significant programme to encourage technology transfer with the creation of a network of specialist agencies, a technology park and facilitated links between SMEs and both of the country's universities (and with German universities) to support innovation development and technology transfer.

In Serbia progress has been slower than in Croatia, but many efforts are expected to improve the situation. A policy framework is now in place. The EC has funded the Enterprise Development and Innovation Grant Scheme (EUR 2.25 million) to foster innovation development in SMEs. The Serbian Government organises innovation competitions, restricted to small teams and small businesses, which award funding and provide additional training to the best innovators.² In the next National Investment Plan, EUR 2.5 million is envisaged for the innovation fund and EUR 2.5 million for development of technology parks. Assistance for the development of technology parks is also foreseen through various donor programmes, especially the USAID Municipal Economic Growth Activity (MEGA) programme. An additional EUR 7 million is also envisaged to support innovative start-up companies.

In Bosnia and Herzegovina co-operation between universities and large companies is generally at a very low level in terms of technology innovations and transfer. Efforts have been made at entity level to try to change this situation. The most advanced entity is the Republika Srpska, where there is organised support for innovation, co-ordinated by the Republic Ministry of Science and Technology. With Ministry support the recently formed Centre for Technology Transfer and Centre for Quality are now operational. In the Federation of Bosnia and Herzegovina (FBiH) plans for the establishment of technological parks in Zenica, Sarajevo and Tuzla are being progressed. No initiatives are being undertaken by the Brčko District. Few initiatives are being taken at state level to co-ordinate actions in this area.

In Montenegro an initiative to establish the University Centre for Design and Development, based at the University of Montenegro, is being put in place. Once established, the Centre will focus on the need to service SMEs in the field of design and development, linking them with relevant members of the design and technology faculties.

8.3.2.2 *Intellectual property rights*

Full legal protection of intellectual property rights (IPRs) exists on paper throughout the region except in UNMIK/Kosovo, where some legislative elements are not yet in place. Where the situation with respect to IPRs is still developing and to a large extent unsatisfactory, the greatest challenge is clearly law enforcement.

In Albania there has been some improvement of the legislation regarding enforcement. The Government has established a specific Directorate on Trademarks and Patents in the Ministry of Economy, responsible for enforcing protection of IPRs. As indicated in the 2006 EC Progress Report, much remains to be done in Albania. The IPR enforcement level is low, despite restructuring and the

employment of six people in the IPR Directorate. The new copyright office has not yet taken up its functions.

Bosnia and Herzegovina is party to number of important IPR conventions (e.g. the Paris Convention for the Protection of Industrial Property, the Madrid Agreement, the Bern Convention for the Protection of Literary and Artistic Works), but it does not yet have the capacity to implement and enforce them. The Law on Establishment of the Intellectual Property Institute has been adopted, but it does not fully meet international standards. Within the organisational structure of this Institute, the Department for Intellectual Properties has been formed to co-ordinate action to enforce IPRs. Effective enforcement of the IPR legal framework will require greater co-ordination of all relevant authorities.

In the former Yugoslav Republic of Macedonia there was some progress in enforcing industrial property rights in 2006.

Montenegro has adopted a framework law for the implementation of IPRs, coupled with a decree on customs procedures which further strengthens their protection. However, there have been a number of complaints about fair enforcement and the knowledge of inspectors

In Croatia modern legislation on the protection of IPRs has been in place since 2004. This legislation complies with international conventions and treaties and has undergone the process of harmonisation with the *acquis communautaire*. The State Intellectual Property Office is fully operational, providing a range of services to help Croatian enterprises cope with patent and copyright laws in developing and utilising innovations. There is still some room for progress in the enforcement of the legal framework and in improving some related legal procedures before a level of European excellence is attained.

In Serbia legislation on the protection of property rights (including the new law on fighting crime in the high-tech sector) is generally harmonised with the EU regulations and WTO Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS). Infringements of copyrights and related rights are criminalised under the new Serbian Criminal Code (2006). Enforcement of IPRs is gradually improving but it is still very limited due to a relatively weak administrative capacity (e.g. intellectual property offices) and budgetary constraints. Intensified inspections, stronger border controls, training of judges and prosecutors and dismantling street sales networks are key to combatting piracy.

In UNMIK/Kosovo the IPR legislative framework is largely incomplete. Enforcement will be a major challenge once the necessary legislation is in place.

Table 8.2 Scores in sub-dimension 8.3.2: foster technology co-operation; develop research programmes focused on commercial application of knowledge and technology

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
I & T Centres & co-operation	1.00	2.50	3.50	1.00	3.00	2.00	3.00
Intellectual property rights	3.50	3.00	3.50	1.50	3.50	3.50	3.50
<i>Weighted average for dimension 8, sub-dimension³ 8.3.2: foster technology co-operation; develop research programmes focused on commercial application of knowledge and technology</i>	2.75	2.75	3.50	1.25	3.25	3.00	2.25

8.3.3 *Development of inter-firm clusters and networks*

The countries in the lead in this area are Croatia and the former Yugoslav Republic of Macedonia. Both have active programmes supporting cluster development in key sectors. In other countries cluster development is still mainly a result of donor initiated and financed projects, with little indication of sustainability or of major governmental support.

In Croatia an ongoing ministerial programme offers support to 14 local clusters in 5 industries (wood and metal processing, food, textiles, tourism). Despite this government support, the clusters currently appear to suffer from lack of integration between participating companies, and insufficient relations with R&D centres and top service providers in their respective territories. Achieving excellence requires a more articulated range of cluster support measures to promote joint initiatives for the creation of value chains to improve the quality of products and services.

In the former Yugoslav Republic of Macedonia there is a major programme to promote competitiveness through support for clusters, supported by USAID. In addition to specific cluster initiatives, USAID has assisted the Ministry of Economy in establishing a National Competitiveness Council (NCC) to integrate clusters with programmes designed to enhance competitiveness. This has helped to link the cluster programmes with broader measures supporting innovation and technology transfer. While the progress made has been widely recognised, it is unlikely that the programme will continue beyond the period of USAID financial and technical support. The NCC is expected to be merged with the national SME council; cluster programmes are expected to continue at a much lower level, with limited funding from the enterprises themselves.

Serbia has made the most progress in implementing pilot projects, relying mostly on donor support. The Serbian Government has approved funds under the National Investment Plan to support cluster development. However, the cluster policy is insufficiently developed, extending to only three clusters which could be considered as pilot programmes. In December 2006, after the cut-off date for assessments in the current report, the Government adopted the Programme for Business Incubators and Clusters in the Republic of Serbia 2007-2010 which, with the financial and technical assistance of the Foundation for Scientific and Industrial Research at the Norwegian Institute of Technology (SINTEF), envisages a fully fledged programme to support a national network of both clusters and business incubators. In the next Charter regional report, therefore, Serbia can be expected to score higher for this indicator.

Bosnia and Herzegovina benefits from two main cluster development programmes supported by donors (USAID and GTZ). USAID provides technical assistance through the Cluster Competitiveness Activity (USAID CCA), amounting to USD 16 million (July 2004-July 2008). The overall goal of USAID CCA is to advance economic growth and job creation in Bosnia and Herzegovina by supporting improvement of the competitiveness of the wood processing and tourism industries. CCA provides technical assistance to promote the development of industry clusters, i.e. private sector firms, financial providers, and government and non-government agencies that support the operation of an industry. This project also works to inform cluster companies about global market trends and to improve product quality and operational productivity. CCA strengthens connections among cluster companies and their links to export markets, attracting investment in the cluster companies and improving their business environment. It plays a leading role in co-ordinating the international community's activities in regard to forestry reform, aimed at sustainable management of Bosnia and Herzegovina's forests. The project manages the USD 1.5 million Competitiveness Implementation Fund and promotes the USD 31 million DCA Loan Guarantee facility, which supports business finance of the wood processing, tourism and agri-business sectors.

GTZ supports a growing automotive component cluster, comprising companies from throughout the country. Bosnian companies have grouped together to share services, implement technical standards and carry out trade missions. Further assistance is provided to local cluster initiatives through the EURED programme and within the regional programming documents. Despite this policy framework and support provided by donors, there is a lack of government financial support and of integration of participating companies in joint initiatives for the creation of value chains that could improve the quality of products and services.

In Albania there has been an attempt through the USAID Enterprise Development and Export Market Services (EDEM) project to establish clusters in four sectors: leather products, meat processing, spices and herbs, and tourism. The project has encountered difficulties in fostering a collaborative attitude among the mainly micro enterprises involved, leading to a shift from a ‘clusters’ to a ‘single firms’ approach. In each sector companies are provided with specific services and assisted in improving their activities. The justification given for this major shift is a lack of willingness to engage in joint activities. Donor projects also cite this as a reason for similar failure to progress the cluster concept further in other countries in the region.

A USAID initiative in UNMIK/Kosovo promotes three clusters: construction, milk production and meat processing. No government policy on clusters has been adopted, and there is no structured involvement by the Government in this issue.

In Montenegro so far, only a detailed analysis of the meat processing sector has been carried out as a basis for developing a cluster programme. A development plan for activities is in place to achieve all the necessary preconditions for establishing clusters, with the objective of influencing stakeholders’ level of confidence and better co-operation, presenting of common problems, and improvement of overall competitiveness. The Chamber of Commerce of Montenegro is making an effort to establish clusters within certain industries. It has organised and carried out relevant training and education programmes for entrepreneurs.

Figures 8.2 and 8.3 present scores by sub-dimensions and the aggregated average scores for this dimension.

Figure 8.2 Dimension 8: strengthening the technological capacity, scores by sub-dimension⁴

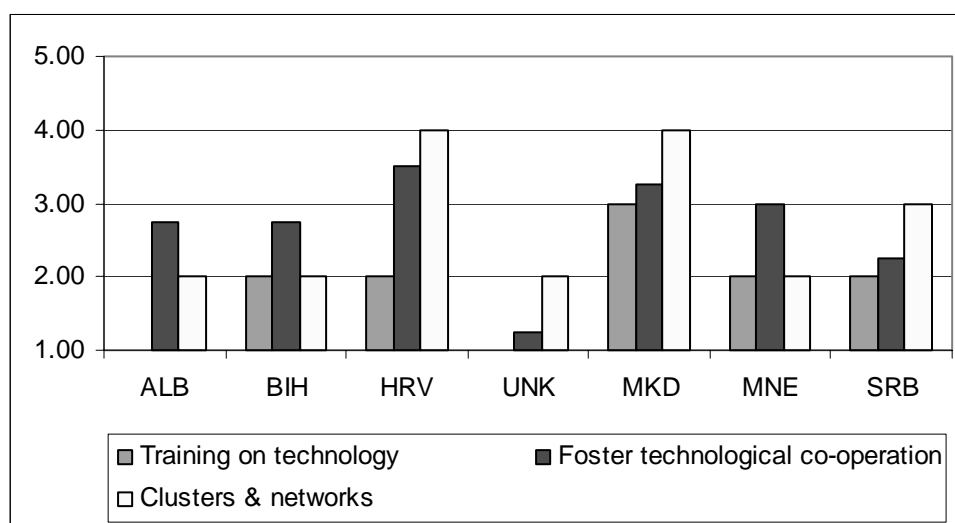
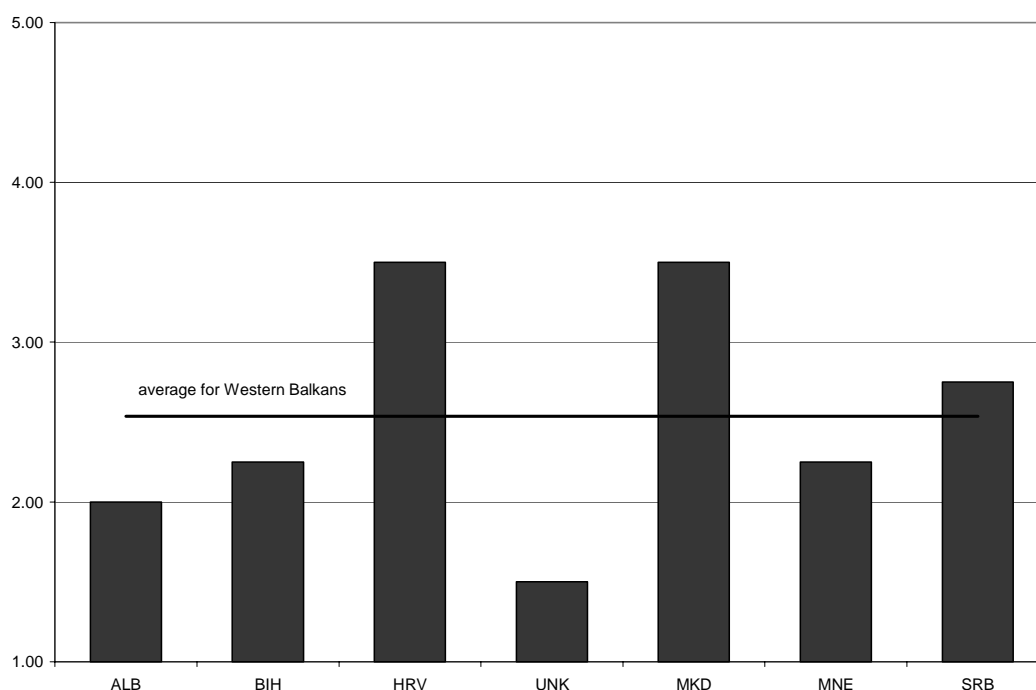


Figure 8.3 Overall score for dimension 8: Strengthening the technological capacity



8.4 The way forward

1. Inter-firm clusters and networks together, with business incubators (dimension 9) have proven to be effective tools for fostering technological development and spreading innovation. Governments should change the orientation of the existing clusters from the traditional sectors to higher value added ones. They should also promote closer links among clusters, incubators and universities and target support to innovative companies.
2. There is a need for strong co-ordination of the whole agenda of technological co-operation, intellectual property rights, business incubators, cluster-development, and skill-development. This requires a high level of co-ordination among government institutions, and particularly among the Ministries of Economy, Education and Science, the private sector, universities and research institutes. As in the case of competitiveness, governments should create the institutional setting to ensure that information exchange and inter-agency co-ordination are regular and effective.
3. Governments need to devote more resources to the enforcement of IPR legislation through communication campaigns, training of officials, and monitoring of IPR cases to ensure results. Serious technology transfer from foreign investors to SMEs will be limited until the issue of IPR enforcement is truly addressed.

NOTES

- 1 BICRO (Business Innovation Centres in Croatia) was created to increase demand for R&D services by funding the R&D activities of Croatian enterprises and their co-operation with research centres, and by maximising the use of infrastructure, equipment and know-how within existing scientific institutions. TEHCRO supports the commercialisation of research outputs (spin-offs) and the transfer of knowledge from universities to business; it will promote the establishment and operation of technology business centres, technology incubators and R&D centres.
- 2 See www.inovacija.org.
- 3 Weighted 2 to 1 in favour of IPR, with rounding up or down to nearest 0.25.
- 4 Indicators for the sub-dimensions are rated on a scale of 1 to 5 (weaker to stronger). Indicators and sub-dimensions are weighted. The weighting system ranges from 1 (least important) to 3 (most important). All scores are rounded to the nearest 0.25.

SUCCESSFUL E-BUSINESS MODELS AND TOP-CLASS BUSINESS SUPPORT

9.1 Introduction

The Charter envisages the following types of activities in this dimension:

- Encouraging small enterprises to apply best practice and adopt successful business models, enabling them to flourish in the new economy;
- Developing information and business support systems, networks and services which are easy to access and understand and are relevant to business needs.

Growing integration with European markets is creating now opportunities for small businesses, but also new threats to their prosperity. Taking advantage of new technology to improve efficiency and competitiveness, and to introduce new approaches to purchasing and sales that facilitate access to European markets, will be key to continued growth and profitability. Supporting small enterprises' introduction of e-business systems can help ensure that they benefit from greater integration and competition. Support systems, relevant integration networks and systems that supply relevant information all help to underpin small enterprises' transition to knowledge based economic activities.

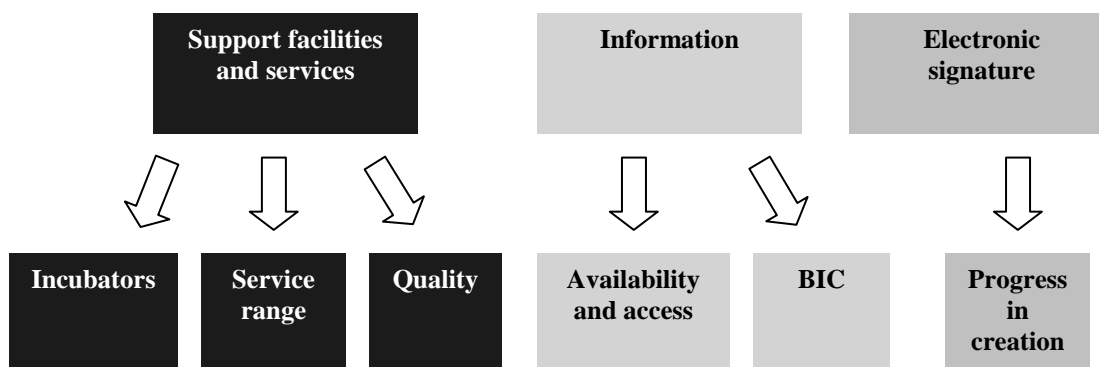
9.2 Assessment framework

There are a variety of business support initiatives in the Western Balkan countries and UNMIV/Kosovo, including business incubators, general business services, and information provision. Inevitably, some business support services exist everywhere, provided either by the private sector or by governments and donors. The key to their effectiveness is whether they are part of a national framework, and whether SMEs can expect a common level of service.

To assess performance in this dimension, the following three points were considered:

- SME support facilities, including incubators (and a national strategy underpinning their performance), publicly funded business services and the quality of business services (based on the existence and enforcement of quality standards);
- The level of relevant information available to SMEs, taking into account not only the existence of this information but also its accessibility and whether business information centres are in operation;
- Whether there is a law on the use of electronic signatures (considered essential in the new economy).

Figure 9.1 Assessment framework for Chapter 9: e-business models and business support



9.3 Analysis

The assessment reveals a pattern of isolated and fragmentary initiatives to provide business support services, many of which are funded by donors. To a great extent, there are no national strategies within which individual efforts can be co-ordinated. This leads to gaps and to overlapping of services. While business support services have been seen by most governments as important at both the national and local levels, a lack of long-term strategies means that issues such as quality assurance and ensuring that an appropriate range of services are available have not been addressed.

The exception is Croatia, where support services are being developed within a clear national strategy. Specific services are developed within that strategy. This is one of the dimensions where Croatia can demonstrate best practice. It has almost reached the level of excellence in the region, and in many respects it is fully comparable with good practices in the EU-27. Since the last reports, Croatia's achievements have been further consolidated. In the past 12 months the range of available business services has expanded, with an increasing presence of high-quality providers – both top-class Croatian firms and subsidiaries of international consultancies.

Encouraging e-business is part of the overall Government Programme for SME Development 2004-2007. The necessary technical and regulatory framework is being implemented through a number of initiatives, above all e-Croatia and Navigator, which are establishing the framework for the business-to-government (B2G) environment in Croatia while they foster a culture of ICT use among entrepreneurs. The commercial market for providers of business service is expanding rapidly, reflecting growth in demand from SMEs and acceptable regulatory requirements. A range of publicly subsidised services are available through HAMAG managed programmes, built on quality assurance services that are based on a Register of Accredited Business Service Providers.

Progress on the introduction of an electronic signature system is more limited. Most governments have drafted or approved legislation, but implementing arrangements are in place only in Croatia. Even there, use of the system is only just starting; this is related to the existence of a comprehensive national e-government strategy (Chapter 5).

9.3.1 SME support facilities and services

In evaluating the business support facilities supported by each government, three specific policy areas have been assessed: business incubators; range of business services; and quality assurance

measures for business services. In the overall evaluation, range and quality assurance measures were each given twice the weight of business incubators

Business incubators are designed to provide a range of focused support services for new businesses, which operate as tenants on their premises. Typically, initial rents are very low and rise in stages over the first two years until they reach commercial levels or above, encouraging businesses to move on once they are established. Additional support services, from common facilities (photocopying, reception and telephone services) to more technical services (book-keeping, IT support), skill development (training, coaching) and strategic assistance (advice and consulting) are offered at reduced (subsidised) rates. Often focused on specific key sectors in an area or a national economy, in the EU business incubators have proved a successful method of reducing the failure rate of new small businesses.

All businesses need external support at key moments in their development. Small businesses tend to need a broader range of external services, as using external services is generally more efficient for them than employing staff for specific functions which, due to these businesses' size, will only be required for short periods. Owners of small businesses often lack the experience to clearly specify their needs for external services, or to manage the services they pay for efficiently. Recognising this, governments have introduced a range of services – from subsidised agencies through subsidised consultancy – to encourage small businesses to use external services. Increasingly, it is recognised that a key aspect of uptake and subsequent commercial use of initially subsidised services is quality assurance measures that help ensure that entrepreneurs can obtain the services they need.

Except in Croatia this is an area where most of the West Balkan economies are not currently performing well. Only Croatia has a clear and well-structured national strategy for comprehensive business support facilities, including incubation and strategies to improve the range and quality of business support services. Elsewhere, to a large extent, services are provided through donor projects or private sector initiatives and are fragmentary and often isolated from each other.

9.3.1.1 Business incubators

Croatia and the former Yugoslav Republic of Macedonia are the countries in the region with the most advanced business incubator programmes. Serbia follows closely, the strategy for business incubators being in the final stage of preparation, with support provided by the Norwegian Entrance Programme; several pilot programmes are already operating.

In Croatia there is a national network of business incubators, as well as a national programme to support their operation and to establish new ones. In most cases, however, the focus is not on innovation and high-quality services are not always available. The scope of some incubators is limited to providing subsidised workspace in regions where finding suitable industrial premises is still a problem. Tenant exit strategies differ from case to case, but few business incubators show a dynamic rate of turnover; one of the main problems remains the relative difficulty of finding alternative locations at affordable prices on the open market.

In the former Yugoslav Republic of Macedonia several successful business incubators were established six to ten years ago under a World Bank financed programme which targeted recently privatised businesses with surplus premises as partners. Since that time, no new incubators had been established or funds allocated for this purpose until the recent establishment of the YES incubator (on a project basis, with donor support). There is no strategy for business incubators and no funds have been allocated for them. There is a new programme for 2007-10, but it does not foresee either further support for existing incubators or the establishment of new ones.

In the remaining West Balkan economies, strategies for business incubators are still in their infancy. In Albania existing firms' incubator activities cannot be seen as a real project if their dimensions and structure are taken into account. In Bosnia and Herzegovina incubators are mostly supported by donor countries, in co-operation with local government. More than six pilot incubators operation throughout the country, but their main purpose is job creation. The need for more sophisticated business services is recognised by both public and private actors serving SMEs in Montenegro.

In Bosnia and Herzegovina, while public initiatives and strategies take time to be elaborated and implemented and are still under discussion, a significant number of SMEs have indicated a preference for private service providers. In UNMIK/Kosovo plans for business incubators have often been approved at a concept level, but little action has been taken.

9.3.1.2 Range of business services

Only in Croatia is it possible to find a developed competitive business services market in which both national and international consulting companies operate, offering a full range of professional services. Geographical coverage is not yet uniform: the main urban areas are very well-covered, while remote regions can mostly rely on the network of local entrepreneurship centres. Croatian enterprises generally have a real choice between a variety of providers.

In the rest of the Western Balkans, the situation can be characterised as one where a number of programmes have been created to establish business support services using a range of donor programmes, with mixed success. There is a new trend to require service providers to tender regularly to provide subsidised services, but the rules governing the process still largely restrict applicants to existing providers. In most cases a range of organisations, originally funded by a single donor, successfully combine grant aid with commercial charges to provide services to small enterprises. In Albania, Albinvest delivers services through a network of local providers, some of which also receive support from donors. In Bosnia and Herzegovina regional and local agencies receive assistance from a range of donors and local public sector support, with Republika Srpska co-ordinating a programme of its own.

In UNMIK/Kosovo there are a wide range of agencies with current or past donor support. The Ministry of Trade and Industry provides some services through a voucher counselling programme. In the former Yugoslav Republic of Macedonia a network of previously donor funded agencies covers the territory. These agencies receive some government assistance to provide specific services supplementing commercial services. The national agency is delivering a voucher counselling programme. In Montenegro a network of regional and local business centres has been developed (six regional centres and three local ones), providing a number of subsidised services for businesses. In Serbia a network of regional SME support agencies exists; many basic subsidised services are also delivered at local level.

In addition to subsidised programmes in the region, there are a growing number of commercial consultancies. While slow to get off the ground, the market now appears to be expanding rapidly for these service providers, assisted in many cases by pilot voucher counselling type programmes that help introduce SMEs to the benefits of using consultants.

9.3.1.1 Quality of business services

Across the Western Balkans, programmes have been established to establish minimum standards for consultants as a guide to their use by SMEs and government programmes. In most cases these can

still be seen as pilot exercises, designed to test systems that link the training of consultants with references from clients. These systems could form the basis for more established systems at a later date. In some cases, the accreditation programme is specifically linked to a particular small-scale voucher programme rather than one with broader national reach.

In Albania the national agency has established a Register of Consultants which makes it possible for businesses to identify available consultants and evaluate their expertise. However, the register is not yet associated with a standards/quality certification system. In Bosnia and Herzegovina the Association of Consultants LESPnet has adopted rules and a code of professional conduct for members. Concurrently, the European Union TAC Training and Consultancy Project has developed standards for certification. It is also developing a network of certified EU TAC service providers to be involved in project activities.

In Croatia HAMAG has started to implement a project for the Accreditation of Business Consultants, based upon regular participation by Croatian consultants in tailored training programmes for business service providers.

In UNMIK/Kosovo an accreditation scheme exists for a small voucher programme, but there is no plan to extend accreditation beyond this scheme. Similarly, in the former Yugoslav Republic of Macedonia quality standards have been established for specific programmes – vouchers, Business Advisory Service (BAS) – but there is no established national programme. In Montenegro the possibility of consultant accreditation is under discussion, but no clear plans are yet in place. The same situation exists in Serbia.

Table 9.1 Scores in sub-dimension 9.3.1: SME support facilities and services

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
Business incubators	1.00	2.50	3.50	1.00	3.00	2.00	3.00
Range of business services	2.00	3.00	5.00	1.00	3.00	3.00	2.00
Quality assurance measures for business services	1.50	2.00	4.00	1.00	2.00	2.00	2.00
<i>Overall weighted average for 9.3.1: SME support facilities and services</i>	1.60	2.50	4.30	1.00	2.60	2.40	2.20

9.3.2 Information for SMEs

9.3.2.1 Availability and accessibility of information,

9.3.2.2 Business information centres

In the assessment we looked at the general availability of relevant, good quality business information and at the specific development of business information centres. To obtain an overall evaluation of performance in this sub-dimension, we gave information accessibility twice the weight of business information centres. Only Croatia has made substantial progress in ensuring that good quality business information is widely available to small enterprises.

Provision of business information is at an early stage of development except in Montenegro and Croatia. Information services and products exist, but in general they are not co-ordinated or part of a wider strategy. Information provision shows very similar characteristics to that of on-line information provision (Chapter 5).

In Albania, Bosnia and Herzegovina, UNMIK/Kosovo, the former Yugoslav Republic of Macedonia and Serbia it would be fair to say that information is available from business service providers and is accessible to some extent on-line, but the quality and extent of information are low. While specific information centres exist within this network, their use and service levels are low. There is no source of uniform, consistent and easily digestible business information.

In Montenegro the level of information to which enterprises have access is relatively high thanks to the work of the Montenegro SME Development Authority (SMEDA), which has ensured that personalised business information is available on demand in paper form from the network of regional/local business centres and the Euro Info Correspondence Centre (EICC).

In Croatia there are many centres that make business information available to SMEs, including extensive on-line access via a central portal. HAMAG has developed action plans to interact with the networks of FINA offices and local entrepreneurial centres in order to disseminate relevant business information, including guidance in applying for financial assistance. This initiative, together with a gradual transfer of responsibilities for implementing SME support programmes to HAMAG, should lead to an optimal situation in which there is one readily available contact point for obtaining all relevant information, as well as access to all support measures.

Table 9.2 Scores in sub-dimension 9.3.2: information for SMEs

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
Information accessibility	2.00	2.50	4.50	2.00	3.00	3.00	2.00
Business information centres	2.00	3.00	5.00	2.00	3.00	4.00	2.00
<i>Overall weighted average for 9.3.2: information for SMEs</i>	2.00	2.67	4.67	2.00	3.00	3.33	2.00

9.3.3 Law on electronic signatures

9.3.3.1 Electronic signature systems

Electronic signature systems enable direct interaction with government services and create legally enforceable contracts within countries' legal systems. Except in Croatia, however, the electronic signature systems for interaction with government services or commercial activity are still in their infancy. Many governments have enacted pertinent legislation, but there is a lack of implementation as well as a failure to draw up secondary legislation and/or establish registration agencies.

Table 9.3 Progress with electronic signature (ES) legislation

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
Legislation drafted	☒	✓	✓	✓	✓	✓	✓
Legislation passed	☒	☒	✓	✓	✓	✓	✓
Secondary legislation completed	☒	☒	✓	☒	☒	☒	✓
ES registry established	☒	☒	✓	☒	☒	☒	☒
Use of ES for filing VAT	☒	☒	✓	☒	☒	☒	☒
Use of ES for filing tax returns	☒	☒	☒	☒	☒	☒	☒
Use of ES for electronic submission of other documents to government	☒	☒	✓	☒	☒	☒	☒

Croatia has advanced plans for on-line filing of all tax returns. In the other West Balkan economies it is difficult to see how further progress can be achieved since concrete plans, as distinct from intentions, for the next (or even first) step have not been agreed.

The analysis shows that Croatia is substantially ahead in this dimension. It has developed a clear national strategy and devoted resources to developing relevant sources and networks. This is a good example for other countries, where business support is too often mainly provided through uncoordinated donor projects.

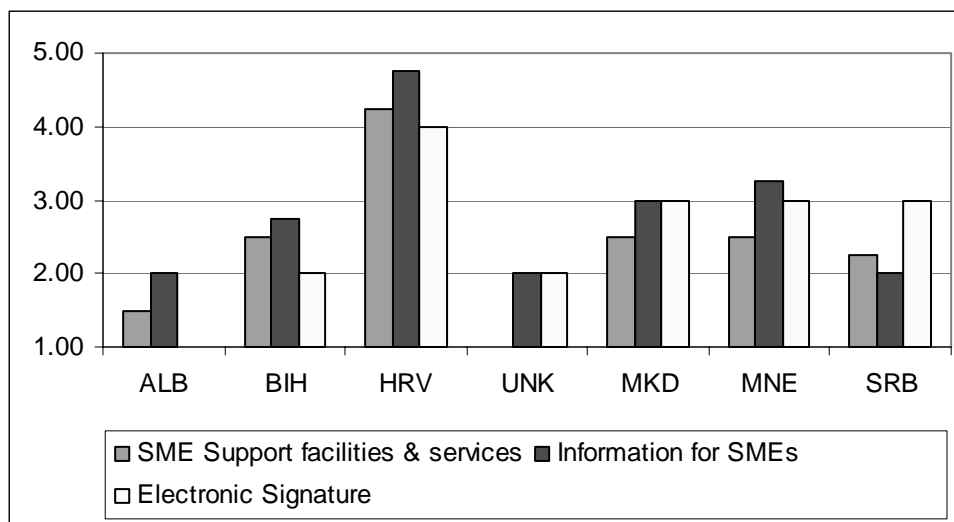
Elsewhere, these important activities to assist enterprises in improving their performance and adopting new approaches relevant to the integrated European and global markets are being neglected. Donor programmes predominate, and there is no overall vision for establishing a quality assurance framework.

Table 9.3 Scores in sub-dimension 9.3.3: electronic signature

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
Electronic signature	1.00	2.00	4.00	2.00	3.00	3.00	3.00
<i>Overall weighted average for 9.3.3: electronic signature</i>	1.00	2.00	4.00	2.00	3.00	3.00	3.00

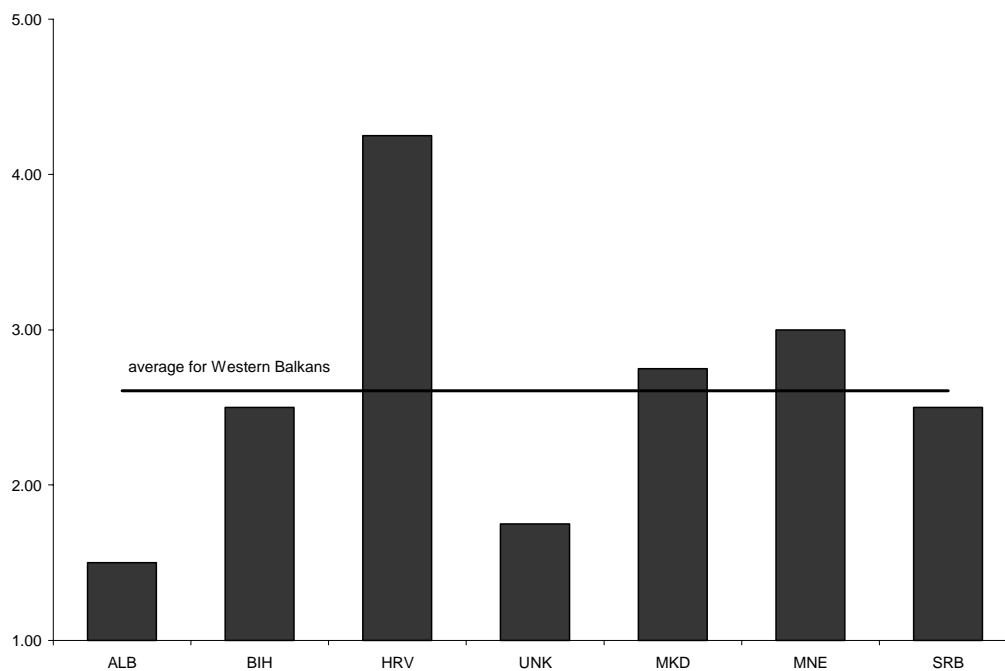
Figures 9.2 and 9.3 present scores by sub-dimension and the aggregated average scores for this dimension.

Figure 9.2 Dimension 9: Successful e-business models and top class small business support, scores by sub-dimension*



* Indicators for the sub-dimensions are rated on a scale of 1 to 5 (weaker to stronger). Indicators and sub-dimensions are weighted. The weighting system ranges from 1 (least important) to 3 (most important). All scores are rounded to the nearest 0.25.

Figure 9.3 Overall scores for dimension 9: successful e-business models and top class small business support



9.4 The way forward

There is a need throughout the Western Balkans to unify business support strategies and to roll out comprehensive national support networks, based on best practice including in pilot projects in the region. Specifically, the following actions are recommend:

1. Establish national strategies for the development of business incubators, linking these with measures to encourage innovation and ensuring that clear funding and performance measures are in place.
2. Establish a national quality standard for subsidised specified business service provision, and allow an open tender process to contract the provision of the services on a regular basis.
3. Create a voucher consultancy/counselling programme with quality assured consultants, enabling an open competition to supply management consultancy services to SMEs. Where such programmes have already been successfully piloted, they should be extended to cover wider numbers of enterprises.
4. Establish, in conjunction with consultancy organisations, a professional ethical and accreditation standard for consultants and organisations, enabling SMEs to select consultants with some confidence in the professional standards of the supplier.
5. Complete the regulatory framework for introducing the electronic signature. This is a precondition for developing electronic commerce and more advanced on-line business-to-business functions.

DEVELOP STRONGER AND MORE EFFECTIVE REPRESENTATION OF SMALL ENTERPRISES' INTERESTS

10.1 Introduction

The Charter envisages the following type of activity in this dimension:

...a review of how the interests of small businesses are represented at ... national level, including through the social dialogue.

This dimension is of crucial importance for small enterprises, as it is a precondition for success in all the other dimensions. If the voice of small enterprises is not heard in government policymaking, it is less likely that government measures in regard to the other nine Charter areas will give adequate attention to SMEs' special needs and circumstances. Larger enterprises, representing important shares of countries' GDP or employment, will always find ways to articulate their interests and concerns. They often have no need for specific channels to influence policymaking. Government policy can become biased towards larger enterprises or, worse, towards specific larger ones. These companies' interests are not identical with – and sometimes even conflict with – those of smaller ones.

Where smaller companies may need to enter a new market and grow, larger companies on the other hand may have an interest in limiting market access. Where smaller companies can be suffocated by red tape, this is sometimes merely an annoyance for larger ones, which can recruit employees to deal with the administrative side. Where larger companies can hire specialists and organise education and training systems, smaller ones cannot afford a large staff and thus often recruit employees with general skills who can contribute effectively to various aspects of business life. These are only a few examples of the ways in which government policy can become blind to small companies' needs if it is mainly influenced by larger ones.

The Charter advocates proper representation of the interests of small enterprises at national level. Setting up such channels of consultation also plays an important part in cultivating social capital in a country, i.e. levels of trust between the private and the public sector. If companies feel that they have been heard by government officials who design the policies affecting them, and that their concerns have been taken on board, implementation of these policies will take place more smoothly, with less resistance or evasion. In that sense, setting up such channels plays an important role in the transition process of countries such as those of the Western Balkans, where unpopular measures often have to be taken.

10.2 Assessment framework

This dimension has been assessed from two perspectives:

- The degree to which the SME sector has effective representation, in terms of general SME associations and the specific role of Chambers of Commerce;
- The degree to which governments systematically consult the private sector.

A key question in regard to Chambers of Commerce is the extent to which they have been reformed from a previous model of state-led organisations with compulsory membership which mainly represented larger companies. This assessment awards a bonus to moves towards voluntary membership, although this is a policy choice on which many policymakers still disagree; even in the EU, Chambers of Commerce in some countries follow the compulsory membership model.¹

Concerning the wider network of SME representation, the assessment looks at how many associations have been set up to represent the interests of small enterprises' interests, how well-structured they are, their membership structure and their capacity for representing their members' interests. In other words, the assessment is concerned with whether associations are loose, ad hoc collections of weak and biased organisations; strong, robust, influential national networks for business advocacy; or somewhere in between. Obviously, a full inspection of all organisations in a country would be far beyond the scope of this report. The assessment therefore remains only indicative, based on government reports and follow-up by independent consultants.²

With respect to consultations between the public and private sectors in a country, the assessment looks at the effectiveness of channels of communication. Issues considered in arriving at such an assessment are how formal and regular such channels are (i.e. not dependent on the mood of the day in government regarding the organisation of such a consultation) and what the impact of these channels are (have policy measures and pieces of draft legislation been discussed with representatives of small enterprises, and have such discussions had an effect on government policy?).

It is important that both aspects are taken into account by the assessment system. Organising a very effective consultation system, where there are very ineffective private sector organisations, is not useful; neither is building up a robust company advocacy network vis-à-vis a government without inclinations or procedures to listen to the companies. The assessment therefore looks at both sides of the equation.

10.3 Analysis

Activities in this dimension show mixed results (i.e. different levels of development and strategy).

In all the Western Balkan countries and UNMIK/Kosovo there is some type of SME network, although its development may be organic. Chambers of Commerce are in different states of readiness to represent the interests of SMEs: this generally relates to a more fundamental review of the Chambers' roles and statutes, which have still not changed in some countries.

Relatively poor scores in the consultation category are particularly disappointing, given that all the Western Balkan economies subscribe to the Charter and this is perhaps the easiest part to implement.

With respect to this sub-dimension, three groups of countries can be identified:

- The former Yugoslav Republic of Macedonia, Montenegro, and Croatia, where actions have been taken but more work still needs to be done before an adequate representation/

consultation system is in place. These countries are in the lead, but the analysis demonstrates that appropriate actions need to be taken in each to improve particular weaknesses.

- UNMIK/Kosovo, Bosnia and Herzegovina and Albania have some achievements to their credit, but they need to be more systematic in their approach. The weaknesses in these countries are more pronounced, either in regard to the functioning of the Chamber of Commerce (Albania), overall development of a network representing the interests of SMEs (UNMIK/Kosovo) or the need for consultation mechanisms (Bosnia and Herzegovina).
- In Serbia activities in this dimension are only beginning, with weak representative organisations outside the Chamber network, which is in the process of reform. Serbia is also weak on consultative mechanisms. According to Serbia's announced policy intentions, it is likely to make important progress in the next 12 months.

The following conclusions can therefore be drawn:

1. Development of the SME network is to some degree an organic process, corresponding to how well the sector itself is developing. The most that a government can do in this area is encourage the process through consultations with SME representatives. To a certain extent, the scores here represent the development of the country's economy as much as government attitudes towards SME networks.
2. The role of Chambers of Commerce is different in different countries, with membership approximately half compulsory and half voluntary. The key issue is whether they genuinely serve their members. In countries and UNMIK/Kosovo, this means reforming the old Chamber system, which did not serve the SME sector well if at all. A careful assessment of the progress of this reform is needed before decisions are taken on the status of each Chamber.
3. Implementing the Charter necessarily represents a commitment to consultation. The current level of activity is disappointing. Actions in this area can easily be taken if governments have the political will to do so.

10.3.1 SME network

10.3.1.1 SME networks

10.3.1.2 Chambers of Commerce

SME networks mainly seem to be developing organically: as the sector develops, so do the necessary networks within it. Therefore, scores correspond to countries' economic development.

As far as the Chambers are concerned, the situation demonstrates the degree to which the 'old' Chambers have been reformed and now provide services to members. In the short term, it appears that rating voluntary membership shows this effect quite well, but (as already noted) many European countries have traditions of public status Chambers which provide high quality services to their members and such Chambers may be the long-term result of reforms.

The SME network in Croatia is well-established and well-articulated: in particular, the Chamber of Economy, the Chamber of Craft (both with mandatory membership), the Croatian Employers' Association (HUP), which also hosts an SME association, and other smaller or specialised

organisations. There are up to 80 such organisations in Croatia. The weak point is the delay in reforming the Chambers, which are still within the orbit of the state and have relatively little autonomy.

Croatia leads in the assessment of SME network indicators, together with the former Yugoslav Republic of Macedonia. These countries have different strengths. Whereas Croatia has a fully developed network for representing SMEs, with national coverage and strong representative capabilities, there is still a need to reform the structure and membership regulations of the Chamber of Commerce. In the former Yugoslav Republic of Macedonia the structures of Chambers of Commerce were recently reformed under a law of December 2004. The country has abandoned compulsory membership in the old Chamber and is seeing a rise of private initiatives. This has introduced a new, competitive dynamic in business advocacy. However, the scope of business advocacy outside the Chambers movement is not as broad and accomplished as in Croatia.

At the other end of the scale is Serbia, which has an anachronistic Chamber of Commerce infrastructure with weak service delivery, as well as a patchy network of SME representation that lacks advocacy capacity and national coverage. The Government's self-assessment fully recognises these conditions. Serbia can make good progress on its overall ranking if it tackles this SME advocacy deficit. While it plans to establish channels of communication with SME representatives (see next indicator), it would logically need to complement this with a move to modernise and build capacity in Chambers of Commerce and other business representation structures.

The remaining countries form a middle group, with Montenegro leading.

The picture of Montenegrin business associations is rich and varied. Given the country's small size, national coverage is guaranteed. The relatively weak, inactive and unreformed Chamber of Commerce is complemented by associations and organisations such as the Union of Employers, the Montenegrin Business Alliance (MBA) and a think tank/research organisation, the Centre for Entrepreneurship and Economic Development (CEED). Participation in associations seems relatively high, another indication of a dynamic market society. For this reason Montenegro leads (with Croatia) on the SME network indicator, while it scores lowest on the Chambers of Commerce indicator. This situation is fully acknowledged, incidentally, in the government's self-assessment.

In Albania the network system for SMEs is not yet perceived as a point of strength either by firms, which fear losing some of their competitive advantages if they open themselves up to others, or by institutions themselves. Some 20 trade unions and business associations are active in Albania, with SMEs taking part. While some show signs of a certain strength, the overall impression is one of organisations that have weak membership bases and are therefore sometimes biased in favour of one or a few companies. Under the new Law on the Chambers of Commerce (not yet adopted), Chambers would acquire more independence from government. The dispute over compulsory membership is not yet resolved.

In Bosnia and Herzegovina an SME network exists at the state level (Confederations of Employers and Trade Unions) but this is not a result of state initiatives or interventions. It was effectively set up by the Bulldozer Initiative of the Office of the High Representative to Bosnia and Herzegovina (OHR). There are a number of representative organisations for particular economic sectors (e.g. fruits, honey) at the state level. At entity level, there is structured interest representation by well-developed Chambers of Commerce and Crafts and the association of employers. Much if not all SME policymaking in Bosnia and Herzegovina is at the level of the entities. This has been taken into account in the weighting system. Had such a weighting system not been introduced, it would have been concluded that business organisations and channels for dialogue with business hardly exist in

Bosnia and Herzegovina; where they do exist, they are the result of intervention by the international community. This is one aspect of SME policy in Bosnia and Herzegovina which the national SME strategy has attempted to address by formulating proposals for setting up a national SME advocacy forum – a strategy which, unfortunately, has not survived political realities. Regarding the Chambers of Commerce, the Foreign Trade Chamber (FTC), the only Chamber that is both national and mandatory, mainly provides services to larger enterprises. The other Chambers are voluntary and mostly operate at the level of the entities or cantons.

In UNMIK/Kosovo some business associations exist at regional and national level. At national level there is an Alliance of (UNMIK/)Kosova Businesses and a Chamber of Commerce. Membership in the Chamber of Commerce is not compulsory, but involvement by the private sector is mainly limited to larger companies. A number of organisations cater to specific needs (e.g. wood manufacturers, crafts) on a small membership basis. UNMIK/Kosovo nonetheless scores somewhat higher than the countries in the middle group (e.g. Albania and Bosnia and Herzegovina) because the Chamber of Commerce was reformed under a relatively recent (May 2005) law.

Table 10.1 Scores in sub-dimension 10.3.1: SME networks

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
SME networks	3.00	3.00	4.00	2.00	3.00	4.00	2.00
Chambers of Commerce	2.00	3.00	2.00	4.00	4.00	1.00	1.50
<i>Overall weighted average for 10.3.1: SME networks</i>	2.67	3.00	3.33	2.67	3.33	3.00	1.83

10.3.2 Consultation

10.3.2.1 Public/private consultation

The degree to which SMEs are consulted is perhaps disappointing, given that this would be an expected result of commitment to the Charter and is well within the decision-making power of governments. More rapid progress in this area is warranted, particularly in the two countries (Bosnia and Herzegovina and Serbia) which currently do not even reach level 3.

In general, it can be seen that governments understand the importance of consultation, even if formalised and structured systems for consulting with SMEs on a regular basis (and therefore impact) are limited.

Roughly three types of consultation can be identified: formal and structured dialogue through the establishment of a specific forum; either for general issues related to the business environment, or specifically dedicated to SMEs; and looser, informal consultation. Moreover, consultation can include a variety of ways to influence government decision-making: formulation of recommendations, policy debates, or going so far as to express opinions on draft legislation and to provide SMEs with the possibility to demonstrate ‘initiative’ in suggesting new measures or pieces of legislation.

Overall, the situation in the Western Balkans is as shown in Table 10.2.

Table 10.2 Public/private consultation in the West Balkan countries and UNMIK/Kosovo

	ALB	BIH	UNK	SRB	MNE	HRV	MKD
1. Organisation of consultations with SMEs	F: Business Advisory Council	Bo	FSME: Consultation Council of SMEs	No	F: Forum for Enhanced Dialogue for the support of SMEs	F: National Competitiveness Council	FSME: SME Forum
2. Regular meetings of the Forum	≥2 3 meetings in 2006	NA	≥2 4 meetings per year	NA	≥2	≥2	≤ 2 Only recently established; no track record
3. Other procedures for dialogue (except informal meetings)			Chamber of Commerce organises monthly Business Club to which it invites government representatives; working groups for drafting legislation invite members of the private sector			Private sector representatives take part in parliamentary working groups	
4. Influence	OL, PD, I, R	NA	OL, PD I, R	NA	PD, R, OL	OL, PD, I,R	PD, R, I

Legend: FSME = structured in a specific forum for (and representing mainly) SMEs. F = public/private consultation structured in a forum but not specifically for/with SMEs. I = informal – no specific forum established. ≥2: 2 or more meetings last year. ≤ 2: one meeting or less last year. OL = opinions on draft legislation. I = SMEs can initiate/propose measures or legislation. PD = policy debate on SME policies. R = recommendations to the government.

As can be seen in Table 10.2, two countries which deserve quite a good score are Croatia and Montenegro. Montenegro's small size may favour a real culture of dialogue and consultation. The Forum for Enhanced Dialogue for the Support of SMEs includes all relevant private sector representative organisations. In Croatia consultation takes place through the National Competitiveness Council, which has SME representation but is not solely dedicated to (or made up of) small companies. Nonetheless, when it comes to representing private sector interests and articulating recommendations, it is the most robust and professional forum of its kind in the Western Balkans. Moreover, Croatia has its 'regular' Socio-Economic Council. These councils have been established in most countries by now, for tripartite social dialogue.

The former Yugoslav Republic of Macedonia scores below the lead group, as it is in a transitional phase. Dialogue with the private sector has been organised within the National Entrepreneurship and Competitiveness Council (NECC), a body set up in 2003 with USAID funding as a government advisory body. With donor funds running out, this forum has become unsustainable and is looking for an alternative future. This is probably not a good example of how to use donor funds, as instruments have been created which should have a permanent status. A 'second start' was made with the establishment of the SME Forum in 2005. This Forum does not yet have much of a track record: only two meetings have been organised, mainly attended by institutional partners such as the Chamber of Commerce and the SME Agency. It now needs to be activated and used more proactively. At this point, the ranking of the former Yugoslav Republic of Macedonia therefore reflects mitigated results.

Results in other countries are generally worse. The situation in Serbia at this time is simply that it lacks a specific forum for dialogue and consultation with the SME sector, apart from the more general tripartite social dialogue structured through the National Social and Economic Council since March 2005. In August 2006, however, the cut-off month for this report, the Government established an SME Interministerial Council which has by now held six meetings, and in which private sector representatives (Chambers of Commerce and Employers Union) take part. This has not been taken into account in the current score, but Serbia's ranking can be expected to improve for this indicator in the next report. In addition, establishment of a more specific SME Forum is being discussed. Nonetheless, Serbia has the lowest score on this indicator, together with Bosnia and Herzegovina, where no formal consultation channel exists at state level (although a degree of consultation is planned through the establishment of a Social and Economic Council) or at the level of the entities, except in the Brčko District.

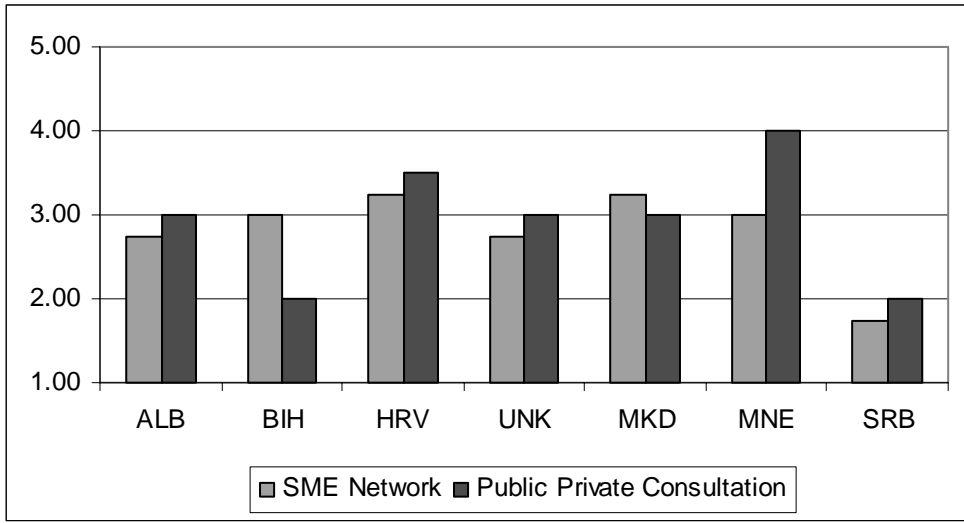
In Albania and UNMIK Kosovo, mechanisms for consultation between the government and the private sector exist although there are problems concerning the real depth of representation. In UNMIK/Kosovo, like Croatia, it is possible to invite private sector representatives to participate in working groups that are drafting legislation. The Chamber of Commerce is taking its own initiatives to invite government representatives to participate in structured dialogue in the 'Business Clubs'. However, it is understood that SMEs are not well-represented in the Chamber. This is still one area where UNMIK/Kosovo is quite well-placed.

Table 10.3 Scores in sub-dimension 10.3.2: consultations

	ALB	BIH	HRV	UNK	MKD	MNE	SRB
Public/private consultation	3.00	2.00	3.50	3.00	3.00	4.00	2.00
<i>Overall weighted average for sub-dimension 10.3.2: consultation</i>	3.00	2.00	3.50	3.00	3.00	4.00	2.00

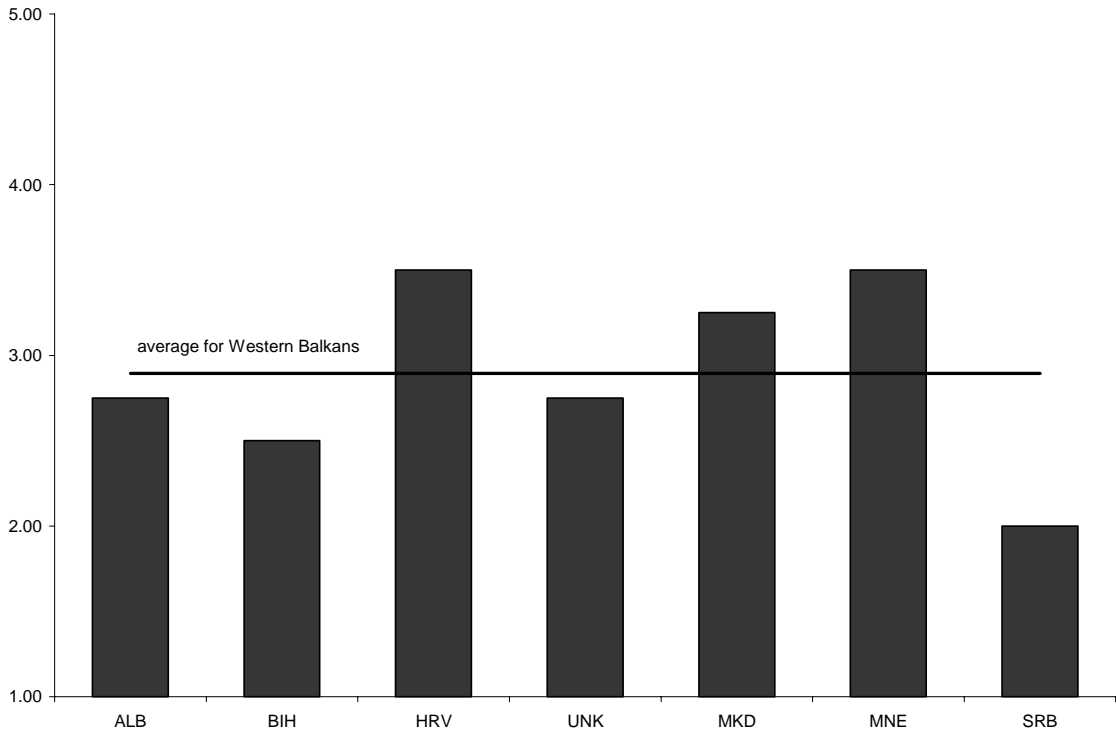
Figures 10.2 and 10.3 present scores by sub-dimensions and the aggregated average scores for this dimension.

Figure 10.2 Dimension 10: develop stronger, more effective representation of small enterprises, scores by sub-dimension



* Indicators for the sub-dimensions are rated on a scale of 1 to 5 (weaker to stronger). Indicators and sub-dimensions are weighted. The weighting system ranges from 1 (least important) to 3 (most important). All scores are rounded to the nearest 0.25

Figure 10.3 Overall scores for dimension 10: Stronger and more effective representation



10.3 The way forward

Representation and consultation have some way to go in most of the Western Balkan economies. Reform of the Chambers of Commerce, and the organic development of an SME network, will produce more articulate demands from the sector. Governments need to be ready with institutional ways of listening to these demands and responding.

1. All countries and UNMIK/Kosovo need to make consultation with small enterprises a reality and pursue a very pro-active use of the mechanisms which have been established. This needs to be combined with action in areas where consultation is important, notably administrative simplification and impact analysis (dimension 3). Demonstrating the beneficial effects of consultation is the best way to encourage real engagement by the private sector.
2. Consultation should concern not only the 'host' Ministry, which initiated the setting up of SME consultation (usually the Ministry of Economic Affairs), but all Ministries which formulate proposals and laws that could have significant impacts on the business sector – those with responsibilities for environment, education, taxation, science and technology, etc. Serbia and Bosnia and Herzegovina, in particular, need to rapidly make up lost ground in this area.

NOTES

- 1 Eurochambers, the Association of European Chambers of Commerce (www.eurochambres.euto.eu), is assisting Chambers of Commerce in the Western Balkans to upgrade their operations and improve their advocacy roles.
- 2 Country self-evaluations, completed in September 2006, were complemented by an independent counter-assessment by a team of local and international consultants directed by Eurecna, an Italian consultancy.

Part III

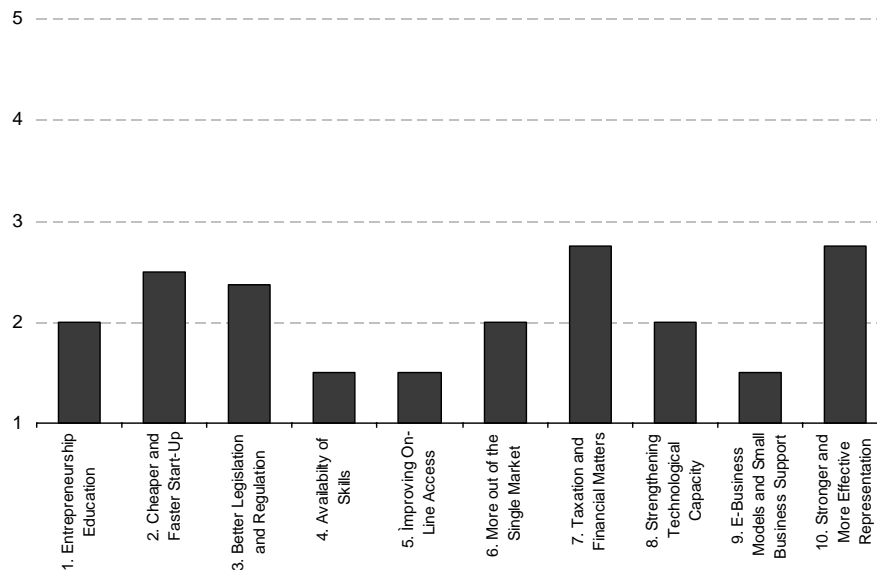
COUNTRY PROFILES

Chapter 11

ALBANIA

11.1 Country Scores

Set out below is Albania's performance in each of the Charter's ten dimensions.



11.2 Strengths and areas for improvements

Albania has made good progress in establishing the basic framework for the Charter, particularly in terms of:

- More effective representation (dimension 10), especially in creating effective SME networks and structured public/private consultation;
- Tax and financial matters (dimension 7), where Albania has approved bankruptcy and leasing laws and established a cadaster;
- Improved legislation and regulation (dimension 3), through adopting a comprehensive regulatory reform strategy in March 2006 that has already shown evidence of implementation.

Some areas are less advanced, particularly in regard to measures in the Charter encouraging innovation and the adoption of new technology and e-business (notably in dimensions 5, 8, and 9) and the enhancement of skills availability (dimension 4).

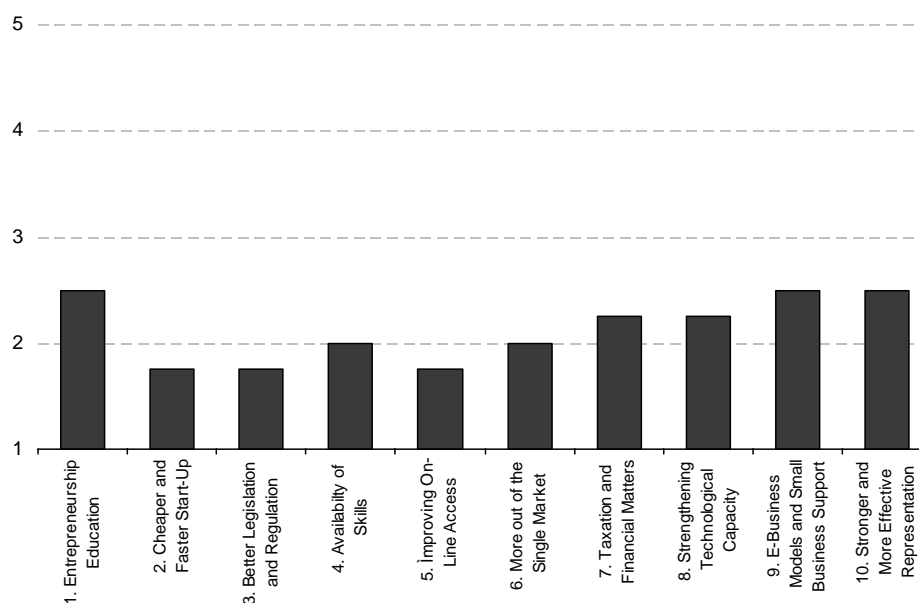
- In dimension 5 (Improving on-line access) the lack of means to file taxes, as well as applications and permits, on-line is particularly noticeable;
- Concerning the technological capacity of SMEs (dimension 8), there is no evidence yet of either support for training on technology or of schemes to promote co-operation on innovation.

Chapter 12

BOSNIA AND HERZEGOVINA

12.1 Country Scores

Set out below is Bosnia and Herzegovina's performance in each of the Charter's ten dimensions.



Generally in Bosnia and Herzegovina, there is a lack of overall policy at the state level, with little progress on approval of the draft SME strategy, draft legislation and other proposed initiatives.

12.2 Strengths and areas for improvements

Decisive progress is evident in the following dimensions of the Charter:

- Entrepreneurship education and training (dimension 1), in terms of secondary education and particularly improving the availability of skills. Progress is being made within the framework of the EU Vocational Education and Training Programme. In many high schools Youth Entrepreneurship 1 and 2 modules are introduced as optional lectures, and virtual companies are established in some secondary schools;

- Successful e-business models and top-class small business support (dimension 9), more specifically business incubators and range of business services. Progress in this dimension refers to developing a network of business support systems and services throughout BiH. While developments have proceeded at different speeds within the administrative levels, there is clear overall progress with respect to business support services and improvements in information and the introduction of new business models, with use of computers and internet increasing in the last three years;
- Stronger and more effective representation (dimension 10), especially in creating effective SME networks and structured public/private consultation.

There is room for improvement, particularly in the following dimensions:

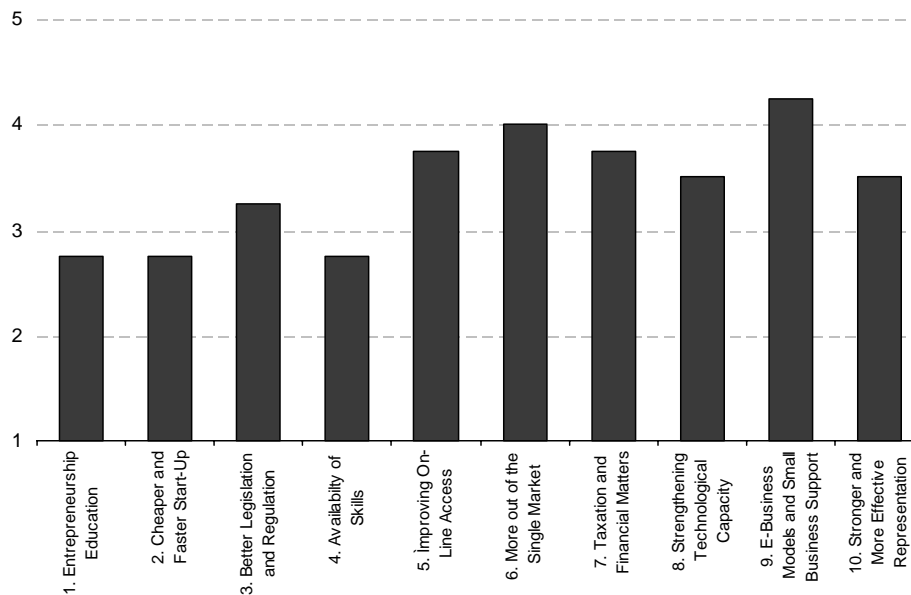
- Cheaper and faster start-up (dimension 2), due to high costs for company registration and lack of possibilities for on-line registration;
- Better legislation and regulation (dimension 3), more specifically the lack of regulatory impact analysis and the lack of a national SME strategy and agency;
- Improving on-line access (dimension 5), where the structure for implementation of e-signature policy is undeveloped and the ICT capacities of authorities are weak;
- Taxation and financial matters (dimension 7) due to unfriendly taxation policy for SMEs, which is disharmonised between the two entities, and high interest rates and unfavourable collateral requirements in terms of banking policy.

Chapter 13

CROATIA

13.1 Country Scores

Set out below is Croatia's performance in each of the Charter's ten dimensions.



13.2 Strengths and areas for improvements

Croatia performs particularly well in four dimensions of the Charter:

- Improving on-line access (dimension 5), due to the possibility to file taxes on-line through the comprehensive HITRO on-line system;
- Getting more out of the single market (dimension 6), through the strong and effective National Council for Competitiveness and well-funded export promotion programmes;
- e-business models and small business support (dimension 9), due to the outstanding range and quality of business services;
- Development of stronger, more effective representation of SMEs' interests (dimension 10), especially in creating effective SME networks and structured public/private consultation.

The few dimensions where more progress is clearly necessary are:

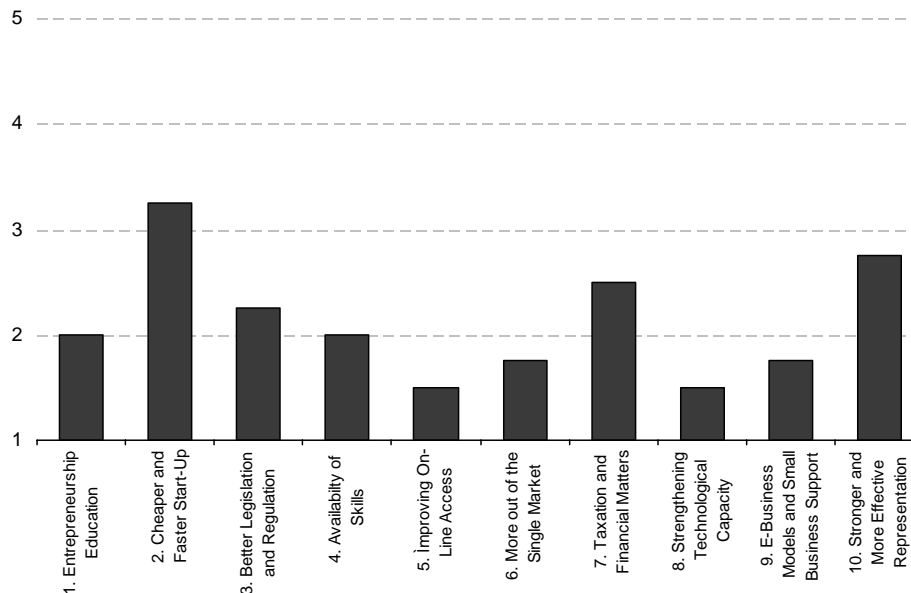
- Dimension 3 (better legislation and regulation), where the silence is consent principle is not yet applied to standard administrative SME procedures;
- Dimension 4 (availability of skills) due to a training provider community which is not sufficiently developed or aware of the market and training providers and which, in addition, is unable to respond to market requirements in terms of quality and timing;

Chapter 14

UNMIK/KOSOVO

Set out below is UNMIK/Kosovo's performance in each of the Charter's ten dimensions.

14.1 Country Scores



14.2 Strengths and areas for improvements

There is a lack of overall SME policy in UNMIK/Kosovo with regard to many of the Charter's dimensions. However, two dimensions have experienced significant progress and stand out positively:

- Dimension 2 (cheaper and faster start-up), where more rapid registration of SMEs has been enabled, including one-stop shop facilities, a reduction in the number of administrative steps involved in registration, and a reduction in registration numbers needed to start and operate a business. These improvements in dimension 2 have lifted the UNMIK/Kosovo's ranking above the average;
- Dimension 10 (Stronger and more effective representation) due to regular public/private consultation.

- There also has been progress in taxation (dimension 7), both in terms of reduced tax rates and an improved system for tax reconciliation.

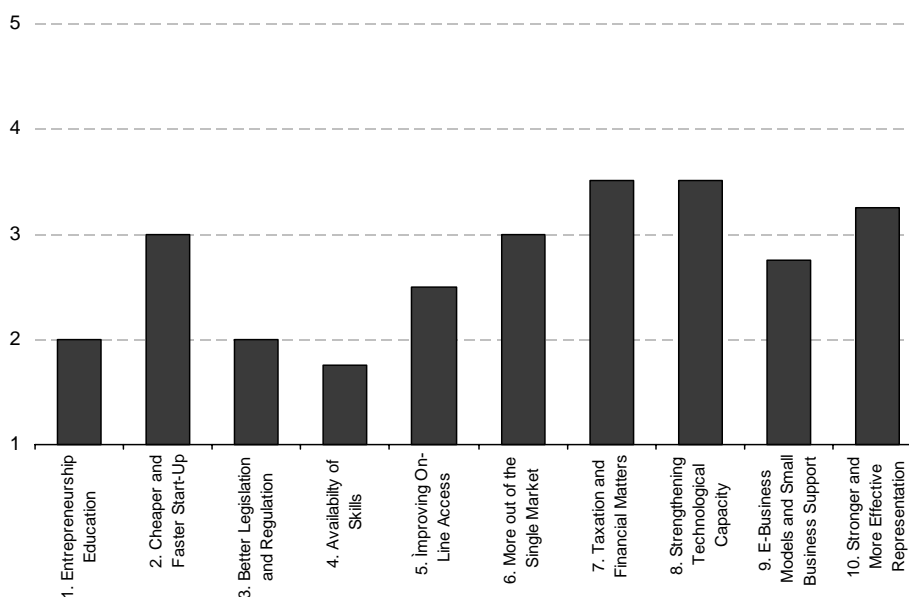
There has been a notable lack of activity in relaxing some of the main constraints on SME development, such as regulatory impact (dimension 3), on-line access for SMEs and credit guarantees. In a number of instances, items of legislation or regulation have been put in place, but with no follow-up action or with inadequate resources to allow practical progress to be made. Examples include the electronic signature and provision of incubators for small businesses.

Chapter 15

THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

15.1 Country Scores

Set out below is the former Yugoslav Republic of Macedonia's performance in each of the Charter's ten dimensions.



15.2 Strengths and areas for improvements

In the former Yugoslav Republic of Macedonia most of the basic SME framework is in place, but there is a need for more government commitment and funding for implementation of policies. Good performance has been achieved in the following dimensions:

- Cheaper and faster start-up (dimension 2) – easier company registration with the establishment of one-stop shops now operational and a reduction in company registration numbers (now only three required);

- A notable achievement in strengthening technological capacity (dimension 8), which is the best score of the seven governments. This has been achieved through successful cluster developments and relatively solid enforcement of intellectual property rights;
- Dimension 6 (More out of the single market) – through well-funded export promotion programmes and a range of competitiveness programmes in place.

On the other hand:

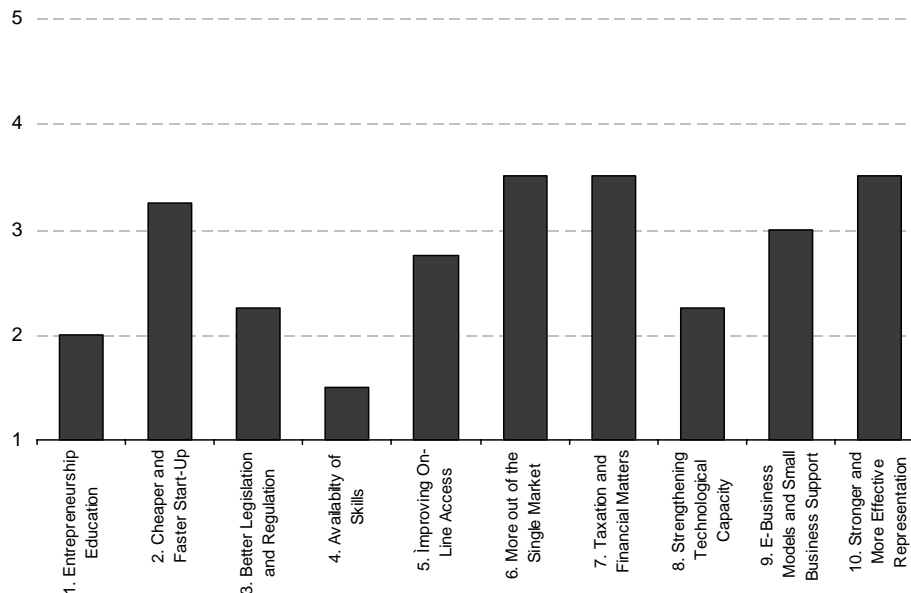
- Education for entrepreneurship (dimension 1) has not yet been given the necessary priority, with no activities currently planned to implement entrepreneurship in the formal education system;
- Efforts to improve the regulatory environment for SMEs (dimension 3) have been limited, with a lack of regulatory impact analysis (RIA) in SME legislation, no application of the silence is consent principle, and the absence of a business simplification strategy;
- There is also clearly a need to improve the availability of skills for SMEs (dimension 4), as there is very limited enterprise training in the former Yugoslav Republic of Macedonia and quality assurance programmes and training needs analysis are in their infancy.

Chapter 16

MONTENEGRO

16.1 Country Scores

Set out below is Montenegro's performance in each of the Charter's ten dimensions.



16.2 Strengths and areas for improvements

In Montenegro most of the basic SME framework is in place, but more work needs to be done in regard to effective implementation. Good efforts have been made in the following Charter dimensions:

- Montenegro has performed particularly well in tax reform (dimension 7) and in cheaper and faster start-up (dimension 2), where long-term strategies for reform are in place;
- Strong performance in dimension 8 (Strengthening technological capacity) needs to be consolidated through more emphasis on clusters, but significant improvements have been made here in the sub-dimension concerned with fostering technological co-operation;
- Consultation with the private sector is effective (dimension 10).

Weaker scores relate to the area of human capital, i.e. entrepreneurship education (dimension 1) and availability of skills (dimension 4), which are in their infancy.

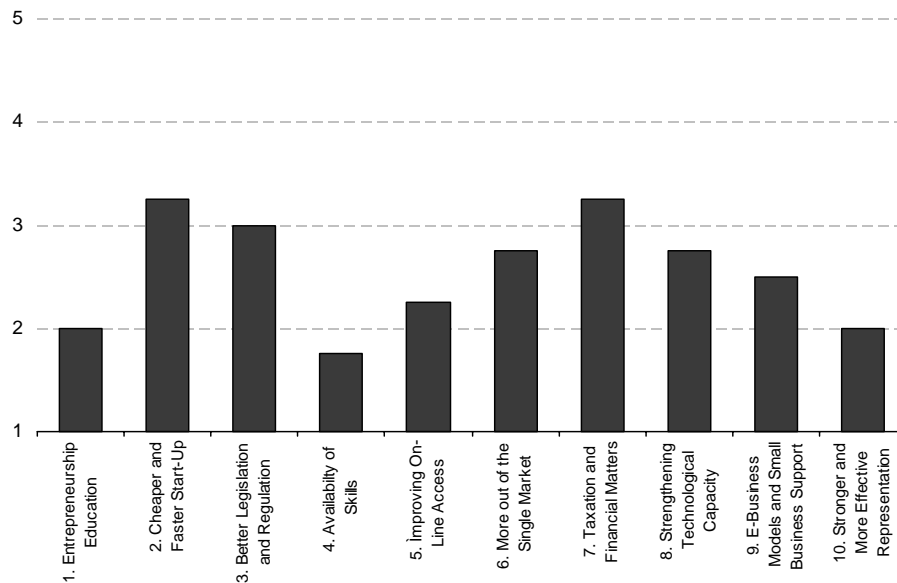
The same is true of efforts to improve SME legislation and regulation (dimension 3). Regulatory impact analysis (RIA) is in a pilot phase and the silence is consent principle is not yet applied to standard administrative procedures.

Chapter 17

SERBIA

17.1 Country Scores

Set out below is Serbia's performance in each of the 10 dimensions of the Charter.



17.2 Strengths and areas for improvements

Similarly to the former Yugoslav Republic of Macedonia and Montenegro, Serbia has established a solid policy framework for the development of SMEs. However, implementation is still relatively limited. Certain procedures have improved considerably over the last two years:

- Business registration (dimension 2) has been rendered a quick and rather inexpensive process by the legislation passed in 2004;
- Concerning dimension 7 (Taxation and financial matters), small entrepreneurs have better access to soft loans through credit guarantees and there are government funds to support exports, start-ups and innovation;

- Good performance in dimension 3 (Better legislation and regulation) is due to Serbia's leading role in the implementation of Regulatory Impact Analysis (RIA), clear inter-governmental policy co-ordination and one of the region's best SME agencies.

Weaker scores are:

- Entrepreneurship education (dimension 1) – although several pilot programmes have been introduced, and the strategy on entrepreneurship teaching in vocational schools will soon be adopted, no strategy is envisaged for introducing entrepreneurship as a key competence in all levels of formal education;
- Quality assurance in dimension 4 remains weak, both for formal and non-formal training. Some municipalities have made significant progress in developing entrepreneurship, but most have not followed. There are encouraging changes in the supply of 'soft' and 'hard' support measures, but the commitment is not strong and further measures are required;
- Representation of SMEs is relatively weak. This is especially the case for Chambers of Commerce, and no comprehensive action plan exists to reform them.

THE SME POLICY INDEX TOOL

1 ENTREPRENEURSHIP EDUCATION AND TRAINING					
	Level 1	Level 2	Level 3	Level 4	Level 5
1.1	Policy and Delivery	Government and social partners are in dialogue or planning with view to agreement on a national life-long entrepreneurship learning strategy	A national life-long entrepreneurship learning strategy is agreed between all stakeholders and is included within national SME, education, employment and R&D strategies. An active EL work programme exists but entirety of required funds have not been received.	A national life-long entrepreneurship strategy is in place and is supported by an active work programme with full budget to meet work programme requirements	A national life-long entrepreneurship strategy is in place with active work programme being implemented. EL strategy and work programme contain nationally agreed targets. An EL performance management and monitoring system is in place and is used for further policy improvements.
1.1.1	Policy	Government and social partners do not have a nationally agreed strategy to promote life-long entrepreneurship learning			
1.1.2	Primary education (ISCED 2)	There is no promotion of entrepreneurship education in primary education.	National Policy under discussion for developing entrepreneurship in primary education. Entrepreneurship education in primary education is confined to ad hoc projects and which are not part of mainstream education curriculum.	National policy agreed: a) Entrepreneurship as a key competence is an integral feature of primary education policy. b) Policy foresees reformed curriculum and teachers trained on entrepreneurship as a key competence.	Entrepreneurship as a key competence is addressed within primary school curriculum in at least 75% of primary schools. Teachers within 75% of primary schools have been trained for teaching of entrepreneurship as a key competence. All primary schools provide data on range of entrepreneurship promotion activities for national monitoring, evaluation and further policy development purposes.

1.1.3	Secondary Education (ISCED 3)	There is no promotion of entrepreneurship education in secondary education.	National Policy under discussion for developing entrepreneurship in secondary education. Entrepreneurship education in secondary education is confined to ad hoc projects and which are not part of mainstream education curriculum.	National policy agreed: a) Entrepreneurship as a key competence is an integral feature of secondary education policy. b) Policy foresees reformed curriculum and teachers trained on entrepreneurship as a key competence. c) Policy includes school-enterprise co-operation.	Entrepreneurship as a key competence is addressed within primary school curriculum in at least 60% of secondary schools. Teachers within 60% of secondary schools have been trained for teaching of entrepreneurship as a key competence. At least 60% of secondary schools provide data on range of entrepreneurship promotion activities for national monitoring, evaluation and further policy development purposes. School-enterprise co-operation plans have been formalised and are being executed in 60% of secondary schools.	Entrepreneurship as a key competence is addressed within secondary school curriculum in at least 90% of secondary schools. Teachers within 90% of secondary schools have been trained for teaching of entrepreneurship as a key competence. All secondary schools provide data on range of entrepreneurship promotion activities for national monitoring, evaluation and further policy development purposes. School-enterprise co-operation plans in 90% of secondary schools have been formalised and are being executed.
1.1.4	Pilot Projects and Experimentation	There is no evidence of strategic piloting or experimentation in education with any of the following core entrepreneurship education methods: o pupil/student companies; o virtual enterprises; pupils/students shadowing businessmen; o ad-hoc teaching or lecturing by businessmen/women o student or teacher away-days in companies; o company fairs in schools.		There is documented evidence of strategic piloting or experimentation in a significant proportion of schools * using 50% of the core entrepreneurship education methods listed at level 1.		There is documented evidence of strategic piloting or experimentation in a significant proportion of schools * using all the core entrepreneurship education methods listed at level 1.
		* Over 10% of schools.				

1.2	Non formal Learning	Level 1	Level 2	Level 3	Level 4	Level 5
1.2.1	Non formal Learning	Actions to promote non-formal entrepreneurship learning are confined to ad hoc projects and are international donor supported.	Actions to promote non-formal entrepreneurship learning are confined without a strategic framework. Generally international donor supported but with examples of state and private sector supported projects.	Examples of agreements established between education services, employers organisations and/or enterprise associations to develop entrepreneurial awareness of children and young people at local level.	Good evidence of innovative outreach, after-school and school vacation projects to develop entrepreneurial awareness, knowledge and skills involving schools, NGOs and the business world.	Annual national campaign involving public and private sector to develop entrepreneurship awareness, knowledge and skills of young people including promotion of self-employment as a career option as well as case studies on successful youth enterprise creation. Local, regional and national actions promoted. High profile media coverage - newspapers and television.

2 CHEAPER AND FASTER START UP

2.1	Reduce cost and time for start-up towards the world's most competitive standards	Level 1	Level 2	Level 3	Level 4	Level 5
2.1.1	Company Registration Certification	Registration in more than 30 days.	Registration takes more than 15 days, but less than 30 days.	Registration takes more than 5 days, less than 15 days.	Registration takes less than 5 days, but more than 1 day	Registration in 1 day.
2.1.2	Number of days for obtaining company registration certificate	Registration requires more than 10 administrative steps.	Registration requires 8-9 administrative steps.	Registration requires 5-7 administrative steps.	Registration requires 2-4 administrative steps.	One-stop-shop.
2.1.3	Official cost of obtaining the company registration certificate	More than Euro 250	Less than Euro 250, more than Euro 150	Less than Euro 150, more than Euro 50	Less than Euro 50, more than Euro 10	Less than Euro 10
2.1.4	Company Identification Numbers	5 registrations and identification numbers in dealing with different administrative authorities (statistical office, customs, labour office, tax office etc.).	4 identification numbers in dealing with different administrative authorities. Some registrations merged.	3 identification numbers in dealing with different administrative authorities. Half of registrations merged.	2 identification numbers in dealing with different administrative authorities. Most of registrations merged.	Single identification number in dealing with all standard functions of public administration - single registration process.

2.1.5	Number of days for compulsory company identification number(s)	All numbers in more than 30 days.	All numbers in more than 5 days, less than 15 days.	All numbers in less than 5 days, but more than 1 day	All numbers in the same 1 day.	
2.1.6	Completion of the overall registration process and entry in operations	Registration in more than 30 days.	Registration takes more than 15 days, but less than 30 days.	Registration takes less than 5 days, but more than 1 day	Registration in 1 day.	
2.1.7	Number of days for completing the overall registration process, including compulsory licences for standard business activities (WB Cost of Doing Business Index)	Registration requires more than 10 administrative steps.	Registration requires 8-9 administrative steps.	Registration requires 5-7 administrative steps.	One-stop-shop.	
2.1.8	Silence is consent applied to company registration procedures	Silence is consent is not applied			Silence is consent is systematically applied	
2.1.9	Costs connected with registration (% of GNI per capita) - (WB Cost of Doing Business Index)	Costs are more than 10% of GNI per capita.	Costs are between 5% and 10% of GNI per capita.	Costs are below 2.5% of GNI per capita.	Costs are minimal (close to 0 of GNI per capita).	
2.1.10	Minimum capital requirements (% of GNI per capita) - (WB Cost of Doing Business Index)	More than 40% of GNI per capita.	Between 20% and 40% of GNI per capita.	Between 10% and 20% of GNI per capita.	No minimum capital requirements for general partnerships with personal liability.	
2.2	Increase on-line access for registration					
2.2.1	On-line registration	Level 1 The government has not taken any steps towards the introduction of on-line registration.	Level 2 Evaluation of existing administrative procedures and detailed proposals for the introduction of on-line registration. Budget provisions and pilot project.	Level 3 Law on on-line registration, action plan and budget provisions approved. Designation of competent authority.	Level 4 Level 3 + solid evidence of implementation of on-line registration; system available only in some regions.	Level 5 Level 4 + complete implementation of on-line registration; system fully integrated with other services of e-government and available throughout the country. On line registration applies to all phases of the company registration process

3. BETTER LEGISLATION AND REGULATION

3.1	SMEs impact assessment for new regulations	Level 1 No systematic regulatory impact analysis targeted on SMEs exists.	Level 2 Proposal for a law on regulatory impact analysis for impact on SMEs. A simplified, pilot regulatory impact analysis programme is being used in certain areas of regulation.	Level 3 Approval of law on regulatory impact analysis.	Level 4 Implementation of regulatory impact analysis on SMEs in some policy areas.	Level 5 Regulatory impact analysis on SMEs is systematically implemented.
3.1.1	Regulatory Impact Analysis					
3.2	Simplify rules	Level 1 The government has no detailed strategy to reduce administrative barriers to business with particular attention to small SMEs.	Level 2 Task Force on Business Simplification to evaluate existing rules and propose detailed action plan.	Level 3 Action plan and budget provisions approved; designation of competent authority.	Level 4 Solid evidence of implementation of action plan for Business Simplification. Concrete results have been achieved in key areas of action plan.	Level 5 Full implementation of action plan for Business Simplification. Regular and high-level reviews (including business sector) to ensure that business simplification is a permanent process.
3.2.1	Business Simplification					
3.2.2	Silence is consent (1)	The principle is not used in standard administrative practice.	Evaluation of current procedures and detailed proposals on the introduction of the silence-consent principle.	Approval of law on silence-consent.	Solid evidence of implementation of the principle in key areas/sectors of the administration.	Full implementation and widespread use of the principle in many areas/sectors of the administration. Regular reviews (involving business sector) to identify new areas where the principle could be adopted.
3.2.3	Simplification of Forms	Administrative forms are mostly complicated, disorganised and redundant. The government has not made much effort to simplify administrative forms.	The government is currently developing a plan to simplify administrative forms and is drafting guidelines.	Good guidelines for administrative forms have been drafted and adopted. Most of the administrative forms must adhere to these guidelines.	Level 3 + there is evidence that many administrative forms adhere to the guidelines.	Level 4 + all administrative forms have been reviewed and redrafted when necessary to ensure that they adhere to the appropriate guidelines. The guidelines and forms are regularly reviewed to ensure simplicity and clarity.
	(1)			General provision, applying to a wide range of administrative procedures		

	Institutional Framework	Level 1	Level 2	Level 3	Level 4	Level 5
3.3						
3.3.1	Inter-governmental Co-ordination in Policy Elaboration	No institutions are responsible for SME policy elaboration.	Several institutions are responsible for SME policy elaboration and they have overlapping portfolios and limited co-ordination.	Approval for establishment of single institution in charge of leading and co-ordinating SME policy elaboration.	Single institution in charge of SME policy elaboration in place and fully operational. System of consultation with the implementing agency (ies) in place	Level 4 + effective mechanism of policy co-ordination involving key ministries, agencies and local administrations when relevant.
3.3.2	SME Development Strategy	No SME Development Strategy exists.	SME Development Strategy is under elaboration. Review of expired SME strategy under way.	Multi-year SME Development Strategy approved by the government and at initial stage of implementation. Budget established but entirety of funds not yet received.	Solid evidence of SME Development Strategy with indication of key targets achieved and assignments completed. Entirety of funds received and in process of being disbursed.	A pro-active SME development Strategy accompanied by significant evidence that all components of the strategy have been implemented, as demonstrated by time-bound targets achieved and number of assignments completed. SME Strategy has a demonstrated impact and has strengthened the SME sector.
3.3.3	SME Policy Implementation Agency or Equivalent	No SME policy implementation agency with an executive role (or equivalent) exists. No budget allocation.	Government considering the establishment of an SME policy implementation agency (or equivalent).	SME implementation agency (or equivalent) established. Staff, structure and budget in place.	SME implementation entity fully operational and adequately funded. Staff is complete and the required expertise (economic and legal) is in place. Solid implementation record of SME strategy based on achievements of time-bound targets as detailed in action plan.	SME implementation entity is the main body for implementation of the SME strategy, operating with full political support. The entity has a clear reporting system in place and a recognised advocacy and policy advice role. The entity is well-funded and its activities have proven to be effective in supporting SME development.

4 AVAILABILITY OF SKILLS						
4.1	TNA and Enterprise Training	Level 1	Level 2	Level 3	Level 4	Level 5
4.1.1	Training Needs Analysis Policy (TNA)	Small business training needs analysis does not exist or is based on 'ad hoc' surveys only. There is no regular and systematic collection of data on the training needs or training consumption in the small business community.	Government and social partners are in dialogue or planning with view to establishing a systematic training needs analysis framework of the small business community.	A national TNA framework has been agreed between government and social partners, with standard data collection instruments, and a data management system in place.	Annual training needs analysis are undertaken in at least 10% of small businesses and reported publicly for enterprise, training provider market and policy makers	Annual training needs analysis is undertaken in at least 20% of small businesses and available publicly for enterprise, training provider market and policy makers. A national framework for forecasting skills requirements borrowing on TNA intelligence and analysis is in place and is an integral part of a wider national economic development plan.
4.1.2	Enterprise training (*)	Less than 5% small businesses have benefited from training in the given period.	Between 5-10% of small businesses have benefited from training in the given period.	11%-30% of small businesses have benefited from training in the given period	31%-50% of small businesses have benefited from training in the given period	More than 50% of small businesses have benefited from training in the given period
	(*)Evidence for this indicator will be taken from enterprise survey-based data.					
4.2	Quality Assurance	Level 1	Level 2	Level 3	Level 4	Level 5
4.2.1	Quality Assurance	There is no national framework for quality assurance of training delivered to the small business community. Some cases of accreditation of training programmes and training providers by international bodies.	A range of ad hoc structures and tools (*) are being used to determine quality of training for the small enterprise community.	Dialogue ongoing between training providers, employers and the state regarding quality, standards and accreditation of training provision for enterprises.	A national quality assurance system for enterprise training is agreed and is fully operational. Accredited training providers and programmes are posted on websites and information boards of SME support agencies, public and private employment agencies and training centres.	The national quality assurance system is for enterprise training is operational and is linked to wider regional and European quality assurance networks. The quality assurance system interfaces with a broader national qualifications framework.
	(*) For example, sector based quality focus groups, pilot actions for training standards, employer satisfaction surveys.					

4.3	Accessibility	Level 1	Level 2	Level 3	Level 4	Level 5
4.3.1	Access to training (start-up, management and administration only)	Limited SME training available. No public register of enterprise training programmes or training providers.	SME training provider market is evolving but is still insufficient in terms of visibility and accessibility. No clear market strategy of training provider community to raise awareness of services on offer.	SME training provision is developed but is limited to specific towns and regions. Training remains expensive and take up is limited. State subsidies for SME training are becoming available.	Good training market developed across the country. Training for specific target groups (women, lay-offs, youth) is available. Developed state support for enterprise training is available.	Level 4+ On line access to training developed and available for start-up, SME management & administration.
4.4	Affordability	Level 1	Level 2	Level 3	Level 4	Level 5
4.4.1	Affordability	Affordability of training is beyond the means of most small enterprises. Training is heavily reliant on donor-supported actions. No state support or incentives for training available.	State support for small business training is still limited to business start-up, management & administration. Enterprises mostly rely on skills brought in by publicly supported occupational skills training (new labour market entrants from vocational schools or those trained in public training centres). There is little in-house or own-funded training effort within enterprises.	State support for training of existing workers (management and occupational skills) is generally available. Training is delivered by way of publicly supported incentives.	Start up, business & administration training programmes are widely available at affordable prices. Custom designed programmes remain unaffordable but state support is possible. Occupational skills training if existing workers is well developed and primarily supported by state funds and incentives.	Competitive training market is well established ensuring affordable training for start-up, management and administration. Enterprise-funded occupational skills training of existing workers is well developed by way of sector enterprise co-operation, regional clusters etc with less reliance on publicly supported training programmes.
5 IMPROVING ON-LINE ACCESS						
5.1	Tax returns	Level 1	Level 2	Level 3	Level 4	Level 5
5.1.1	Tax returns	Tax returns can not be filed on-line.	Government is considering proposals to allow for on-line filing of tax returns. Pilot project.	Approval of legislation and budgetary provisions. Development of software.	Early phase of implementation. Tax returns can be filed on-line, but the software allows only for a limited number of operations.	Level 4 + the software allows for credit/debit compensation when available in the country.
5.2	Applications	Level 1	Level 2	Level 3	Level 4	Level 5

5.2.1	Permits and Licenses	Companies can not file applications for permits and licenses on-line.	Government is considering proposals to allow for on-line filing for permits and licenses. Pilot project.	Approval of legislation and budgetary provisions. Development of software.	Only some applications for permits or licenses can be filed on-line.	A significant number of applications for permits or licenses can be filed on-line.
5.3	Information					
5.3.1	On-line information for SMEs	No on-line information available on key areas of interest for SMEs (i.e. tax, labour, standard regulations).	Level 2 Some SME-specific information can be found on-line, but on different portals.	Level 3 Initial stage of development of SME dedicated portal; limited information available on-line; no possibility of interaction.	Level 4 SME dedicated portal established; a significant amount of information is available on-line and it is regularly updated; interaction limited to request of information.	Level 5 Level 4 + SME-specific single portal allows interaction (request of information; applications; tax returns) between SMEs and the administration.
6 MORE OUT OF THE SINGLE MARKET						
6.1	Export promotion programmes					
6.1.1	Export Promotion Programmes	No export promotion programmes exist.	Level 2 Export promotion programmes under consideration/ some pilot programmes in place, limited funding available and no co-ordination between programmes.	Level 3 New programmes approved. Programmes are largely funded by donor countries. Co-ordination between programmes. Basic trade information provided and some trade promotion activities (trade missions, country representation at major trade fairs) in place, but support limited to a small number of SMEs.	Level 4 Export promotion programmes are adequately funded but do not completely provide for all of the following: trade policy information and commercial intelligence, export promotion and marketing, trade fair participation, product development and financial services and training.	Level 5 Range of well-funded export promotion programmes capable of providing all of the dimensions mentioned in level 4.
6.2	Enhancing SME Competitiveness					
6.2.1	Enhancing SME Competitiveness	No programmes or initiatives enhancing SME competitiveness in place.	Level 2 Competitiveness programmes under consideration/initial pilot programmes in place	Level 3 New competitiveness programmes approved. Programmes are largely funded by donor countries, covering i.e. cluster development, linkages with universities, foreign partners, supply chain training etc.	Level 4 Relatively good range of competitiveness programmes in place, adequately funded, but limited co-ordination with other policy areas (science and technology, tax incentives for R&D, education and training, etc.	Level 5 Range of well-funded export competitiveness programmes capable of providing all of the dimensions mentioned in level 3 and 4 with effective policy co-ordination and monitoring mechanisms in place.

7 TAXATION AND FINANCIAL MATTERS						
	Level 1	Level 2	Level 3	Level 4	Level 5	
7.1	Adapt tax system to favour SMEs					
7.1.1	Total Tax Payable	Level 1 > 50% of gross profit.	Level 2 Between 50% and 40% of gross profit.	Level 3 Between 40% and 30% of gross profit.	Level 4 Between 30% and 20% of gross profit.	Level 5 < 20% of gross profit.
7.1.2	Compliance costs	Complex collection system which does not take into account special SME needs.	Simplification of the tax collection system for SMEs under discussion.	Approval of simplified tax collection system for SMEs.	Solid evidence of implementation of simplified procedures. Number of tax payments and documents have been reduced.	One-stop-shop tax collection point.
7.1.3	VAT reimbursement	The Law makes no reference to the maximum length of time for VAT reimbursement. No monitoring of VAT reimbursement..	The Law states that VAT reimbursement is ≥ 3 months. VAT reimbursement is monitored, but figures are not made public.	The Law states that VAT reimbursement is ≥ 2 months. VAT reimbursement is systematically monitored. Monitoring of VAT reimbursement has shown that the average reimbursement period is twice as long as the legal deadline..	The Law states that VAT reimbursement is > 1 month. Level 3 + monitoring of VAT reimbursement has shown that the average reimbursement period is one to two weeks longer than the legal deadline..	The Law states that VAT reimbursement is ≤ 1 month. Level 3 + monitoring of VAT reimbursement has shown that the average reimbursement period equals the legal deadline.
7.1.4	Tax reconciliation	No intra-tax reconciliation.	Plans have been made for intra-tax reconciliation.	Intra-tax reconciliation in all areas but VAT and social contribution.	Intra-tax reconciliation extended to VAT and social contribution.	Level 4 + comprehensive intra-tax reconciliation. The system of tax reconciliation is viewed favourably by businesses.
7.2	Finance					
7.2.1	Credit Guarantee Schemes	Level 1 No credit guarantee scheme in place.	Level 2 Credit guarantee scheme facility under consideration.	Level 3 Credit guarantee facilities in place. (Government initiative and state controlled).	Level 4 Credit guarantee facility operating under contract to the private sector but state-funded.	Level 5 Number of mutual or mixed credit guarantee schemes in place under private managers able to finance themselves out of fees alone.
7.2.2	Collateral and Provisioning Requirements	Very high collateral requirements > 200%. Restrictive collateral definition and/or rigid provisioning requirements for uncollateralised loans	Collateral requirement ranging 150-200% of loan amount. Restrictive collateral definition and/or rigid provisioning requirements for uncollateralised loans	Flexible collateral definition and/or flexible provisioning requirements for loans under \$30,000.	Flexible collateral definition and/or flexible provisioning requirements for loans under \$30,000 and central collateral registry in place	Flexible collateral definition and/or flexible provisioning requirements for loans under \$30,000 and central collateral registry covering most bank loans.

7.2.3	Law on bankruptcy	No law on bankruptcy.	Bankruptcy law under consideration.	Bankruptcy law approved.	Evidence of implementation of bankruptcy law and integration into commercial law and practice. Time required for bankruptcy procedures has decreased significantly and backlog of old cases has been reduced.	Bankruptcy law effectively and systematically applied and procedures take place speedily.
7.2.4	Cadaster	No functioning cadasters.	Plans have been made to implement a functioning cadaster.	Cadaster system in place, but the land ownership of the country has not yet been entirely documented.	The ownership of land has been documented but the cadaster is not fully functioning.	Level 4 + fully functioning cadaster allowing firms to use real estate as collateral in their efforts to access bank finance. Available on-line.
7.2.5	Leasing Industry	No leasing industry, no plans to have leasing law.	Leasing law under preparation	Leasing law approved and institutional responsibilities clearly assigned.	Evidence of implementation of leasing law. Regulator active in monitoring the market.	Leasing law fully implemented. Regulation and supervision of the leasing sector is enacted.
7.2.6	Venture Capital/Equity Funds	No venture capital or equity funds legislation under consideration.	Equity fund legislation under consideration.	Equity fund legislation in place.	Level 3 + . Several equity funds investing, but only exit possibilities are direct sales.	Range of exit options for equity funds, including a functioning stock market.

8 STRENGTHENING THE TECHNOLOGICAL CAPACITY OF SMEs

8.1	Promote technology dissemination towards SMEs					
8.1.1	Support training on technology	Level 1 No support for training on technology.	Level 2 Government is planning to introduce some form of support, but no concrete action has been taken.	Level 3 Formulation and approval of concrete programmes to technological training, relying on private and private service providers; designation of competent authority and budget provisions.	Level 4 Partial implementation record of support programme. Key components fully operational.	Level 5 Full implementation of technological training programmes, i.e. system of vouchers to support training on technology fully implemented and available throughout the country.

8.2	Foster technology co-operation; develop research programmes focused on commercial application of knowledge and technology						
8.2.1	Innovation and technology centres/ Co-operation between Universities, R&D centres and SMEs	Level 1 No schemes to promote co-operation on innovation.	Level 2 Evaluation and proposals on the introduction of innovation and technology centres. Partnership with private sector.	Level 3 Policy framework in place. Action plan and budgetary provisions approved, pilot schemes introduced.	Level 4 Initial evidence of implementation of innovation promotion schemes. Innovation and technology centres in operations. Private/public partnership in R&D, innovation and product development actively supported by central and local government.	Level 5 Network of high level Innovation and technology centres present in the country. Strong relationship with research institutions and private sector.	
8.2.2	Intellectual Property Rights	No legislation on intellectual property in place, systematic violations of IPRs.	Legislation on intellectual property rights under preparation.	IPRs legislation approved, assuring protection consistent with TRIPs agreement.	Effective enforcement of IPRs does not extend to all types of IP (patents, trademarks, copyright, industrial designs etc.) or to all types of products (pharmaceuticals, audio-video, spare parts, etc) and it does not involve all the concerned authorities (customs, policy, courts, etc.)	Good implementation record of IPR legislation. IP is effectively and systematically protected in all its forms and for all products.	
8.3	Develop inter-firm clusters and networks						
8.3.1	Inter-firm clusters and networks	Level 1 Government has no clear strategy on inter-firm clusters.	Level 2 Proposals to develop inter-firm clusters and networks. Consultations with business sector. Pilot project in one key sector.	Level 3 Approval of action plan and designation of competent authority.	Level 4 Inter-firm clusters and networks concentrated in traditional export sectors.	Level 5 Wide range of inter-firm clusters and networks covering a wide range of sectors, including internal market.	

9 SUCCESSFUL E-BUSINESS MODELS AND TOP CLASS SMALL BUSINESS SUPPORT

	Level 1	Level 2	Level 3	Level 4	Level 5	
9.1	SME support facilities and services					
9.1.1	Business Incubators	Level 1 No incubators and no plans to establish them	Level 2 Strategy on incubators under discussion/local initiatives in preparation.	Level 3 Strategy on incubators approved: detailed proposals and budget allocations, either at central or local government level. Pilot incubators in operation. Focus on job creation, no exit strategies.	Level 4 Level 3 + several incubators in operation, out of the experimental phase. Provision of basic services, some incubators used to foster innovation. Partial implementation of OECD guidelines on business incubators	Level 5 Level 4 + network of incubators throughout the country. Focus on innovation; provision of high quality services; existence of exit strategies. OECD guidelines widely implemented.
9.1.2	Range of Business Services	Very limited range of basic business services, available mainly through donor funded programmes.	More structured range of business service, available through a combination of public funded and private business providers	Network of public funded business service providers. Good network of private business service providers, providing personalised services for enterprises	Well developed market for business services, with good level of internal competition.	Level 4 + wide range of business services available in the country, including widespread presence of international consulting firms
9.1.3	Quality of business services	No standards/certification on quality of services.	Non-binding guidelines on quality of business services under discussion.	Non-binding guidelines approved. Public/private co-operation to set quality standards and certification procedures for provision of business services.	Level 3 + some certifications and standards in place for some business services. Strong private element in elaboration of standards and certification process.	Level 4 + most of business services are regulated by quality standards based on international standards. Certification and monitoring mainly based on private sector.
9.2	Information for SMEs					
9.2.1	Availability and Accessibility of Information	Level 1 No information on availability of business services.	Level 2 Fragmented information on availability business services available locally.	Level 3 National directory of providers of business services available locally.	Level 4 Level 3 + personalised information on providers of business services available on-demand in paper form.	Level 5 National directory of providers of business services available on-line with multiple-criteria search engine.
9.2.2	Business information centres	No business information centres.	Informal information can be obtained in some local offices.	Creation of a repertory of business information, available locally in clearly designated offices.	Personalised business information available on-demand in paper form from information centres.	Repertory of business information available on-line with multiple-criteria search engine on single business information web portal.
9.3	Law on electronic signature					
		Level 1	Level 2	Level 3	Level 4	Level 5

9.3.1	Electronic signature	The government does not have a concrete plan on electronic signature.	Evaluation and formulation of detailed proposals of law on electronic signature and implementing regulations.	Approval of law on electronic signature and of the implementing regulations.	Solid evidence of implementation of law on electronic signature. Possibility to use e-signature in key areas for SMEs in contact with public administration.	Full implementation of law on electronic signature and full integration of electronic signature with other services of e-government. Regular reviews in consultation with SMEs.
10 DEVELOP STRONGER, MORE EFFECTIVE REPRESENTATION OF SMALL ENTERPRISES' INTERESTS						
10.1	SME network	Level 1	Level 2	Level 3	Level 4	Level 5
10.1.1	SME network	Informal grouping of SMEs at local/sector level, with limited membership base.	Industry/sector groups of SMEs representing business, with a limited membership base. No national network, limited capacity of representation	Structured local and nation-wide interest representation, presence of active NGOs, crafts associations, presence of internal governance rules.	Organised SME associations, NGOs, crafts associations, operating at national level (directly or through a network system), growing capacity to engage government in policy dialogue on key issues	Strong, independent and locally rooted network of SMEs, representing SMEs interest at local and national level. Capacity to conduct constructive and regular policy consultations on a wide range of issues.
10.1.2	Chambers of commerce	Limited extension of network; compulsory membership; no provision of services.	Action plan to reform network of chambers, increasing independence and autonomy, private sector involvement in management and ability of chambers to offer services.	Action plan approved. Government coordination of donors and NGOs around action plan.	Solid evidence of implementation of action plan. Many chambers of commerce are managed by private sector and provide key business services SMEs; other chambers still under government influence.	Fully reformed system of chambers of commerce, strong local presence, capable of offering a wide range of services and operating independently from the government.
10.2	Consultations	Level 1	Level 2	Level 3	Level 4	Level 5
10.2.1	Public/Private Consultation	Consultation on SME issues between the public and private spheres do not occur.	Proposals have been made to establish public/private consultation.	Proper channels of consultation are established but the consultation panels are not fully representative and are mostly formal.	Effective consultations involving key actors from public and private sector take place at drafting stage in SME legislation and policy.	Level 4 + Effective consultations occur on a regular basis. Regulatory Impact Assessment is applied as part of the consultation process and the private sector is involved in monitoring and assessing the impact of SME Support measures.

Annex 2

WEIGHTING OF SUB-DIMENSIONS AND INDICATORS

Sub-dimensions and indicators	Sub-section weighting	Section weighting
1. Entrepreneurship education		
1.1 Policy		3
1.1.1 Policy	3	
1.1.2 Primary education	3	
1.1.3 Secondary education	3	
1.1.4 Pilot projects	1	
1.2.1 Non-formal learning		2
2. Cheaper and faster start-up		
2.1 Company registration certification		2
2.1.1 Days for obtaining registration certificate	1	
2.1.2 Registration administrative steps	1	
2.1.3 Cost registration certificate	2	
Company Identification numbers		1
2.1.4 Administrative numbers issued	1	
2.1.5 Days to issue numbers	1	
Completion of the overall registration process		1
2.1.6 Overall registration process days	1	
2.1.7 Steps in overall process	1	
2.1.8 Registration silence is consent	2	
2.1.9 Costs for registration % of capital	2	
2.1.10 Minimum capital requirements	2	
2.2.1 On-line registration		1
3. Better legislation and regulation		
3.1.1 RIA		2
3.2 Simplify rules		3
3.2.1 Business simplification	3	
3.2.2 Silence is consent	2	
3.2.3 Simplification of forms	1	
3.3 Institutional framework		2
3.3.1 Policy elaboration	1	
3.3.2 SME development strategy	1	
3.3.3 SME Agency	1	
4. Availability of skills		
4.1 TNA and enterprise training		3
4.1.1 TNA policy	2	
4.1.2 Enterprise training	1	
4.2.1 Quality assurance		3
4.3.1 Access to training		2
4.4.1 Affordability		2

Sub-dimensions and indicators	Sub-section weighting	Section weighting
5. Improving on-line access		
5.1		1
5.1.1 <i>Tax returns</i>	1	
5.2.1 <i>Permits and licenses</i>	1	
5.3.1 <i>On-line information</i>	2	
6. More out of the single market		
6.1		1
6.1.1 <i>Export promotion programmes</i>	1	
6.2.1 <i>SME competitiveness</i>	1	
7. Tax and financial matters		
7.1 Adapt tax system to favour SMEs		1
7.1.1 <i>Total tax payable</i>	1	
7.1.2 <i>Compliance costs</i>	2	
7.1.3 <i>VAT reimbursement</i>	1	
7.1.4 <i>Tax reconciliation</i>	2	
7.2 Finance		1
7.2.1 <i>Credit guarantee schemes</i>	1	
7.2.2 <i>Collateral requirements</i>	3	
7.2.3 <i>Bankruptcy law</i>	3	
7.2.4 <i>Cadaster</i>	3	
7.2.5 <i>Leasing industry</i>	1	
7.2.6 <i>Venture capital funds</i>	1	
8. Strengthening technological capacity		
8.1		1
8.1.1 <i>Training on technology</i>	1	
8.2 Foster technological co-operation		1
8.2.1 <i>Innovation and technology centres</i>	1	
8.2.2 <i>Intellectual property rights</i>	2	
8.3 Develop clusters and networks		2
8.3.1 <i>Clusters and networks</i>	2	
9. Successful e-business models and top-class small business support		
9.1 SME support facilities and services		1
9.1.1 <i>Business Incubators</i>	1	
9.1.2 <i>Range of business services</i>	2	
9.1.3 <i>Quality business services</i>	2	
9.2 Information for SMEs		1
9.2.1 <i>Information accessibility</i>	2	
9.2.2 <i>BIS</i>	1	
9.3.1 Electronic signature	1	1
10. Stronger, more effective representation		
10.1		3
10.1.1 <i>SME network</i>	2	
10.1.2 <i>Chambers of Commerce</i>	1	
10.2.1 <i>Consultation</i>	3	3

The figure in the first column (subsection weighting) is used to combine scores within a given section. The figure in the second column is used to combine section scores to give an overall total for a dimension.

Annex 3

EUROPEAN CHARTER FOR SMALL ENTERPRISES – BILATERAL MEETINGS

The Western Balkan governments and administrations organised consultative bilateral meetings, involving relevant ministries and government organisations and representatives of the SME policy community, including Chambers of Commerce, entrepreneur associations, financial institutions, NGOs, economic research centres, private sector representatives and independent experts/academics.

The purpose of the consultative bilateral meetings, jointly chaired by the government institution acting as the Charter National Co-ordinator, the EC and the OECD, was to present and discuss each government's National Report (self-assessment) on the Charter implementation.

As a rule, invited participants were:

- Relevant persons in the Ministry for Industry (Economy/SMEs);
- Any other concerned Ministry (Education, Finance, Labour, etc.);
- Private sector organisations (universities, Chambers of Commerce, business support centres, technology or regional development agencies, EICCs, etc.);
- The business and banking community;
- Local consultants, as and when relevant;
- Independent academics with a view on the business environment;
- Local representatives of international or bilateral donors;
- Representatives from EC (Headquarters and Delegation), OECD-IC, EBRD, ETF.

The number of people present was usually between 35 and 70. Meetings were usually opened by the Minister for Economic Affairs (in the former Yugoslav Republic of Macedonia, the Deputy Prime Minister) and the Head of the EU Delegation in the country concerned.

The meetings lasted normally half a day. The National Co-ordinators were asked to concentrate most of the discussion around 3 to 5 areas of crucial importance for the country and to organise a summary presentation on the other 5 to 7 areas.

The draft national report (self-assessment) was considered the main document for discussion.

Meetings with the press were organised after the bilateral meeting.

The following bilateral meetings were organised:

- Zagreb, Croatia 27 September 2006
- Tirana, Albania 29 September 2006
- Belgrade, Serbia 12 October 2006
- Podgorica, Montenegro 13 October 2006
- Skopje, former Yugoslav Republic of Macedonia 17 October 2006
- Prishtina, UNMIK/Kosovo 18 October 2006
- Serajevo, Bosnia and Herzegovina 25 October 2006

Annex 4

THE WESTERN BALKANS NATIONAL CHARTER CO-ORDINATORS

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Annex 5

LIST OF ABBREVIATIONS

ATM	Autonomous Trade Measure
AIPU	Croatian Agency for Investment and Trade Promotion
APE	Macedonia's Agency for Promotion of Entrepreneurship
B2C	Business-to-consumer
B2G	Business-to government
BAC	Business/Environment Adjustment Credit
BAS	Business Advisory Service
BEEPS	Business Environment and Enterprise Performance Survey
BERIS	Business Environment Reform and Institutional Strengthening
BICIS	Bulgarian Integrated Customs Information Systems
BICs	Business Information Centres
BICRO	Business Innovation Centre-Croatia
CBI	Centre for Promotion of Imports
CCA	Cluster Competitiveness Activity
CEE	Central and Eastern Europe
CEED	Centre for Entrepreneurship and Economic Development
CONKRO	Croatian Business Competitiveness Upgrading Programme
DAI	Digital Access Index
DFID	Department for International Development (UK)
EAR	European Agency for Reconstruction
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EDA	Enterprise Development Agency
EDEM	Enterprise Development and Export Market Services (USAID)
EFSE	European Fund for South Eastern Europe
EIC	Euro Info Centre
EICCs	Euro Info Correspondence Centres
EPPA	Enterprise Policy and Performance Assessment
ETF	European Training Foundation
EU	European Union
EURED	EU Regional Economic Development Project in Bosnia and Herzegovina
FDI	Foreign Direct Investment
FIAS	Foreign Investors Advisory Service
FINA	Croatian Financial Agency
FTA	Free Trade Agreement
FTC	Foreign Trade Chamber
FYR	Former Yugoslav Republic
GAERC	General Affairs and External Relations Council
GDP	Gross Domestic Product

GNI	Gross National Income
HAMAG	Croatian Agency for Small Business
HR	Human Resources
HRD	Human Resource Development
HUP	Croatian Employers' Association
ICT	Information, Communication, and Technology
IFC	International Finance Corporation
IIPA	International Intellectual Property Agency
IMF	International Monetary Fund
IPA	Investment Promotion Agency
IPR	International Property Right
IRI	Investment Reform Index
ISP	Internet service provider
ITU	International Telecommunications Union
MAP	Municipal Administration Reform Programme
M&A	Merger(s) and Acquisition(s)
MBA	Montenegrin Business Association
MEGA	Municipal Economic Growth Activity (USAID)
MELE	Ministry of Economy, Labour and Entrepreneurship
METE	Ministry of Economy, Trade and Energy
MIEREI	Ministry for International Economic Relations and European Integration
MOFTER	Ministry of Foreign Trade and Economic Relations
MSME	Micro, small and medium enterprises
MTN	Macedonian Trainers Network
NBS	National Bank of Serbia
NECC	National Entrepreneurship and Competitiveness Council
NCC	National Council for Competitiveness
NGO	Non-governmental organisation
OECD	Organisation for Economic Co-operation and Development
OECD-IC	OECD Investment Compact for South East Europe
OHR	Officer of the High Representative
OSCE	Organization for Security and Co-operation in Europe
PAR	Public Administration Reform
REXIS	Regional Export and Investment Support
R&D	Research and Development
RIA	Regulatory Impact Analysis
RS	Republika Srpska
SAA	Stabilisation and Association Agreement
SBR	Statistical Business Register
SEE	South East Europe
SEDP	Serbia Enterprise Development Programme
SIDA	Swedish International Development Agency
SIGMA	Support for Improvement in Governance and Management
SINTEF	Foundation for Scientific and Industrial Research at the Norwegian Institute of Technology