SME Policy Index 2009

Progress in the Implementation of the European Charter for Small Enterprises in the Western Balkans

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Prepared by:

the European Commission Directorate General for Enterprise and Industry
the OECD Private Sector Development Division
the European Training Foundation
and the European Bank for Reconstruction and Development

Undertaken with the financial support of the European Commission Directorate General for Enterprise and Industry, the OECD Private Sector Development Division and the Central European Initiative.

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 industries and small and medium-sized enterprises: it manages programmes to encourage entrepreneurship and innovation and ensure that Community legislation takes proper account of their concerns.

The DG Enterprise and Industry objectives are:

- to promote the European growth and jobs strategy;
- to strengthen the sustainable competitiveness of EU industry (industrial policy);
- to increase innovation;
- to encourage the growth of small and medium-sized enterprises;
- to make sure the single market for goods benefits EU industry and citizens;
- to strengthen the space sector and improve security technology.

The DG Enterprise and Industry 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.

Organisation for Economic Co-operation and Development, 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, the former Yugoslav Republic of Macedonia, Moldova, Montenegro, Romania and Serbia. The work of the Investment Compact is actively supported and financed by Austria, Flanders (Belgium), the Czech Republic, Ireland, Italy, Japan, Norway, Slovenia, Switzerland, the United States and the European Commission (www.investmentcompact.org).

European Training Foundation

Based in Turin (Italy), the European Training Foundation (ETF) is a multi-resourced, international reference point for actions, research and policy learning on human capital development for stability and prosperity in transition and developing countries. Its mission is to help transition and developing countries to harness the potential of their human capital through the reform of education, training and labour market systems in the context of the EU's external relations policy. The ETF staff group comprises experts from multiple disciplines to handle complex and multidimensional topics in a team environment, in order to create new knowledge, insight and solutions.

European Bank for Reconstruction and Development

The European Bank for Reconstruction and Development (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 co-operation funding to support project preparation and institution building. The EBRD works in close co-operation with other international financial institutions and promotes environmentally sound and sustainable development in all of its activities.

Foreword

We are pleased to present the 2009 Report on Progress in the Implementation of the European Charter for Small Enterprises in the Western Balkans (the Charter). The 2009 Report signals the completion of a process started in 2003 with the adoption of the Charter by the Western Balkans and marked by the decision taken in 2006 by the European Commission, the Organisation for Economic Co-operation and Development (OECD) and the Western Balkan governments, to launch a regional comparative monitoring process.

A specific monitoring tool, the SME Policy Index, was then developed by the European Commission, the European Training Foundation, the European Bank for Reconstruction and Development, and the OECD, together with the National Charter co-ordinators. The monitoring process has allowed governments to identify strong and weak points in policy elaboration and implementation, to compare experiences and performance, to set priorities and to measure the convergence towards implementation of the policy guidelines promoted by the Charter. A first report on the Charter implementation was published in 2007.

Based on the experience of the last three years, we can conclude that the Charter monitoring process has fulfilled its objectives and given direction to and helped build momentum in government policy towards the small enterprise sector all across the Western Balkans. The Charter monitoring process (based on a participative approach with the active contribution of government institutions, private-sector representatives, non-governmental organisations and other SME stakeholders) has enhanced public-private policy dialogue at national level. Co-operation among government institutions and the national Charter co-ordinators has developed rapidly and they are now joining forces to establish a regional South East Europe Centre for Entrepreneurship Learning located in Zagreb, Croatia.

The 2009 Report comes at a critical moment for the Western Balkan economies. After a prolonged phase of strong economic growth, the Western Balkans have been significantly affected by the global economic and financial crisis. The key drivers that have sustained growth in the previous five years (strong consumer demand underpinned by rapid expansion of bank credit, increasing foreign direct investment, growing remittances and international capital inflows) have started to falter. There is recognition in the region that the time has come to enhance productivity and performance at company level.

The current scenario presents new challenges for SME policy in the Western Balkans. Governments need to adopt a more comprehensive approach, integrating horizontal policies with interventions targeting specific segments of the small enterprise population, such as start-ups, export-oriented companies, and innovative and high-growth enterprises. The 2009 Report brings a first contribution to this important policy debate with a special section dedicated to high-growth SMEs.

The European Commission and the OECD, as well as the other partner organisations, greatly value the work that has been accomplished over the last three years with the Western Balkan governments. We are looking forward to continuing this close and effective co-operation.

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Acknowledgements

This report presents the findings of a project that was undertaken by the six Western Balkan partner countries of the EU and Kosovo under UNSCR 1244/99, the European Commission's Directorate-General for Enterprise and Industry (EC DG ENTR), the Organisation for Economic Co-operation and Development's Private Sector Development Division (OECD PSD), the European Training Foundation (ETF), and the European Bank for Reconstruction and Development (EBRD).

The work was led by Antonio Fanelli (OECD PSD), Carmen Raluca Ipate (EC DG ENTR), Anthony Gribben (ETF) and Francesca Cassano (EBRD), in co-operation with Efka Heder (ETF), Abdelaziz Jaouani (ETF), Simona Rinaldi (ETF), Jakob Fexer (OECD PSD) and Lise Bruynooghe (EBRD).

The principal authors of the report are: Antonio Fanelli and Jakob Fexer from OECD PSD; Carmen Raluca Ipate from EC DG ENTR; Anthony Gribben, with inputs from Efka Heder, Abdelaziz Jaouani and Simona Rinaldi from ETF; and Francesca Cassano and Lise Bruynooghe from EBRD. In addition, Part II of the report on Policy Measures to Support High-Growth SMEs was written by Professor Stephen Roper from Warwick Business School, University of Warwick (UK); and the section on Investment-Friendly Taxation was written by Steven Clark and Ana Cebreiro from the OECD Centre for Tax Policy and Administration and Erin Hengel from OECD PSD. Research assistance was provided by Edgardo Valencia Cruickshank (OECD PSD). Further inputs were provided by Anthony O'Sullivan, Sara Sultan, Milan Konopek and Alistair Nolan from OECD PSD and by Edward Tersmette from EC DG ENTR.

In the Western Balkans, the following national Charter co-ordinators co-ordinated their country's and Kosovo under UNSCR 1244's participation in all stages of the project: Gavril Lasku (Albania), Ivica Miodrag (Bosnia and Herzegovina), Dragica Karaic (Croatia), Naser Grajcevci (Kosovo under UNSCR 1244/99), Imerali Baftijari (the former Yugoslav Republic of Macedonia), Zarko Djuranovic (Montenegro) and Igor Brkanovic (Serbia). In particular, the national Charter co-ordinators with their teams led the countries' self-assessment and co-ordinated the contributions of different government institutions and national stakeholders.

The independent assessments were conducted with the support of local consultants: Juela Shano (Albania), Jasmina Ahmetbasic (Bosnia and Herzegovina), Slavica Singer (Croatia), Günther Fehlinger (Kosovo under UNSCR 1244/99 and Montenegro), Oliver Kosturanov from SPMG (the former Yugoslav Republic of Macedonia) and Kosovka Ognjenovic from the Economic and Social Policy Institute (Serbia). Input to the assessment of the human capital dimensions was also provided by ETF country managers: Lida Kita, Margareta Nikolovska, Keith Holmes, Francesco Panzica and Vaclav Klenha.

The final report was prepared for publication by Jakob Fexer (OECD PSD) and Isabel Huber (OECD PSD), with support from Antonio Fanelli (OECD PSD) and Carmen Raluca Ipate (EC DG ENTR). The report benefited from the financial support of the Central European Initiative.

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

This report presents an assessment of the quality and the level of implementation of small and medium-sized enterprise (SME) policy in the Western Balkans, comparing results with a previous assessment conducted in 2006 and published in 2007. The report covers Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Serbia and Kosovo under UNSCR 1244/99.

The assessment framework is based on the European Charter for Small Enterprises (the Charter), a set of policy guidelines endorsed by the European Union Member States and a key component of the European Union Lisbon Agenda. The Western Balkans governments adopted the Charter in 2003 and in 2006 launched a three-year assessment process for the Western Balkan region, which was completed at the end of 2008.

In June 2008 the European Commission adopted the Small Business Act, a new framework policy document for SME policy including policy guidelines as well as targeted actions to support SMEs. The document was endorsed by the European Council in December 2008. The Western Balkans countries and Kosovo under UNSCR 1244/99 are expected to move towards implementation of the policies identified in the Small Business Act.

This report assesses the implementation of the European Charter for Small Enterprises in the Western Balkans and has been jointly elaborated by the European Commission (EC), the European Training Foundation (ETF), the European Bank for Reconstruction and Development (EBRD) and the Organisation for Economic Co-operation and Development (OECD). It is based on data and information collected over a six-month process, with a cut-off date of 15 November 2008. As in the case of the 2007 report, the report presents a synthesis of two parallel assessment processes: a self-evaluation conducted by the Western Balkan governments and co-ordinated by the national Charter co-ordinators; and an independent evaluation conducted by the four partner organisations, with inputs from the private sector and other SME stakeholders.

The report covers the ten policy dimensions included in the Charter. It applies a methodology known as the SME Policy Index, which makes it possible to quantify and compare qualitative policy features. Each dimension has been broken down into a set of sub-dimensions and into a number of analytical policy indicators. Each indicator is based on a five-step policy development path ranging from a level 1 (lack of policy initiative) to a level 5 (implementation close to the good practices from the EU Member States collected in the Charter and in the OECD SME Bologna Process). The set of analytical indicators used in the 2009 report is not significantly different from the set used in the 2007 report, with the only exception of the sub-dimension on tax policy, securing a good level of comparability between the two assessments.

The report is organised in three parts. Part I covers a review of progress by policy dimension. Part II, elaborated by Professor Stephen Roper from Warwick Business School, University of Warwick (UK), focuses on policies supporting high-growth SMEs. The intention is to provide a comprehensive review of good practices, introduce country assessment methods through two case studies (the former Yugoslav Republic of Macedonia and Serbia) and open a debate on what is likely to be a key component of the SME agenda for the next few years. Part III includes stock taking and progress reviews for each of the seven Western Balkan economies.

Key findings on progress in policy elaboration and implementation at the level of the Western Balkan region

The key finding of the 2009 report is that over the last two years there has been good progress in elaborating and implementing policies supporting small enterprises all across the Western Balkans and there is clear convergence towards the adoption of the policy guidelines set in the Charter. However, progress has been uneven across the ten dimensions and the seven economies covered by the report.

In particular, the Western Balkan governments have made generally good progress in the policy areas that directly affect the operational environment for small enterprises. For instance, the company registration process has significantly improved in terms of time, costs and steps required across the Western Balkans, with the only exception of Bosnia and Herzegovina. A wide range of regulatory reform programmes have been launched and are currently implemented in most of the Western Balkan economies. The credit environment and the range of financial products available to SMEs have also improved.

On the other hand, most of the Western Balkan governments are at a relatively early stage in introducing targeted policies for relevant types of SMEs, such as start-ups, export-oriented and high-growth companies. For instance, few governments have introduced measures targeting start-ups (positive examples are Croatia and Serbia), targeting innovative enterprises, or supporting technological or non-technological innovation.

Even in the cases where policies have been formulated and specific measures have been introduced, as in the cases of Croatia, Serbia and to a lesser extent the former Yugoslav Republic of Macedonia and Albania, the amount of available resources is still a fraction of what is available for instance in the new EU Member States. Most of the programmes launched in the areas of technological export promotion or competitiveness either do not reach the critical level to have a positive impact on company behaviour, or are structured in a way that fails to generate positive synergies with other measures.

The contribution of human capital to enterprise performance remains a particular constraint to the economies of the region. More effort is required to ensure that education and training is strategically knitted into the wider competitiveness drive within each country. Enterprises, in partnership with the public sector, will need to assume more responsibility in defining training requirements and ensuring that these are systematically articulated to the training market. Further, better recognition of EU recommendations for promotion of entrepreneurship at all levels of education is required, with particular emphasis on entrepreneurship promotion in early education.

The Charter assessment cycle completed over the last two years (2007-2009) offers a good picture of the challenges faced by policy makers in engineering and steering reforms in the SME policy area. It also points to some of the key elements that are underpinning policy reform. The 2009 report shows that a two-year policy horizon can be sufficient for elaborating and implementing policy reforms with clearly defined objectives that can be monitored. These reforms should have relatively limited state-budget implications and involve few institutional and legislative changes. Implementation can be delegated to executive agencies and approaches can be modelled on existing good practices.

However, reforms take place only if government provides strong political backing, secures the consensus of the stakeholders, ensures good planning and effectively manages external technical assistance.

Good examples in the region are the successful restructuring of the company registration process in Albania, which has introduced a state-of-the-art registration system in less than two years, and the launching of the one-stop system in the former Yugoslav Republic of Macedonia. A negative example for the same area is the stalling of company registration reform in Bosnia and Herzegovina, under consideration since 2003.

Other more complex reforms that call for institution building, extensive inter-ministerial co-ordination and legislative changes (and have wider budget implications), such as those related to human capital development and regulatory reform, require longer elaboration and implementation time, hence a five-year horizon is more common. Policy development moves along the path defined in the assessment framework, starting often with pilot projects as a first response to perceived policy needs, before moving to the elaboration of a policy strategy. Then there are changes in the institutional and legal framework, the establishment of new policy institutions and finally, the beginning of the implementation phase.

A tool such as the SME Policy Index assists governments in identifying key policy priorities and building consensus around policy reform.

Progress at country level

The 2007 report divided the Western Balkan economies according to the level reached in terms of policy performance.

A first group, made up of Albania, Bosnia and Herzegovina, and Kosovo under UNSCR 1244/99, was characterised by a level of performance across the ten dimensions around level 2, denoting an institutional and legal framework underpinning SME policy still largely reliant on *ad hoc* intervention and pilot projects, and in need of further concretisation.

A second group, made up of the former Yugoslav Republic of Macedonia, Montenegro and Serbia, described countries that had largely completed the legislative and institutional framework supporting SME policy and had just entered into the phase of policy implementation. Their performance level was between level 2 and level 3 in most dimensions. Finally, Croatia was highlighted as the most advanced country in terms of SME policy.

The 2009 report confirms Croatia as the region's most advanced country in terms of SME policy elaboration and implementation in the Western Balkans. In each policy, excluding the human capital dimensions and tax policy, Croatia has recorded a performance well above level 3. Three policy dimensions (Getting more out of the Single Market, Successful e-business models and top-class business support, and Improving online access) indicate that a sound policy framework is in place and the country is moving ahead particularly well with policy implementation. Looking at the analytical indicators, policy improvements seem widespread, but incremental. No major policy initiatives have been launched over the last two years, as the country has been focusing on the implementation of existing policies and on the completion of the EU accession process.

The 2009 report shows that there have been significant changes in the dynamic and the composition of the second group. There have been significant policy developments in Serbia across a wide range of dimensions. The country has moved rapidly from the phase of policy elaboration and definition of strategy objectives to policy implementation in areas such as support to innovative companies, start-ups, provision of business services and information dissemination through online services. It has significantly improved its record on public-private policy dialogue. In addition, Serbia has improved its performance, in an incremental way, in a number of areas where it already had a positive implementation record, as in company registration and export promotion.

There have been limited improvements in the overall performance of the former Yugoslav Republic of Macedonia and Montenegro: few policy initiatives have been launched over the last two years. Both countries have made significant progress on two dimensions relating to human capital development and, to a lesser extent, on the provisions of business support services. However, they are relatively weak in the key areas of supporting SME competitiveness and technological capacity, as well as in the export promotion area.

Albania's policy performance over the last two years has been remarkable and has allowed the country to join the second group. Albania's record of policy implementation has improved in all ten dimensions; in particular, in all the policy areas linked to the general operational environment (such as company registration, regulatory reform, access to finance and export promotion). The weak points in Albania's performance remain human capital development and technological capacity of SMEs.

The 2009 report shows that there are two economies in the region that, for a variety of reasons, are still in a phase of completing the basic institutional, legal and regulatory requirements underpinning SME policy: Kosovo under UNSCR 1244/99, and Bosnia and Herzegovina. However, while the former has shown significant progress over the last two years, SME policy implementation in Bosnia and Herzegovina has largely stagnated. Inside Bosnia and Herzegovina, there have been differences in performance across the two entities (the Federation of Bosnia and Herzegovina, and the Republika Srpska) and the District of Brcko. Progress has been more marked in the Republika Srpska, which is engaged in a comprehensive regulatory reform and has an active policy towards the small enterprise sector conducted through the entity SME Development Agency, and in the District of Brcko.

In Kosovo under UNSCR 1244/99, there has been progress on the institutional front, with the establishment of an SME Development Agency, the assignment of the export promotion task to the Investment Promotion Agency, and the improvement of the legal and regulatory framework related to access to finance. The provision of services to SMEs is still performed mostly through donor-funded projects, as the newly established SME Support Agency is still building capacity and developing its own tools. Kosovo under UNSCR 1244/99 has additionally developed a good lifelong entrepreneurial learning strategy with a range of institutional partners having signed up to its implementation.

In Bosnia and Herzegovina there is still room for progress in the SME policy area at state level. Policy elaboration and implementation is highly decentralised, with the two entities and the district of Brcko having direct responsibility for most of the ten policy dimensions covered by the Charter. In addition, the ten cantons in the Federation of Bosnia and Herzegovina have legislative and regulatory powers in SME policy areas, while the five local development agencies play a stronger role in SME support.

Table 1

Key SME policy reform initiatives launched in the Western Balkans since the 2007 SME Policy Index Report

ALB	Over the last two years, Albania has radically reformed the company registration process, with the financial and technical support of the US-sponsored Millennium Challenge Corporation, and co-ordinated by the Ministry of Energy, Economy and Trade. The reform is remarkable for its scope, its speedy implementation and the quality of the results. The starting point of the reform process was the passing in May 2007 of the Law on National Registration Centre (NRC) that transferred competence over company registration from the Tirana court to a new dedicated public agency. In the year after the establishment of the NRC, there has been a significant surge of new company registrations, surpassing the threshold of 15 000 new applications. The centre is also updating the records of existing companies, including those records in the new electronic register. It is processing the large backlog of company record modifications accumulated under the previous system.
BIH	The definition of collateral is encouragingly flexible in Bosnia and Herzegovina and micro-loans can be extended in the absence of collateral. USAID sponsored a project to set up a registry for movable assets, which became operational three years ago, on a state-wide basis and regulated by a state-level law. In this registry anyone who is in Bosnia and Herzegovina can enter information about pledged movable assets. A credit registry exists and is well functioning, although individuals' access to their own credit data is not guaranteed by law.
HRV	Croatia has been the first Western Balkan country to rigorously tackle competitiveness issues amongst SMEs. BICRO, the Business Innovation Centre of Croatia, plays a central role in supporting innovative SMEs: it runs a number of programmes, ranging from R&D support to equity financing. The Koncro programme strengthens the technical and managerial skills of innovative SMEs, through the co-funding of consultancy services. Meanwhile, the institutional support for promoting entrepreneurship key competence by the National Curriculum Council and education authorities provides an important basis for mainstreaming entrepreneurship promotion in formal education. Finally, the Croat-led project to establish a South East European Centre for Entrepreneurial Learning demonstrates good initiative and further commitment to regional co-operation.
XK	Kosovo under UNSCR 1244/99 has established the SME Support Agency, which is the responsible institution for the elaboration of SME policy and its implementation. The agency's responsibilities include: • Developing a policy framework supportive for SMEs • Initiating legislation concerning SMEs and giving recommendations on pieces of legislation that influence the business environment • Proposing and compiling plans for better co-ordination and co-operation between the existing domestic and foreign organisations working for the development of SMEs • Implementing programmes related to the creation and development of SMEs. In 2008 the agency had 12 employees and a budget to allocate to different projects of approximately EUR 2.3 million. Although the agency does not include in this budget the donor's support, this is rather significant for Kosovo under UNSCR 1244/99. Meanwhile, a good lifelong entrepreneurial learning strategy provides a solid basis for the range of partners to move forward with lifelong entrepreneurial learning developments. This will require a more concerted commitment by the parties to enable further outcomes from the partnership arrangement already in place.
MK	Since the entry into force of the Law on One Stop-Shop System in 2006 and the maintenance of the trade register and the register of other legal entities, the former Yugoslav Republic of Macedonia has further improved the efficiency of its company registration system and reduced company registration fees. The Central Registry is currently able to process a company registration application in less than one day, down from five days in 2006 for a fee of approximately EUR 57. As typical of a one-stop shop system, the Central Registry issues the unique company registration number and obtains, on behalf of the new company the tax registration number, normally in a matter of a few hours. In order to further reduce start-up costs the former Yugoslav Republic of Macedonia has recently waived the minimum capital requirement for limited liability companies.
MNE	Montenegro has made particular strides to develop entrepreneurship education with an intensive piloting exercise within one municipality (Berane) in the country's least developed northern region. The strategic piloting effort follows the elaboration of a lifelong entrepreneurial learning strategy and action plan which captures the key lines of the Charter's indicators for entrepreneurship education and training. The challenge for the education and training authorities in co-operation with the world of enterprise is to move forward with the strategy and actions foreseen and to build on the policy learning and momentum developed through the 'Berane process'.
SRB	The Serbian government has made significant progress in taking action to promote competitiveness and support the technological capacity of SMEs. In January 2008 the government formally established the National Competitiveness Council. Its membership includes all key economic ministries, the Central Bank, the main private-sector associations, leading academics and business leaders. Its mandate is to conduct analysis on competitiveness issues, elaborate policy proposals, monitor policy development and foster programme co-operation it is expected to become a key policy forum.

The result is a fragmented and often uncoordinated policy framework in which a relatively large number of projects and initiatives are launched. While these respond to local needs, they lack mechanisms for policy co-ordination, development of synergies among projects, and a productive exchange of experience among policy makers and stakeholders. The failure to fully implement company registration reform on a nationwide basis, and lack of common SME strategy and policy co-ordination institutions (already highlighted in the previous report) demonstrate how the situation has stalled. On the other hand, the country has made good progress on access to finance, an area less subject to policy fragmentation.

The impact of the global economic crisis on SME policy in the Western Balkans

The assessment was completed just when the first indications of the impact of the growing global economic crisis on the Western Balkan economies were emerging. Over the last eight years, the Western Balkan economies recorded a long and sustained phase of economic expansion, with most of the economies recording gross domestic product (GDP) growth rates in excess of 5% over several years, increasing macro-economic stability, limited inflation and contained budget deficits (although growing current account deficits). The SME sector both contributed to and benefitted from sustained economic growth. The number of newly established SMEs increased significantly. Governments have been able to focus more on SME policy, as they have largely completed privatisation and the restructuring of the state-owned sector, and have channelled more resources to support SME policies.

Preliminary data for the last quarter of 2008 and the first quarter of 2009 show a sharp drop in external trade and industrial production, a contraction on foreign direct investment (FDI) inflows and a freeze on credit expansion accompanied by a significant slowdown in economic growth across the region. All this indicates that the global economic crisis is having an increasing impact on the Western Balkan economies. The key drivers that have underpinned growth in the region (domestic consumption, credit expansion and increasing capital inflows such as FDI and remittances) are losing strength and actions are needed to rebalance the large trade deficits that are common to all the Western Balkan economies.

The sudden and marked change in the macro-economic framework has significant implications for SME policy: it heralds a review of policy priorities and an assessment of the policy tools available to respond effectively to the consequences of the crisis, and it may lead to a reduction of resources available to support SME policy.

Given that the crisis is not endogenous, but largely imported, and that the main transmission channels are trade, foreign direct investment and access to finance, it is likely that the crisis will affect segments of the SME population in different ways. At the time of writing these conclusions, data capturing the impact of the crisis on company behaviour and particularly on SMEs in the Western Balkan economies are not available. However it is possible to infer that the crisis will affect in the first instance companies that are more export-oriented, that have operations integrated into pan-European and international value chains (such as automotive and mechanical component producers) and that have made recent capital investments, either in expanding production facilities or in developing new products and markets. These companies are more vulnerable to the drop of external demand and to reductions in access to finance. Structural characteristics of Western Balkan companies may amplify the impact of the crisis. SMEs in the region tend to have a limited export market diversification, to rely largely on supplier credit for input financing, to depend largely on short-term revolving commercial bank credit (both for working capital and for investment) and to have limited access to equity financing.

While export, investment-oriented and innovative SMEs represent a small percentage of the total SME population, they contribute most to economic growth and employment generation, as highlighted in the section of this report dedicated to policies supporting high-growth SMEs (Part II). A sharp increase in business failures among those high-growth enterprises (due to external factors) may significantly reduce future economic growth.

On the other hand, the 2009 report shows that the relative weakness of SME policy in the Western Balkans lies specifically in the areas most relevant for high-growth enterprises, such as the provision of sophisticated business services, and the launching of programmes enhancing the technological capacity of SMEs. Governments also have limited experience in targeted SME policy, having given priority so far to horizontal measures.

Future policy priorities

The crisis, therefore, implies a policy shift. It will be more feasible for governments that have already put in place schemes and facilities for targeted groups of enterprises. These include credit guarantee schemes, cost-sharing schemes, cost-recoverable schemes for innovation, and standard and business development activities, such those found in Croatia and Serbia and (to a lesser extent) Albania and the former Yugoslav Republic of Macedonia. Those schemes and facilities could be expanded and adapted to the needs arising from the crisis. They can be used as complementary support measures to resources channelled by the international financial institutions with the support of the European Commission, through the banking and financial sector.

For the remaining economies, the crisis should act as a stimulus to accelerate the pace of SME policy development. For these economies an increase in donor support (both in terms of technical assistance transferring knowledge and the provision of advanced services to small enterprises) and financial assistance to expand pilot project schemes will be extremely important in this phase.

However, work should continue on the implementation of horizontal measures to improve the business and investment operational environment. While areas such as company registration are now less of a priority for most Western Balkan governments, regulatory reform, e-business and online services, building a regulatory and operational environment for the provision of financing schemes for SMEs (including equity funds and business angels) remain high priorities, as well as human capital development through entrepreneurship education and skill development.

Key findings by policy dimension

Table 2

Progress in scores per country (and Kosovo under UNSCR 1244/99) per dimension since the 2007 SME Policy Index Report*

		ALB	BiH	HRV	XK	MK	MNE	SRB	REGION
Dimension 1: Entrepreneurship education and Training **	Change	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Dimension 2: Cheaper and faster start-ups	Change	+2.00	+0.50	+0.75	+0.25	+1.00	+0.25	+0.50	+0.75
Dimension 3: Better legislation and regulations	Change	+1.25	+0.25	+0.50	-0.25	+1.50	+1.00	+0.25	+0.75
Dimension 4: Availability of skills **	Change	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Dimension 5: Improving on-line access	Change	+1.50	0.00	+0.25	+0.75	+0.25	0.00	+1.00	+0.50
Dimension 6: Getting more out of the Single Market	Change	+0.75	0.00	0.00	+0.25	+0.50	-0.25	+1.25	+0.25
Dimension 7a: Taxation **	Change	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Dimension 7b: Access to Finance	Change	+0.75	+1.50	-0.25	+0.50	-0.25	+0.25	+0.75	+0.50
Dimension 8: Strengthening the Technol Capacity	Change	+0.00	+0.50	+0.25	+0.25	-0.25	0.00	+0.75	+0.25
Dimension 9: Successful E-Business Models	Change	+1.00	+0.25	+0.25	+0.75	+0.25	0.00	+1.00	+0.50
Dimension 10: Develop Stronger Representation	Change	+0.50	-0.50	+0.25	+0.25	-0.25	0.00	+1.50	+0.25

Notes: *The progress in scores has been rounded up or down to the nearest 0.25.
**For dimension 1, 4 and 7a comparison to the scores of 2007 has not been possible because the indicators within these dimensions have been significantly altered in the 2009 report

Dimension 1 - Entrepreneurship education and training

The contribution of education to competitiveness is generating new policy interest in the potential of entrepreneurship education and training for improving productivity, innovation and economic growth. The Charter assessment focused particularly on policy in the area of entrepreneurship education and training as a driver for overall reforms. There have been clear movements by most countries to bring forward policy and strategy building in the area of entrepreneurship education and training. Several countries have already elaborated perspectives for lifelong entrepreneurial learning. However, there is a need for more systematic monitoring and evaluation of the range of activities in this area to ensure better efficiency of overall effort.

While non-formal entrepreneurship education and training (activities outside the school curriculum) is well developed, more efforts at building synergy with formal education could be considered in the bid to maximise the overall value of the various players contributing to the field. Although the Charter encourages more systematic co-operation among the players involved in entrepreneurship education and training, information and know-how exchange is generally confined to loose networks with little ambition amongst practitioners to make their achievements known. More developed networks could inspire confidence and trust amongst practitioners to publicise their work, allowing others to borrow on tried-and-tested ventures.

The assessment concludes with recommendations for more structured co-operation among education policy makers to step up lifelong entrepreneurship education and training. It also calls for more focused efforts to raise understanding of the entrepreneurship key competence amongst the education communities in terms of curriculum, teacher training, school governance and management.

Dimension 2 – Cheaper and faster start-up

The 2009 report shows that there has been significant progress across the region in promoting faster and cheaper start-up. Progress has been more impressive in the registration phase. Today, new entrepreneurs can complete average registration procedures with company registers (specialised agency or commercial court) in less than five days from the time of application in all the Western Balkan countries, excluding Bosnia and Herzegovina. In most countries, it takes a day to obtain the company registration certificate from the time of application, for a fee less than EUR 60. The pre-application steps have also been streamlined. Progress in the notification phase has been less marked. Two countries (Croatia, the former Yugoslav Republic of Macedonia) are moving towards the one-stop-shop model. Progress has been patchy and slow in the compliance phase, with intervention focusing on the elimination or reduction of minimum capital requirements for start-ups (the former Yugoslav Republic of Macedonia and Kosovo under UNSCR 1244/99). Over the last two years, Albania and Serbia were the most successful reformers in this dimension, while Bosnia and Herzegovina lagged further behind the regional average. Overall, the priorities set out in the 2007 report were only partially tackled and therefore remain largely valid for the near future. Governments need to find the right balance between the need to conduct checks and thorough inspections, and secure compliance with laws and regulations concerning health, security and environmental risks; and the desire not to put excessive burden on new business ventures. In the previous report, it was also suggested as a medium-term objective to transform the company registration body into a centre of collection and dissemination of company data for the public administration (tax administration, office of statistics and employment office) and the private sector, within the limits set by confidentiality rules and regulations. This would require the establishment of an electronic data bank covering the entire population of registered enterprises (not only the latest entries) and the integration of a number of new functions.

Dimension 3 - Better legislation and regulation

Dimension 3 assesses three important elements for a stable and clear regulatory environment, namely regulatory reform, institutional framework and regulatory impact analysis. The countries' situation under this dimension has further improved over the previous report. The overall average for the Western Balkans has increased significantly. Currently all but two (Bosnia and Herzegovina and Kosovo under UNSCR 1244/99), are above level 3, considered a threshold at which a solid legal and/or institutional framework is in place. While the two least advanced economies still have to adopt their strategic framework and start implementing it, the other five economies should put further efforts in the implementation of the action plans of the strategies mentioned above.

In the field of 'Better regulatory environment' good progress has been registered in Albania, Croatia, the former Yugoslav Republic of Macedonia, Montenegro and Serbia, both in terms of simplification of the existing legislation and gradual introduction of the regulatory impact analysis (RIA). As the process of reviewing the legislation has been completed in most of the countries, further effort should be putted in eliminating the redundant legislation and the systematic use of RIA.

Dimension 4 - Availability of skills

With increased recognition being afforded to human capital in the wider bid for more competitive enterprises, the Charter assessment considered training availability, with particular emphasis on training for new ventures and expanding businesses. Overall, there is a lack of comprehensive data on enterprise training, including training for start-ups and growing enterprises. What data are available are invariably spread across different organisations and serving different purposes, making the task of quantitative assessment difficult. Nonetheless, there is evidence of a growing recognition of the importance of reliable data for more targeted developments in enterprise-based human capital. A regional proposal for countries (including Turkey) to gather information on enterprise skills provides an opportunity for the region to overcome the constraints of weak data.

Data aside, the assessment identified considerable effort to promote training in all countries through good networks of training providers (for the most part public training services), although the extent to which this training is directly accessible by enterprises is not clear. Similarly, information on private training providers is generally not readily available, suggesting an under-developed training market. The assessment points to the need for more developments in the area of quality assurance in training; this will generate confidence in, and demand for, training by enterprises.

The assessment concludes with recommendations for more systemic developments in enterprise training intelligence as well as measures to promote a more developed training market.

Dimension 5 - Improving online access

E-government services for SMEs have emerged in the Western Balkans, but only Croatia holds a clear e-government strategy. Albania, Montenegro and Serbia have made great strides in rendering government services more accessible online (including the provision of relevant online business information and the introduction of online services for filing tax returns or social security). The key weakness within this dimension remains the lack of SME-dedicated online portals, which would make searching for information less cumbersome by bundling SME-relevant information and links (that are regularly updated), and allowing for interaction between SMEs and the administration.

Dimension 6 – Getting more out of the Single Market

Progress on the two indicators related to export promotion and enhancing SME competitiveness has been limited across the region. Only Albania and Serbia have recorded significant improvement in their performance on both indicators and only three countries (Albania, Croatia and Serbia) have a structured export support scheme, covering export promotion, export insurance and export financing.

The global economic crisis is having a significant impact, especially on companies that rely on exports to the EU market and on those that operate in network industries (such as the automotive, electronic and mechanical sectors) and supply components to manufacturers based in EU countries. SMEs in the Western Balkans have to deal with a drop in the external demand, a shortage of supplier and buyer credit, and sudden shifts in their competitive position due to the sharp currency movement across East and South East Europe. In this situation, governments in the Western Balkans have to address simultaneously contingent and structural issues. On export support, the priority in this phase is to provide export insurance and export credit to companies affected by the increase in commercial risk in export market and the drying up of liquidity. On export promotion, priority should be given to market diversification, for instance, pursuing market opportunities arising from the implementation of the 2006 Central European Free Trade Agreement. On enhancing competitiveness, countries that have already launched support programmes (such Albania, Croatia, the former Yugoslav Republic of Macedonia and Serbia) should closely monitor the impact of those programmes and adapt the range of supporting tools to the differentiated needs of SMEs. Given the significant contribution of donor-funded programmes in these areas, all the Western Balkan countries need donor-supported programmes that are integrated and co-ordinated into a government medium-term strategy for competitiveness and support to high-growth enterprises. It is also essential that lessons learned across various business support programmes are reviewed and compared, then integrated into the government action.

Dimension 7a – Taxation

The assessment in this dimension aims to score seven countries in the Western Balkans on the basis of rough measures of progress to date in implementing various frameworks and in exploring a number of aspects of the tax treatment of small businesses, given policy interest in assessments of the tax burden on small businesses and in understanding possible tax effects on the cost of funds, tax arbitrage behaviour and risk-taking, and tax compliance costs. While all countries forecast main tax revenues, and can generate rough estimates of effects of broad-based tax changes on aggregate revenues, no economy in the Western Balkan region has yet implemented micro-simulation models capable of estimating disaggregate revenue effects, and simulating the tax revenue consequences of detailed fine-tuning of their tax systems. However, the Federation of Bosnia and Herzegovina, the Republika Srpska[1], the former Yugoslav Republic of Macedonia and Montenegro are taking steps to implement such models. Croatia and the former Yugoslav Republic of Macedonia recently participated in an OECD tax modelling workshop, aimed at assisting countries in pursuing micro-simulation frameworks. Limited analysis has been undertaken of effects on the cost of capital of small business of double taxation of profits of incorporated firms through the region, although in Kosovo under UNSCR 1244/99 and Montenegro studies have been undertaken to examine potential effects of double taxation on equity financing, and alternative integration systems have been examined. Throughout the Western Balkans, no economy has yet to systematically carry out studies of tax arbitrage by small business owners. A review of income tax rates on self-employed business income, dividends, interest and capital gains suggests that care has been taken in many economies to limit tax planning opportunities of owner/workers of closely held companies. Yet significant rate differences are observed in some cases, in particular when account is taken of social security contributions levied on wage income. Additional analysis and sharing of experience across the region would be welcome. In Albania, the Federation of Bosnia and Herzegovina, the Republika Srpska, Croatia and the former Yugoslav Republic of Macedonia, detailed analyses have not yet been carried out to assess implications of alternative loss treatment on investment in small firms with relatively high-risk business ventures, and on scope for tax-avoidance. Montenegro has analysed the potential for its business loss-offset provisions to influence risky investment in small businesses. Kosovo under UNSCR 1244/99 has also recently assessed its business loss-offset rules. Finally, a number of Western Balkan countries (Albania, Croatia, the Federation of Bosnia and Herzegovina, the Republika Srpska) as well Kosovo under UNSCR 1244/99, have made significant strides in addressing tax compliance costs, arguably the most important impediment to address.

Dimension 7b – Access to finance

The Access to finance dimension of Dimension 7 is made up of 2 subdimensions: credit environment and financial products for SMEs. Across the region, there has been substantial progress in improving the credit environment. Two news indicators have been included in the SME Policy Index 2009 assessment for this subdimension: registration systems for movable assets and credit information services are in place in most of the countries (with exception of Kosovo under UNSCR 1244/99 for both indicators and the former Yugoslav Republic of Macedonia for credit information services). The Asset-backed bank lending is the main source of external financing for enterprises. Since the last assessment, asset-backed bank lending has increased in importance while the reliance on internal funds and retained earnings has decreased. All countries have established credit guarantee schemes. However, until assessment cut-off date, only the former Yugoslav Republic of Macedonia followed EBRD's previous recommendation that credit guarantee scheme be privately managed in order to achieve the most efficient allocation of resources. Credit information services are in place in all countries, however, not yet fully developed. Collateral requirements remain very high in most of the countries with the exception of Albania and Bosnia and Herzegovina. The global financial downturn furthermore encourages banks' conservative lending policies. Access to (and reliability of) information from cadastres is still limited and has not improved since last assessment. Microfinance facilities are also well developed in a most countries, with the presence of international microfinance institutions. Access to capital markets for SMEs is still problematic and the availability of risk capital is very limited. The venture capital industry is developing, although for the moment the only exit possibility is direct sale. The leasing industry is already an important channel of finance for the SME sector. Relevant legislation in is place everywhere except for Kosovo under UNSCR 1244/99 and leasing companies are operating. Finally laws and procedures on distressed companies, receivership and bankruptcy are formally in place, but legislation is at an early stage of implementation for Albania, Croatia and the former Yugoslav Republic of Macedonia. All countries are well developed in terms of access to financial products for SMEs (here specifically assessed: the leasing industry and venture capital funds), but there is still scope for improvements. Most of the mechanisms conducive to a good credit environment are formally in place (with the exception of Kosovo under UNSCR 1244/99), but the level of implementation varies across the indicators and countries. There is a need to increase efforts throughout all categories and countries and to sustain efforts where significant progress has been made (credit guarantee schemes in the former Yugoslav Republic of Macedonia, collateral requirements in Bosnia, leasing industry in Serbia).

Dimension 8 – Strengthening the technological capacity of small enterprises

All across the region, government policies directed at strengthening the technological capacities of SMEs are at an early stage of development. Croatia is the most advanced in the three areas of technology dissemination, technology co-operation, and research and development of inter-firm clusters. It has launched a comprehensive technological development programme (BICRO). In a number of other countries (Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia and Serbia), technology support programmes are mostly still in a pilot phase, although progress has been recorded in Bosnia and Herzegovina, and Serbia in the cluster development area. Albania, Kosovo under UNSCR1244/99 and Montenegro are at a very early stage of policy elaboration. There have been positive developments in the intellectual property rights (IPR) area (in terms of institutional development and legislative upgrading and, to a lesser extent, policy enforcement) with a number of countries: Croatia, the former Yugoslav Republic of Macedonia and Serbia. As a way forward, government should further extend the support to initiatives establishing inter-firm clusters and networks, integrating those initiatives with other enterprise-supporting schemes (voucher schemes, business incubators, innovation supporting schemes, etc.). Governments should also continue to change the orientation of the existing clusters from the traditional sectors to higher value added ones. As argued in the section on high-growth enterprises, in order to forge an environment that encourages innovation and growth, it is important to move forward on diverse yet complementary areas (intellectual property rights, business incubators, cluster development and skills development). As noted in the previous report, it is vital to ensure a high level of co-ordination among the Ministry of Economy, Ministry of Education and Science, the private sector, universities and research institutes. Finally governments need to continue to act on IPRs; they 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, particularly in economies with weak IPR enforcement records.

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

Although the range and quality of business services have generally improved over the last two years (due in part to the arrival of renown international business service providers), there is still a strong need for greater clarity, quality service standards and better co-ordination of business support strategies. Most business incubators, for example, are still the product of *ad hoc* initiatives that disappear once the funding does. There is thus a continuing need in the Western Balkans to 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. Furthermore, there is an urgent need in most Western Balkan countries and Kosovo under UNSCR 1244/99 to complete the regulatory framework for introducing the electronic signature and to establish a functional and legitimate accreditation body. This is a precondition to developing electronic commerce and more advanced online business-to-business functions, as well as for making the most of online government services.

Dimension 10 - Developing stronger and more effective representation of small enterprises' interests

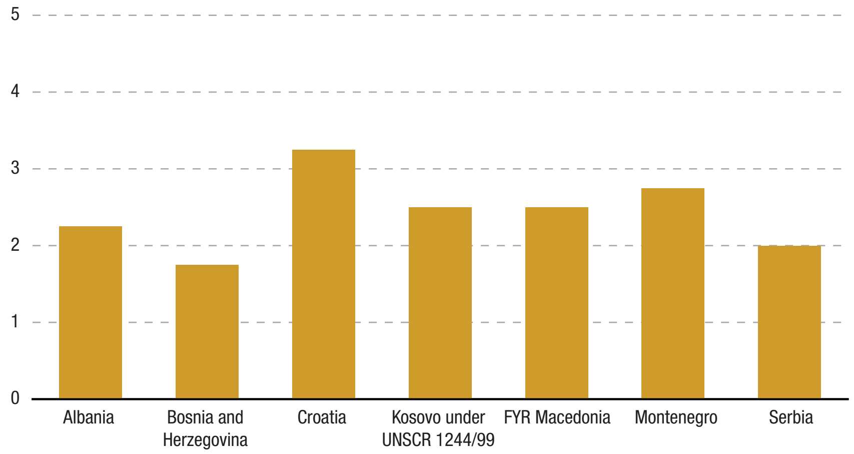
Dimension 10 deals with the effectiveness of SME representation and the involvement of the public administration and the business community in public-private dialogue. The overall situation improved in most of the economies in the region since the 2007 report due mainly to two aspects: the reforms of the chambers of commerce and improved framework for public-private dialogue.

Both the public administration and the private sector need to step up the scope of public-private dialogue and its quality. The main challenge for the government is to consult the business community systematically and early in the process, while the business community must build up the necessary capacity to conduct consultations within the different business associations and to provide well documented proposals and comments. Although there are numerous business associations and a system of chambers of commerce in each economy, this capacity is still relatively limited. Regarding the format of public-private dialogue, despite the fact that only Bosnia and Herzegovina is missing a body for this purpose at national level, all the others have to improve their own system in order to hold regular meetings and to improve the transparency of the system.

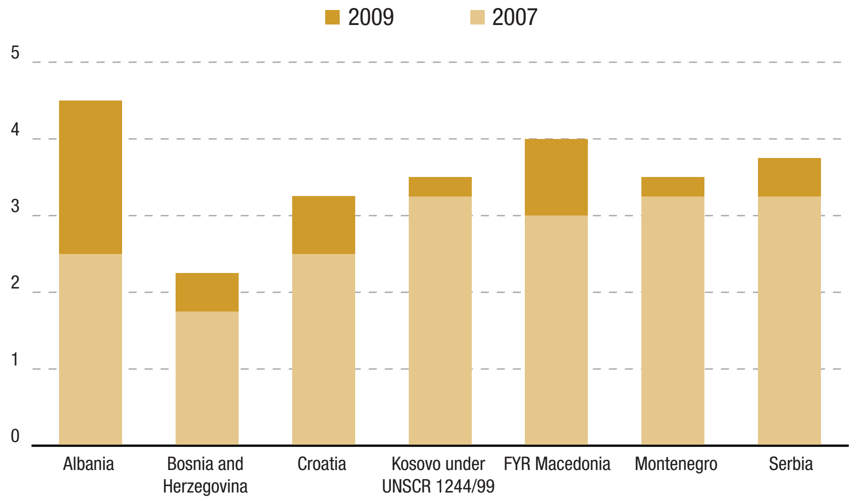
Progress across the Charter dimensions: Overall SME Policy Index scores[2]

The following figures show the SME Policy Index scores for each economy and Charter dimension, comparing the current results to those published in the SME Policy Index 2007 Report. Due to the large number of new indicators, the results in dimensions 1, 4 and 7a are not comparable to the results from 2007.

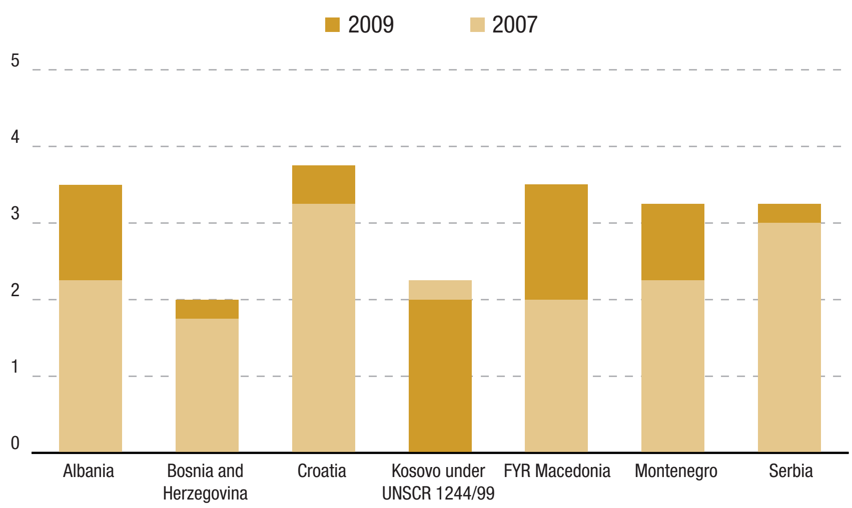
Dimension 1: Entrepreneurship education and training



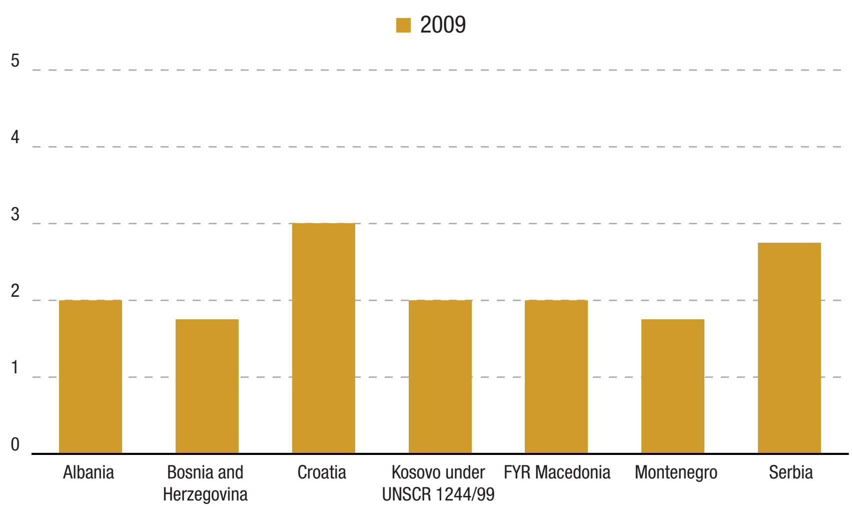
Dimension 2: Cheaper and faster start-up



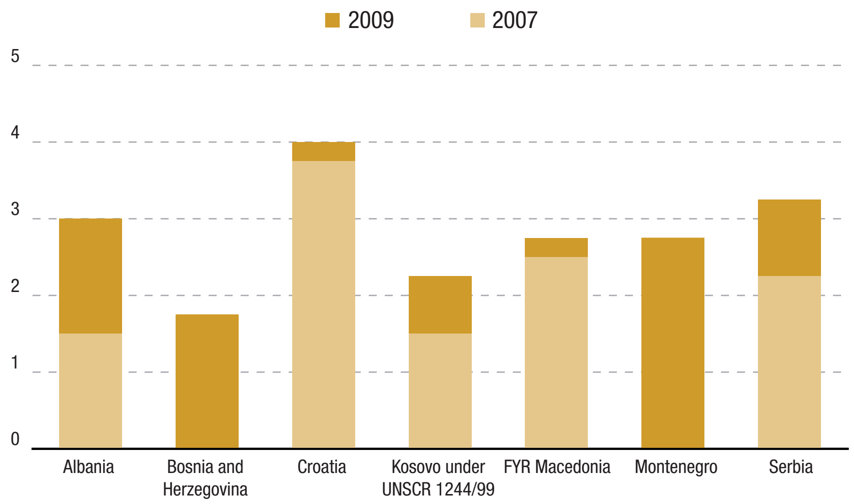
Dimension 3: Better legislation and regulation



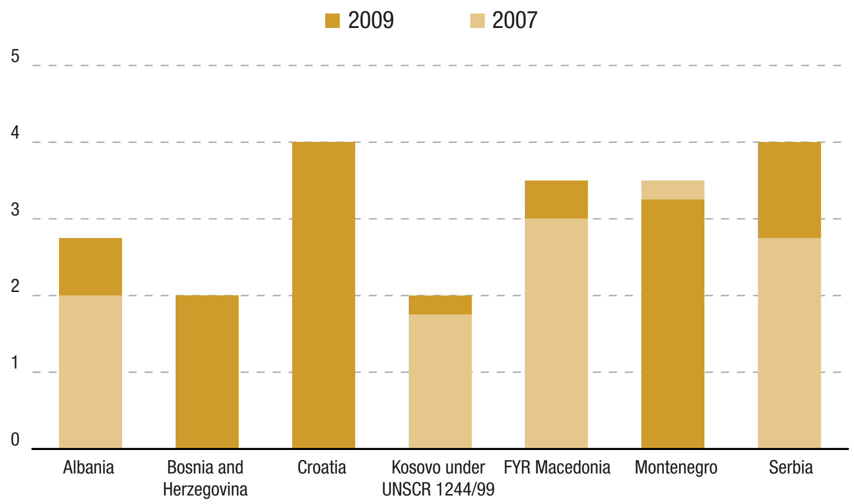
Dimension 4: Availability of skills



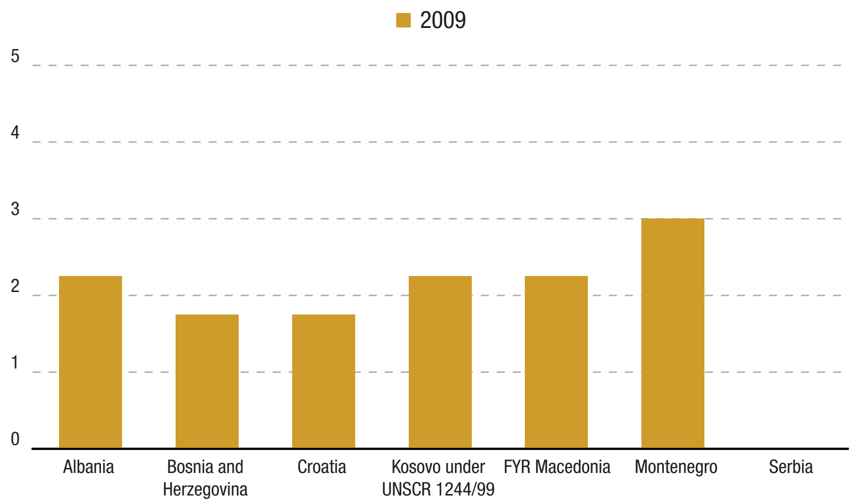
Dimension 5: Improving online access



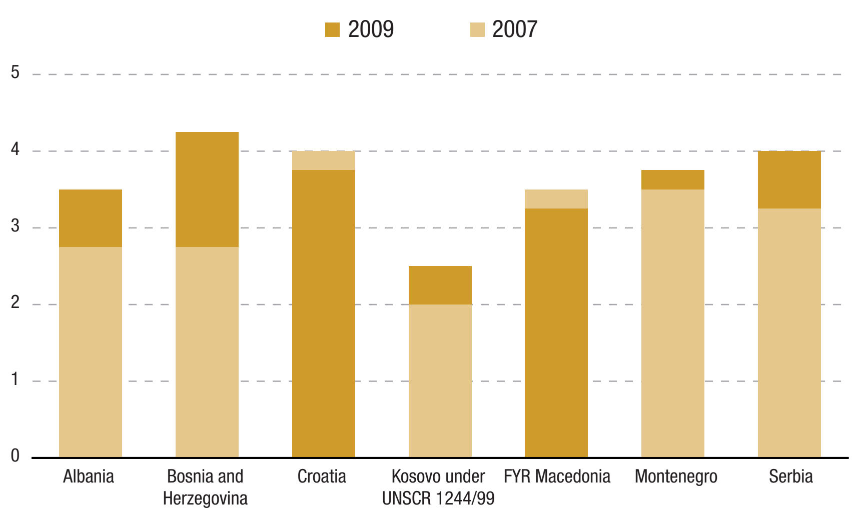
Dimension 6: Getting more out of the Single Market



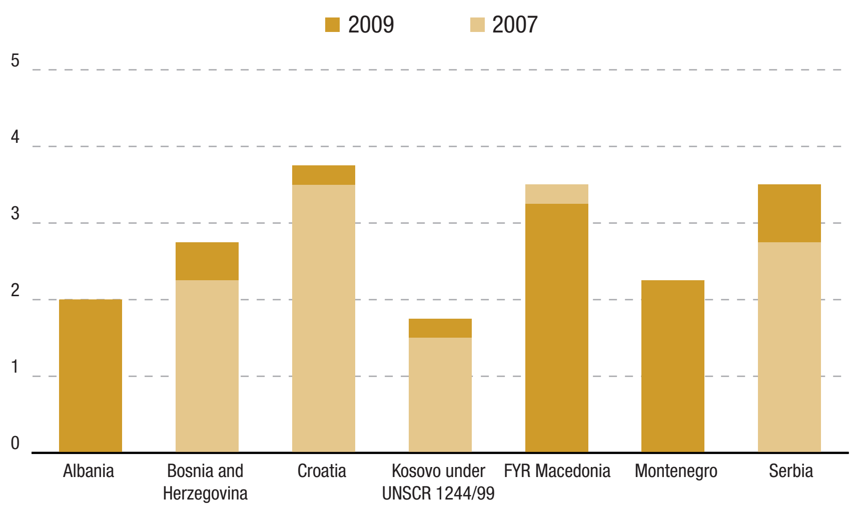
Dimension 7a: Taxation[3]



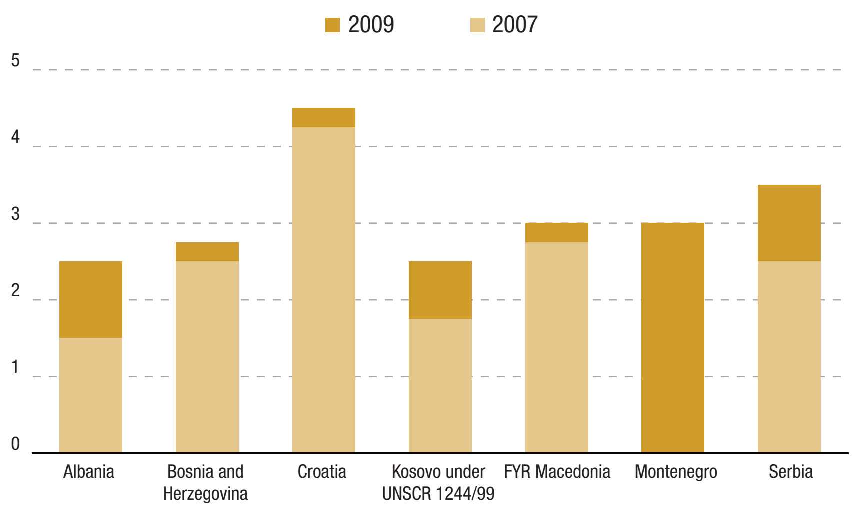
Dimension 7b: Access to finance



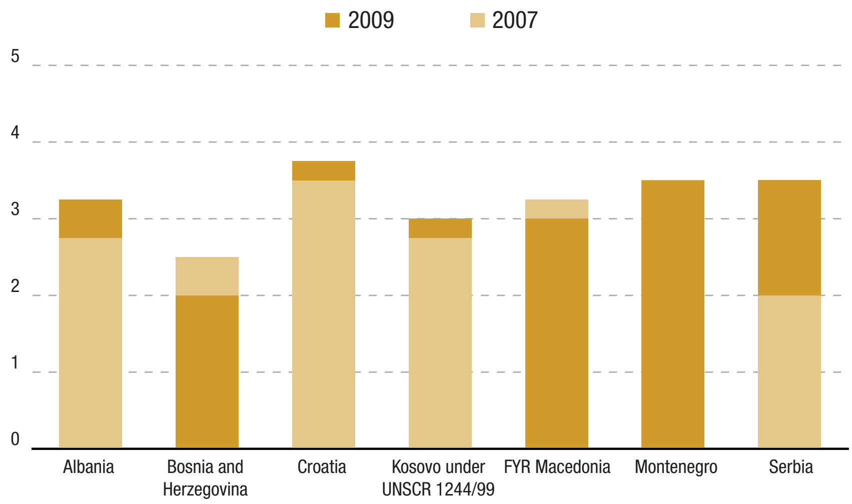
Dimension 8: Strengthening the technological capacity



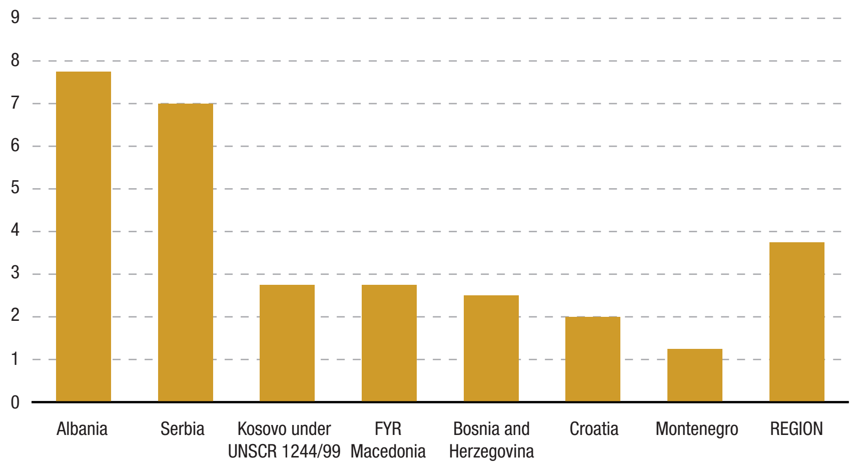
Dimension 9: Successful e-business models



Dimension 10: Develop stronger representation



Overall cumulative changes in scores since 2007 SME Policy Index in the Western Balkans



Notes

1. *Within this assessment, the Republika Srpska and the Federation of Bosnia and Herzegovina were assessed separately due to the differing tax systems.The Brcko District was not assessed.*
2. *Although this report is published in 2009, its data collection took place in 2008. For the SME Policy Index Report 2007, data were collected in 2006. All SME Policy Index scores have been rounded up or down to the nearest 0.25*
3. *The assessment for dimension 7a: taxation was not completed for Serbia due to a lack of data.*

Introduction and Methodology

The Charter Process in the Western Balkans and the SME Policy Index Methodology

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, Kosovo under UNSCR 1244/99, the former Yugoslav Republic of Macedonia, Montenegro and Serbia. It presents an analysis of the process of policy elaboration and implementation for each of the Charter's ten dimensions.[1] It evaluates the performance of each country and Kosovo under UNSCR 1244/99 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 an assessment of the degree of implementation of each of the ten Charter dimensions, with an analysis of trends and key issues, as well as comparisons of the different countries and Kosovo under UNSCR 1244/99.
- Part II focuses on a specific area of SME policy, namely supporting high-growth SMEs. The SME Policy Index 2007 Report identified the areas of innovation in SMEs and technological development as in particular need of improvement and development. Hence, this part focuses on policy measures to support high-growth SMEs in the Western Balkans.
- Part III contains chapters on each Western Balkan country and Kosovo under UNSCR 1244/99, providing additional insight on the implementation of the ten dimensions of the Charter.

The Charter process in the Western Balkans

At the 20 June 2003 EU-Western Balkans Summit in Thessaloniki, 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 under UNSCR 1244/99) 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 Thessaloniki 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.

The Charter monitoring process resulted in the publication of three sets of national reports, prepared by the national Charter 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 reporting was integrated in the reporting under the new Lisbon Strategy for Growth and Jobs for the 25 EU Member States, while the Charter Good Practice collection continued as a separate procedure. Bulgaria and Romania also joined the Lisbon Strategy. Faced with the possibility of a discontinuation of the Charter reporting, the six countries and Kosovo under UNSCR 1244/99 adopted the Belgrade Declaration at a regional meeting in Belgrade, Serbia, on 26 October 2005. It called 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).

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

This new phase of the Charter process was characterised by a range of new features, including:

- *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 focused on the European Charter for Small Enterprises. Equally, the EBRD decided to continue to support the monitoring activity. The process now involves four partners: the EC, the OECD, the ETF and the EBRD.
- *The SME Policy Index:* The four partner organisations, in co-operation with the national Charter co-ordinators, developed a specific measuring tool to make progress in Charter implementation more tangible, and to raise the stakes and visibility of the overall process. The inter-agency co-operation and the consultations with the national Charter co-ordinators led to the elaboration of a common template (the SME Policy Index) based on more than 80 indicators, with five different performance levels.
- *Assessment:* The launching of a new Charter evaluation process, based on a *self-assessment* conducted by each of the six Western Balkan countries and Kosovo under UNSCR 1244/99 under the supervision of the national Charter co-ordinators and complemented by an *independent assessment* by a team of local consultants with ETF experts providing the independent assessment for the human capital dimensions.

The importance of the process was reconfirmed in two subsequent documents:

- The Commission Communication the Western Balkans: Enhancing the European perspective COM(2008) 127 final 5.3. 2008;
- The Commission Staff Working Paper EU regionally relevant activities in the Western Balkans 2008/09 SEC(2009)128 final 3.2. 2009.

The 2008-2009 process

A first regional report on the Charter implementation in the Western Balkans was published in March 2007. In May 2008, a second assessment, based on the same methodology as in 2006, was launched.

As in 2006-2007, the Western Balkan governments conducted self-assessments (July to September 2008) published in national reports. The independent assessments were conducted in the same time frame by a network of local consultants. They were co-ordinated by the OECD Investment Compact, in close consultation with the EC (DG Enterprise and Industry) and the EBRD. The ETF provided the independent assessment for the human capital dimensions. The government self-assessment and independent assessment were discussed and compared at bilateral meetings held in each capital, under the auspices of government authorities and the EC. These bilateral meetings (with 40 to 70 key SME policy stakeholders participating) were held throughout October 2008.

This 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, International Finance Corporation (IFC) and the United Nations Development Programme (UNDP), research centres and bilateral development agencies. The assessment is based on all information available to governments and partner organisations as of 15 November 2008. Any policy developments that occurred after that date were not considered in this report.

One of the key regional weaknesses identified in both the 2007 report and this report has been the lack of progress in supporting innovative SMEs and strengthening technological capacity in the Western Balkans. As part of the 2009 report, the OECD Investment Compact consequently decided to work in co-operation with Professor Stephen Roper from the Warwick Business School. Together, they searched for solutions to promote the development of high-growth SMEs in the Western Balkans, based on OECD and EU good practices. (The findings are summarised in Part II of this report.)

At a regional meeting in Zagreb on 10 and 11 February 2009, the Western Balkan governments and the partner organisations expressed strong interest in adopting the European Small Business Act as a measuring tool for SME policy, replacing the European Charter for Small Enterprises. They called for a continuation of the regional SME policy measuring and implementation process.

Box I.1

The SME Policy Index process

1. Regional meeting is held with national Charter co-ordinators to approve new indicators and launch SME Policy Index 2008 evaluation (Milocer, Montenegro, 5-6 May 2008);

2. Western Balkan countries/entities conduct self-evaluations, structured in a national report, corresponding to the ten Charter dimensions (June-September 2008);

3. Partner organisations conduct second-level measurement through desk research (June-September 2008) to further incorporate:
   - Primary data from each Western Balkan country and Kosovo under UNSCR 1244/99;
   - Input from specialised government bodies (e.g. SME agencies);
   - Input from the private sector (e.g. chambers of commerce, SME associations);
   - Input from other studies commissioned by international organisations (e.g. World Bank).

4. A team of independent local consultants, co-ordinated by the OECD, and ETF experts, in the case of the human capital dimensions, use the SME Policy Index to conduct independent assessments (June -September 2008);

5. SME stakeholder meetings are held in each country and Kosovo under UNSCR 1244/99, with partner organisations, the country's government and key SME stakeholders (including the private sector), to compare and discuss each self-assessment and independent assessment (October 2008);

6. Regional meeting is held for partner organisations to present aggregated scores and for governments to discuss scores and country performances at a regional level (Belgrade, 1-2 December 2008);

7. Partner organisations aggregate final score with an opportunity for countries to comment on preliminary scoring (December 2008-January 2009);

8. Discussion about structure of the report and confirmation of final scores (Zagreb, 11 February 2009);

9. Charter report is finalised and published (March – May 2009);

10. Charter report is officially launched at a high-level meeting in Brussels organised by the European Commission and the OECD (Brussels, 17-18 June 2009).

This new phase could include the development of new indicators related to the Small Business Act, and a focus on certain areas of weakness, identified in this report.

The SME Policy Index

The SME Policy Index was introduced in response to the request of the national Charter co-ordinators in 2006 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.[2] The framework has been adjusted to reflect the conditions of policy making in the Western Balkans.

SME Policy Index objectives

The main objectives of the SME Policy Index (and corresponding means to achieve them) are:

- Structured evaluation:
  - Evaluate progress in SME policy reform in the Western Balkans on a comparative basis;
  - Assess countries' performance 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:

1. Education and training for entrepreneurship;
2. Cheaper and faster start-up;
3. Better legislation and regulation;
4. Availability of skills;
5. Improving online 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' interests.

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 analysis 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:

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

The indicators are structured around five levels of policy reform, with 1 the weakest and 5 the strongest. The policy development path for each indicator is typically structured as follows:

- 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.[3]

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.

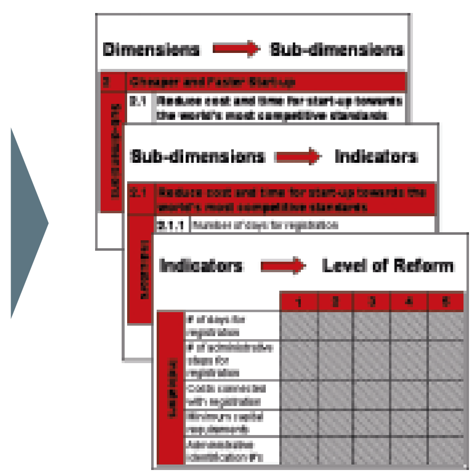
Each sub-dimension and indicator is weighted according to its perceived importance in relation to enterprise policy development. The weights have been assigned as a result of a process of consultation among the four partner organisations and the national Charter co-ordinators. The weighting system ranges from 3 (most important) to 1 (least important).[4] 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 numerical 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.

Figure I.1. Breakdown of the SME Policy Index structure

SME Policy Index Dimensions

1. Education and training for entrepreneurship
2. Cheaper and faster start-up
3. Better legislation and regulation
4. Availability of skills
5. Improving online access
6. Getting more out of the Single Market
7. Taxation and provision of finance
8. Strengthening the technological capacity of SMEs
9. Successful e-business models and top-class business support
10. Developing stronger, more effective representation of small enterprises' interests



Notes

1 *These dimensions are referred to as "lines for action" in the Charter.*

2 *OECD Investment Compact (2006), Investment Reform Index, OECD, Paris.*

3 *See http://ec.europa.eu/enterprise/enterprise_policy/charter/gp/index.cfm for the Charter good practices and http://www.oecd.org/document/43/0,2340,fr_2649_201185_2505195_1_1_1_1,00.html for the OECD Bologna SME process.*

4 *See annex 2 for the full grid of indicators.*

PART I

Policy Findings by Charter Dimension

Dimension 1

Education and Training for Entrepreneurship

Education and Training for Entrepreneurship

1.1 Introduction

With increasing unease as to the effects of the global economic crisis on transition economies, it will be important for governments to focus on long-term growth challenges which ensure that achievements to date are built upon. Education is a long-term challenge, increasingly recognised as the bedrock of sustainable growth and competitiveness.[1] This recognition is generating new policy interest in the potential of entrepreneurship education and training or entrepreneurial learning[2] for improving productivity, innovation and overall economic growth. While particular emphasis has been given to the efficiency model for entrepreneurial learning (contribution to competitiveness), arguments in favour of the equity model (contribution to socio-economic inclusion) are gaining ground. The equity model considers self-employment as a viable alternative to joblessness.[3] Theoretical and empirical support is strong for both models[4] and is captured within the EU Lisbon Strategy for Growth and Jobs towards which the countries of the Western Balkans will increasingly need to evolve given EU accession aspirations.[5]

The first Charter report of entrepreneurial learning in the Western Balkans in 2007 concluded that efforts to promote entrepreneurial learning were hampered by poor understanding of why and how entrepreneurial learning should be promoted, particularly within compulsory education. Secondly, the assessment found that policy developments, where they existed, were scattered. It recommended a more concerted effort by all players to ensure coherence and consensus as to how a more integrated lifelong entrepreneurial learning framework could be shaped. A third issue from the 2007 report was that the lion's share of the initiative in entrepreneurial learning was donor-driven and developed outside mainstream education curricula, with evidence of project activity often dissipating upon withdrawal of donor support.

This chapter considers the developments in the region since the 2007 report and closes with recommendations to bring forward developments in entrepreneurial learning.

1.2 Assessment framework

The 2009 report involved five indicators: the policy framework for lifelong entrepreneurial learning; entrepreneurship promotion in lower secondary education; entrepreneurship promotion in upper secondary education; dissemination of good practice in entrepreneurial learning; and non-formal entrepreneurial learning[6]. Each of the five indicators is considered as a separate unit in the assessment, but taken as a whole the indicators have aggregate value in providing a comprehensive review of entrepreneurial learning in the region.

The focus of the assessment differs in two respects from the 2007 exercise. Firstly, following feedback on the use of the 2007 indicator package, three indicators (policy framework, primary education and secondary education) were subject to further elaboration: each of the original indicators was disaggregated into more meaningful and measurable indicators. Secondly, the 2007 "pilot projects" indicator was substituted by a "good practice" indicator geared more to encourage exchange and co-operation in entrepreneurial learning. Based on the experience of the

2007 assessment, some small adjustments were also made to the descriptors of the indicator for non-formal entrepreneurial learning. The policy framework, lower secondary education, upper secondary education and non-formal learning indicators used within the present assessment still allow for an overall comparison of regional performance against the outcomes of the 2007 assessment.

Policy framework for entrepreneurial learning

The rationale for this sub-dimension is that public policy frameworks are instrumental in reinforcing an individual's entrepreneurial learning opportunities.[7] The sub-dimension comprises four indicators which aim to encourage participating countries to develop a comprehensive policy framework to support lifelong entrepreneurial learning. The indicator draws on the recommendations of the EU's Oslo Agenda, a set of guidelines and recommendations for strategic development of lifelong entrepreneurial learning.[8] Partnership is central to this indicator: efforts to promote an entrepreneurial society require inputs from all levels of education and training (both formal and non-formal) acting as a collective; and partnership ensures coherence with relevant national strategies (e.g. education, SME, employment, research and development). A second indicator focuses on financial support for lifelong entrepreneurial learning. A third addresses the formal education system, prompting separate but inter-related policy instruments for primary, secondary and higher education,[9] and linked to the wider economic policy framework. A final indicator focuses on systemic monitoring and evaluation of entrepreneurial policy and practice. Overall, the policy sub-dimension acts as a driver for the remaining indicators within dimension 1 of the Charter, as progress on the policy indicators should allow for developments in the remaining "companion" indicators.

Lower secondary education

The rationale behind the indicator for entrepreneurship promotion in lower secondary education (ISCED 2)[10] is that education is important in shaping the entrepreneurial mindset. Enshrined within this indicator is the notion of entrepreneurship as a key competence. Now an integral feature of EU education policy,[11] the entrepreneurship key competence comprises a set of individual traits and behaviours (e.g. creativity, opportunity identification, risk assessment and risk-taking, resource management) which make up the entrepreneurial character. This requires adaptations to curriculum and a shift away from traditional teaching, considered counterproductive to the development of the attributes and skills of an entrepreneur.[12] The indicator comprises three sub-units. These focus on teaching and learning arrangements for entrepreneurial learning. The challenge here is considerable as the indicator foresees a phased roll-out of curriculum adjustments and teacher training across lower secondary education.

Upper secondary education

An indicator for entrepreneurship promotion in upper secondary education (ISCED 3) includes the same objectives as those for lower secondary education but the indicator also addresses harder entrepreneurship knowledge, skills and experience (e.g. specific business-oriented modules, business planning, marketing). Countries generally approach this by way of compulsory or elective subjects, as well as outside-school activities, including co-operation between schools and enterprises. Again, a phased development of entrepreneurship at upper secondary level schooling is encouraged through the indicator.

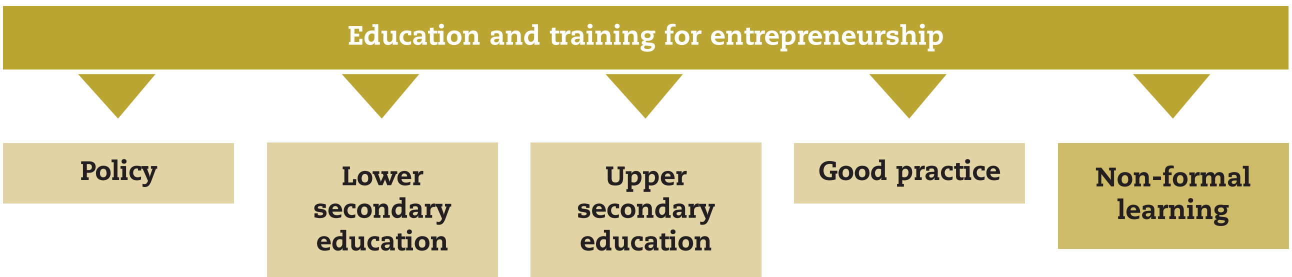
Good practice

This indicator encourages policy makers and practitioners to seek out and to share know-how in entrepreneurial learning. An important feature of the indicator is the structured build-up of intelligence on entrepreneurial learning good practice. The rationale for the indicator is that more developed information on entrepreneurial learning allows others to borrow on the experience, making for better efficiency in the design and delivery of entrepreneurial learning. A final feature of the indicator is international co-operation: the opportunity and benefits of sharing good practice across the Western Balkan region, and beyond.

Non-formal entrepreneurial learning

Non-formal entrepreneurial learning makes up a considerable share of the effort in entrepreneurial learning in the Western Balkan region. It is typically undertaken in training organisations, businesses and local economic development agencies. Unlike formal learning, it is not subject to the rigours of assessment and examinations of schools and universities. Its value is in its contents and timing: this indicator promotes flexible and accessible learning through engagement with a range of organisations involved in its design and delivery.

Figure 1.1 Assessment framework for dimension 1



1.3 Analysis[13]

The results of the assessment for dimension 1 are provided in Table 1.1 below. These highlight how the challenges in the Western Balkan region for both policy and delivery of entrepreneurial learning remain substantial. Two performance clusters are clearly identifiable: Croatia, Kosovo under UNSCR 1244/99, the former Yugoslav Republic of Macedonia and Montenegro above the regional average weighted scoring of 2.4 and the remaining countries falling below. While Croatia leads on the dimension as a whole in the 2009 report, the former Yugoslav Republic of Macedonia stands out for its overall progress on entrepreneurial learning since the 2007 report.

Looking at the range of areas covered within dimension 1 (see Table 1.1), Montenegro leads on the policy framework. It also performs well with Croatia on entrepreneurship promotion in lower secondary education, with Albania additionally demonstrating forward movements. Sharing of good practice stands out as the strongest feature for the region overall. Entrepreneurship in upper secondary education (as in the 2007 report) remains strong, with improvements noted in Croatia, Bosnia and Herzegovina, Kosovo under UNSCR 1244/99, the former Yugoslav Republic of Macedonia and Serbia. On non-formal entrepreneurial learning, Croatia and Albania lead the region.

Policy framework

Kosovo under UNSCR 1244/99 has made good progress in cross-stakeholder co-operation resulting in a national entrepreneurial learning strategy. Similarly, Montenegro's efforts in developing its policy framework have been helped by a working group that has drawn up a focused lifelong entrepreneurial learning strategy. Its policy formulation coincided with a broad national dialogue on human resources culminating in a White Paper on Human Resource Development and a national employment and human resource development (HRD) strategy. This allowed for co-ordination between the various policy documents. For example, social entrepreneurship is a core feature of the national employment and HRD strategy. This policy interface reinforces the likelihood that the entrepreneurial learning strategy will be implemented. Croatia has also made good efforts in partnership and strategy building. Its partnership approach is more robust in institutional terms (for example, cross-ministry co-operation with direct engagement of the Chamber of Economy). In Montenegro and Kosovo under UNSCR 1244/99, partnership arrangements are more informal.

Policy developments remain less pronounced in the remaining countries although Albania, Bosnia and Herzegovina, and Serbia have plans to bring forward policy building in 2009-2010. Given that the policy indicator promotes coherence between entrepreneurial learning policy and wider economic, research, education and employment policies, all three countries would do well to ensure coherence and additionality vis-à-vis existing or on-going policy developments in related areas.

The litmus test for policy is how it is implemented. The countries of the Western Balkans are awash with education and other strategies, many of which are the result of good intentions by well-meaning donors but which are not followed through when donors move on. That the development of entrepreneurial learning policy in both Montenegro and Kosovo under UNSCR 1244/99 has been directly supported by international donors incurs a risk that the policy objectives may not be realised. Montenegro has already mitigated this risk by earmarking national funds through an action plan for lifelong entrepreneurial learning: financial commitment reinforces ownership of the policy. Other countries in the region that are engaging international support for policy building (Albania, Bosnia and Herzegovina, and Serbia) should be clear as to national sources, to ensure policies are implemented when international funds would be discontinued. Ensuring co-financing from the domestic purse, even at the policy elaboration stage, could go some way to instil a culture of commitment to be built upon as the entrepreneurial learning policy is implemented.

Finally, the assessment reviewed the extent to which entrepreneurial learning policies and activities were being monitored and evaluated. The conclusion of the assessment team is that monitoring and evaluation arrangements across all countries are weak. There is little structured intelligence or tracking of investment in entrepreneurial learning. At best, monitoring and evaluation is confined to projects, supported by an external purse with no evidence of regular reviews of activities. The indicator for monitoring and evaluation aims to encourage a culture of systematic monitoring and evaluation of activities in entrepreneurial learning, as much for good policy governance as for determining the effectiveness of investment. Each country should give more serious consideration to developing a monitoring and evaluation structure.

Lower secondary and upper secondary education

Both lower secondary and upper secondary education are considered together, given commonalities in the indicators, particularly on the entrepreneurship key competence.

As with the 2007 report, developments in lower secondary education remain the weakest of all areas covered by the dimension 1 indicator package. For the most part, the difficulty remains in addressing entrepreneurship as a key competence. Despite slow progress, there is clearly a more developed understanding by both policy makers and a small, proactive group of practitioners (teachers, curriculum specialists) as to the ethos and implications of introducing entrepreneurship as a key competence within mainstream curriculum. This is helped by a growing awareness for more open and innovative teaching and learning arrangements which will be essential in each country's bid to reform and modernise education. Good efforts are being made by Albania, Croatia and Kosovo under UNSCR 1244/99 in integrating the entrepreneurship key competence into national curricula while Montenegro (perhaps due the country's size) is proving more able to roll out reforms. Evidence from Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia and Serbia points to school-based reforms, some of which are excellent, but where more concerted efforts at curriculum policy and teaching reforms are required.

While challenges for the entrepreneurship key competence apply to both lower and upper secondary education, it is in the latter where wider entrepreneurship promotion sees more notable developments. The former Yugoslav Republic of Macedonia has mainstreamed entrepreneurship education across its upper secondary

Box 1.1

Lifelong entrepreneurial learning strategy

The Strategy for Entrepreneurship Education and Training of Kosovo under UNSCR 1244/99 aims to provide all students and adult learners with practical and theoretical insight into entrepreneurship. The strategy has been elaborated by a cross-ministerial task force (education, labour, trade and industry) in co-operation with the world of business. It calls for teacher training and curriculum reform to ensure that entrepreneurship as a key competence is addressed in compulsory education, with entrepreneurship as an elective subject in secondary education. The strategy also gives particular emphasis to promotion of entrepreneurship in third-level education, ensuring a lifelong learning dimension to entrepreneurship.

Download the strategy from: www.masht-gov.net schools, with good efforts also in Croatia, Kosovo under UNSCR 1244/99 and Serbia. Where piloting of reforms is under way (particularly financed by donors), it will be important that learning, in terms of policy and practice, is mainstreamed. The 2007 report warned of the risk of aimless pilots; this assessment reiterates that concern.

The Charter places particular emphasis on school-enterprise co-operation. With little data available, it was difficult to determine the extent of school co-operation with business. School-business co-operation is important for two reasons. Firstly, a more enterprise-open policy by schools fosters engagement of students and teachers with local businesses. It also creates greater awareness of the importance of a learning economy. Secondly, an enterprise-open policy by schools encourages a more education-open economy. With the business world more directly engaged in school management and planning, this should allow for improved relevance of curriculum and learning for the economy.

A further issue from the assessment is that entrepreneurship promotion in secondary education is more likely to be developed in vocational streams. That entrepreneurship is vocationalised is not surprising, given that vocational courses are more geared to the labour market. However, this bias will need to be corrected if the Charter's objective of "entrepreneurship education for all" is to be achieved.

Finally, what stands out from the assessment is that the primary drivers for development of entrepreneurial learning within the Western Balkan region lie outside the formal education system. In particular, understanding of entrepreneurship as a key competence is more prevalent amongst representatives of the world of enterprise than inside education ministries with push for its consideration by the education authorities coming from economic actors. For example, one initiative of a regional SME agency in Bosnia and Herzegovina engaged the pedagogical institute and schools (in the Republika Srpska) into dialogue as to how entrepreneurship education could be enhanced.

That the demands of the economy should be better reflected in the curriculum and teaching and learning process is breathing new life into an old debate. From discussion (particularly with education officials), the assessment team is aware that introducing entrepreneurship into formal education is considered as a further disruption to an already overcrowded education reform agenda. But with growing expectations as to education's contribution to changing economies, policy makers will be increasingly called upon to respond. The appeal for more openness and readiness of education systems to ensure that young people are equipped with key competences to deal with labour markets exposed to economic crisis and uncertainty has never been stronger.[14]

Good practice

Overall, efforts to share good practice in entrepreneurial learning are well developed across the region. Interesting is the range of players involved in highlighting and disseminating information on their activities through high-visibility events like national entrepreneurship fairs and conferences by education, industry and enterprise associations. Kosovo under UNSCR 1244/99 stands out for its cross-ministerial approach to raising public awareness on entrepreneurship education, while entrepreneurship education is profiled and publicly debated during Serbia's national small enterprise conference. Montenegro has made particular effort in promoting a local dimension to entrepreneurial learning, with a conference organised by the Mayor of Berane bringing together all parts of society to learn of the efforts of that municipality's schools, teachers, students and enterprises to integrate entrepreneurship in all its schools.

Although the Charter encourages more systematic co-operation among the range of players involved in entrepreneurial learning, information exchange is generally confined to loose networks, with practitioners showing little ambition to make their achievements known. More developed networks could inspire confidence amongst practitioners to publicise their work, thereby opening the door to opportunities for borrowing on expertise, concepts and practice. Plans by Montenegro's SME Directorate to develop an information portal on entrepreneurial learning have potential for promoting access to knowledge on entrepreneurial developments in that country, and beyond. This initiative highlights the potential advantages of more innovative use of information and communications technologies for entrepreneurial learning development.

Non-formal learning

A key finding from the overall assessment is that most effort in promoting entrepreneurial learning takes place outside the formal education system, administered by a range of agents particularly in the small business support environment. The assessment was keen to determine where non-formal entrepreneurial learning featured within national strategies. Montenegro's national entrepreneurial learning strategy gives considerable emphasis to non-formal developments.

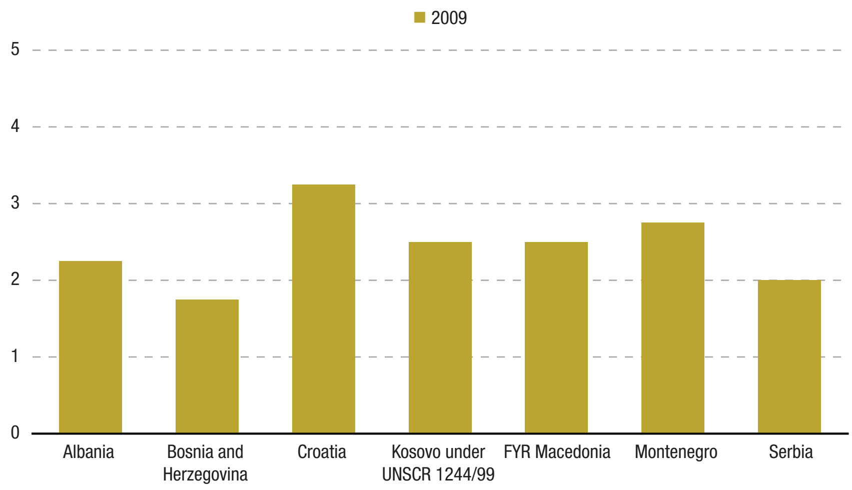
In terms of practice, organisations like Junior Achievement (Albania, Bosnia and Herzegovina, Kosovo under UNSCR 1244/99, the former Yugoslav Republic of Macedonia, Montenegro and Serbia) and ECONET training firms (Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia and Montenegro) continue to be important players in promoting knowledge and business acumen amongst young people in the region. While such activities are particularly appreciated by the select number of schools where they are involved, the investment could be maximised if the activities could be knitted into a broader systemic development in entrepreneurial learning within each country.

Table 1.1

Scores in dimension 1: Education and training for entrepreneurship (2009)

	ALB	BIH	HRV	XK	MK	MNE	SRB
Policy	2.00	1.75	3.00	2.75	2.25	3.25	2.00
Policy partnership	2.00	2.00	4.00	3.00	2.00	4.00	2.00
Policy support resources	2.00	2.00	3.00	3.00	2.50	3.50	2.00
Policy elaboration process	2.00	2.00	2.50	3.00	2.00	3.50	1.50
Monitoring and evaluation	2.00	1.00	2.00	2.00	2.00	1.50	2.00
ISCED 2	2.25	1.50	2.75	2.25	2.00	2.75	1.75
ISCED 2 organisation	2.00	2.00	2.50	2.00	2.00	3.00	2.00
ISCED 2 key competence	3.00	1.50	3.00	2.50	2.00	2.00	2.00
ISCED 2 learning environment	2.00	1.00	2.50	2.00	2.00	3.00	1.50
ISCED 3	2.00	2.50	3.25	2.50	3.25	2.00	2.50
ISCED 3 organisation	2.00	3.00	3.50	2.50	4.00	2.00	3.00
ISCED 3 entrepreneurial learning	2.00	2.50	3.00	3.00	4.00	2.00	2.50
ISCED 3 learning environment	2.00	2.00	3.00	2.00	2.00	2.00	2.00
Good practices	2.00	1.50	4.00	4.00	3.00	4.00	3.00
Non-formal learning	3.00	1.50	4.50	2.00	1.50	2.00	1.50
Overall weighted average for dimension 1: Education and training for entrepreneurship	**2.25**	**1.75**	**3.25**	**2.50**	**2.50**	**2.75**	**2.00**

Figure 1.2 Overall scores for dimension 1[15]



1.4 The way forward

Based on the foregoing analysis, two areas are identified to bring forward entrepreneurial learning developments in the Western Balkan region: more developed co-operation and knowledge-sharing on policy developments, and increased efforts to develop entrepreneurship as a key competence.

Regional co-operation on entrepreneurial learning policy

The case for more structured co-operation amongst national stakeholders to develop policy for lifelong entrepreneurial learning has been made earlier. Partnership building and partnership reinforcement should continue in all countries. The objective should be a one-system approach to lifelong entrepreneurial learning developments in each country. Simultaneously, national developments could be reinforced through more direct co-operation between countries in the region, particularly on policy formulation and where policy learning and knowledge-sharing could be considered. If national policy experts from the region were more directly engaged in Charter assessments (e.g. undertaking independent reviews of Charter progress in fellow countries in the region or beyond, such as in the Southern Mediterranean region where a similar Charter initiative is operational), greater understanding of the policy issues and options for back-home improvements could be promoted, including further opportunities for regional (and cross-regional) co-operation.

To create more structured co-operation on entrepreneurial learning within the Western Balkan region, all developments could be overseen by the Regional Co-operation Council (an inter-governmental body established to promote mutual co-operation in a number of sectors, including human capital development) and engage the South East European Centre for Entrepreneurial Learning. Established in February 2009, the Centre already includes regional co-operation in its mandate, with a specific focus on working with practitioners. It could be called upon to provide technical support for more concerted co-operation amongst policy makers from both economy and education areas.

Support framework for entrepreneurship key competence developments

Entrepreneurship key competence developments for the most part remain sketchy in the region. More developed efforts are needed to raise understanding of the entrepreneurship key competence amongst the education communities (teachers, curriculum specialists, teacher training organisations and senior policy officials responsible for compulsory education); particularly of the implications for curriculum, teacher training, school governance and management. A working group within each country could be considered, with high-profile leadership from the education authorities (e.g. Deputy Minister, State Secretary) tasked with developing commitment by policy makers and the schooling system to the entrepreneurship key competence.

Pilot developments in entrepreneurship key competence will need to be better integrated into policy dialogue and closely monitored to determine value in their contribution to mainstream education.

When engaging international technical assistance, governments in the region should ensure that the expertise of international contractors is not confined to the traditional "business plan" model of entrepreneurship education, and should include good understanding of the policy and practitioner implications of entrepreneurship as a key competence.

Notes

1 *EBRD (2009), Transition Report: 2008, European Bank for Reconstruction and Development, London.*

2 *The remaining text will refer to entrepreneurial learning which encompasses both entrepreneurship promotion within formal education and training systems, as well as outside the education and training system.*

3 *Levine, L. (2004), Self-employment as a contributor to job growth and as an alternative work arrangement, Federal Publications, Cornell University ILR School.*

4 *Thurik, A.R. et al. (2008), "Does Self-employment Reduce Unemployment?", Journal of Business Venturing, 23, pp. 673-686.*

5 *European Commission (2005), "Communication to the Spring Council. Working together for growth and jobs: A new start for the Lisbon strategy", Brussels.*

6 *"Non-formal entrepreneurial learning" refers to education, training and other forms of knowledge and skills build-up which is not subject to formal assessment or examination (e.g. a community-based youth entrepreneurship club) even though these activities may be supported and administered within the school environment.*

7 *See Pittaway, L. and Cope, J. (2007), "Entrepreneurship education – a systematic review of the evidence", Working Paper n°01/2007, Enterprise and Regional Development Unit, University of Sheffield Management School, White Rose CETL Enterprise, Sheffield. UK.*

8 *European Commission (2007), The Oslo Agenda. Entrepreneurship education: fostering entrepreneurial mindsets through education and learning, Brussels.*

9 *This assessment did not address entrepreneurship in primary or higher education. Indicators for entrepreneurship in higher education within a future regional assessment will be piloted in all countries in 2009-2010.*

10 *"ISCED" refers to the UNESCO International Standard Classification of Education.*

11 *European Commission (2005), Proposal for Recommendation of the European Parliament and Council on Key Competences for Lifelong Learning, COM 548. 10.11.2005.*

12 *Kirby D.A. (2004), "Entrepreneurship education: Can business schools meet the challenge?" in Education and Training, 46 (8/9), pp. 510-519.*

13 *All SME Policy Index scores have been rounded up or down to the nearest 0.25*

14 *Sahlberg, P. (2009), "Creativity and Innovation in Lifelong Learning", forthcoming in Lifelong Learning in Europe journal.*

15 *Although this report is published in 2009, its data collection took place in 2008. For the SME Policy Index Report 2007, data were collected in 2006.*

Dimension 2

Cheaper and Faster Start-Ups

Cheaper and Faster Start-Ups

2.1 Introduction

An efficient start-up process combines simple and streamlined procedures, with overall low charges for the new entrepreneur and low processing costs for the public administration, securing at the same time compliance with legal and regulatory requirements.

Until a few years ago, starting up a business was a complex and costly process in most of the EU and OECD countries. However, over the last decade, the application of new information and communications technology (ICT) solutions together with new approaches to regulatory issues have led to substantial gains in terms of efficiency.

According to *Doing Business* data, the average time to complete the overall start-up business process in OECD countries was cut between 2004 and 2008 by over 60%, from 32.8 to 13.2 days, while the average cost for the entrepreneur was reduced by nearly 50%, from 9.3% to 4.9% of average per capita income.

The 2007 Charter report showed that most of the Western Balkans had already achieved good results in improving efficiency and quality of the business start-up process (particularly in the registration and notification phase), while obstacles remained in the compliance phase.

The 2009 scores show that further progress has been achieved at regional level. In the case of the countries that had already reformed the company registration process (Croatia, the former Yugoslav Republic of Macedonia, Montenegro and Serbia), progress has been relatively marginal. There have been improvements in the operations of government agencies dealing with the registration and notification process and/or reduction of fees and minimum capital requirement. However, over the last two years, Albania completed an extensive reform of the company registration process and installed a new state-of-the-art registration system, hence achieving a major improvement its scores for the registration and notification phases. Bosnia and Herzegovina is now the only country in the region that has not completed a reform of the company registration process.

Based on the 2009 report results, it is possible to conclude that the company registration and notification process in the Western Balkans countries no longer constitutes a significant burden to business start-up. Attention should be now turned to improving the efficiency and transparency in the compliance phase (that delays the completion of the start-up process), speeding up the introduction of online registration and establishing reliable electronic company registers.

2.2 Assessment framework

The assessment framework for dimension 2 has not significantly changed from that adopted in the 2007 Charter report, allowing for a substantial comparison between the two periods.

A company start-up can be divided in 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 and office of statistics) that deal 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 Assessment framework for dimension 2

Phase 1

Company Registration

- No. of days to obtain company registration certificate
- No. of steps to obtain company registration certificate
- Official cost of obtaining company registration certificate

Phase 2

Notification

- Administrative identification numbers
- No. of days to obtain required identification numbers

Phase 3

Compliance

- Number of days to complete overall process
- Number of steps to complete overall process
- Application of silence-is-consent rule
- Total cost of overall process
- Minimum capital requirements
- Online registration

As in the 2007 Charter report, 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 independent assessment. Data for the overall process of setting up a business are taken from the 2009 IFC/World Bank *Doing Business* report.[1] The discrepancies between the data contained in the set of analytical indicators for Phase 1 and Phase 2, and the overall time and cost indicators provided, indicate the impact of private or public players, such as notaries, lawyers, municipal authorities and government agencies others than those directly involved in the two previous phases. A particularly important factor is the impact of obtaining licences and permits from the central or local administration.

Croatia, the former Yugoslav Republic of Macedonia and Kosovo under UNSCR 1244/99 have introduced simplified start- up process for crafts, while others apply the same company registration procedures to all categories of enterprises. Crafts represent a very substantial number of new annual registrations. The number of registered crafts in Croatia is approximately equal to the number of all other active enterprises. In order to take into consideration those procedural differences we have introduced in the 2009 report two new sub-dimensions dedicated to craft registration and notification. However, it is important to highlight that *Doing Business* data refer to the start-up process of a business entity registered as a limited liability company, therefore scores based on *Doing Business* indicators do not take into consideration simplified procedures for crafts.

The assessment framework is completed by a sub-dimension measuring progress made in the Western Balkans in introducing online company registration procedures. 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. Most of the Western Balkan countries are actively engaged in establishing electronic company registers that could be eventually accessed online. Although we have not yet elaborated specific indicators and assessed progress in this area, this could be done in the view of a possible continuation of the process.

2.3 Analysis[2]

The company registration process

In the 2007 Charter report, we divided the Western Balkan countries in two groups, according to their position in the company registration reform process. The first group included countries that, by end of 2006, had already conducted a comprehensive reform of the company registration process. Croatia, the former Yugoslav Republic of Macedonia, Kosovo under UNSCR 1244/99, Montenegro and Serbia were part of this group.

The second group was made up of Bosnia and Herzegovina and Albania – countries that at the time were at different stages of planning company registration reforms. Bosnia and Herzegovina had already elaborated a blueprint for reform, with substantial donor support, and it had started to amend the relevant legislation, while Albania was at an early planning stage and still debating what kind of institutional framework to adopt (i.e. whether to leave company registration under the domain of the judicial courts or establish a specialised company registration agency).

Two years later, Albania has completed the implementation of a radical reform of its company registration system and it is now leading the first group (see Table 2.1). We can observe an improvement in the cost and efficiency of company registration in most of the countries belonging to the first group, with more significant progress in the former Yugoslav Republic of Macedonia, thanks to the implementation of the 2006 Law on One-Stop-Shop System for the maintenance of the trade registry and the register of other legal entities. Croatia has also the one-stop system, operated by Hitro, the country's public administration service, in co-operation with FINA, the Croatian National Financial Agency.

However, company registration reform in Bosnia and Herzegovina remains blocked. The new company legislation law (calling for delivery of a company registration certificate within five days) was approved, harmonisation of company legislation procedures at entity level was approved in 2004 at state level and legislation has been passed at entity level in line with state legislation, but the new system is still not operational. Each entity therefore maintains a separate company register, using different procedures and applying different fees. The software system designed to facilitate the exchange of information between registration courts at entity level and establish a virtual national register has not been installed.

Table 2.1

The company registration process in figures[3]

		ALB	BIH	HRV	XK	MK	MNE	SRB
No. of days to obtain company registration certificate	2007	8	10	2-7	1	2-5	4	5
	2009	1	<15	<5	1	1	<4	<5
No. of steps to obtain company registration certificate	2007	7	6	1	3	1	1	2
	2009	1	5-7	1	3	1	1	2
Official costs of obtaining company registration certificate	2007	EUR 140	Approx. EUR 600	EUR 450	EUR 22	EUR 50-150	EUR 15	EUR 50-100
	2009	EUR 1	EUR 150-750	>EUR 350	EUR 5-20	Approx EUR 57	EUR 11	Approx EUR 60

Box 2.1

Good practice: Company registration reform in Albania

The reform conducted by the Albanian government is remarkable for its scope, its speedy implementation and the quality of results. Under the previous system, company registration could only be performed at the Tirana court. The system was cumbersome (particularly for entrepreneurs based outside the capital) and data in the company register was not easily accessible. The reform was made possible by the passing of the Law on National Registration Centre (NRC) in May 2007, transferring responsibility for company registration from the Tirana court to a new dedicated public agency. The new agency was in charge of implementing a one-stop business registration system, performing all the notification functions and maintaining the national electronic company register. The reform was conducted with the financial and technical support of the United States-sponsored Millennium Challenge Corporation, and co-ordinated by the Ministry of Economy, Trade and Energy.

The NRC became operational in early September 2007. By the end of October 2008, there was a network of 18 company registration centres across the country, with the target of 30 local centres by the end of 2008. In the year after the establishment of the NRC, there has been a significant surge of new company registrations, surpassing the threshold of 15 000 new applications. The centre is updating the records of existing companies, and transferring those records to the new electronic register. It is also processing the large backlog of company record modifications accumulated under the previous system.

Table 2.2

Scores for sub-dimension 2.1: Issuing of company registration certificate

		ALB	BIH	HRV	XK	MK	MNE	SRB
Number of days for comp. reg. certificate	2009	5.00	3.00	3.50	4.00	5.00	4.00	4.00
	Change since 2007	+2.50	0.00	0.00	-1.00	+1.00	0.00	0.00
No of admin. steps for comp. reg. certificate	2009	5.00	3.00	5.00	4.00	5.00	5.00	4.00
	Change since 2007	+2.00	0.00	0.00	0.00	0.00	0.00	0.00
Official costs for comp. reg. certificate	2009	5.00	1.50	1.00	4.00	3.00	4.00	3.00
	Change since 2007	+2.00	+0.50	0.00	0.00	0.00	0.00	0.00
Overall weighted average for sub-dimension 2.1: Company registration certificate	2009	**5.00**	**2.25**	**2.75**	**4.00**	**4.00**	**4.25**	**3.50**
	Change since 2007	+2.00	+0.25	0.00	-0.25	+0.25	0.00	0.00

The notification process

Over the last two years, progress on notification has been less marked than on company registration. The number of required notification procedures (resulting in the issue of identification numbers by different administrative authorities) and the length of the process have largely remained unchanged in most of the Western Balkan countries. However, as corollary to the establishment of the NRC, Albania (which had already adopted a single identification number) has been able to cut the notification process down to one day. Similarly the former Yugoslav Republic of Macedonia, following the introduction of the one-stop system, has also streamlined the process of issuing registration numbers. Just two numbers are now required (company registration number and tax office number), and they are issued simultaneously by the one-stop-shop within four hours of the application. Croatia and the former Yugoslav Republic of Macedonia are working towards the establishment of a single identification number.

Table 2.3

The notification process in figures

		ALB	BIH	HRV	XK	MK	MNE	SRB
Administrative identification numbers	2007	1	3	2	3	3	5	2
	2009	1	2-3	2	3	2	5	2
No. of days to obtain compulsory identification numbers	2007	5	7 for court registration 15-30 for foreign trade	6-15	2-5	2-5	5	15
	2009	1	15-20	5-15	5-15	1	5-15	15

Source: National self-assessment reports.

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

Table 2.4

Scores for sub-dimension 2.1: Company identification numbers

		ALB	BIH	HRV	XK	MK	MNE	SRB
Administrative identification numbers	2009	5.00	3.00	4.00	3.00	4.00	1.00	4.00
	Change since 2007	0.00	0.00	0.00	0.00	+1.00	0.00	0.00
No of days for company identification number(s)	2009	5.00	2.50	3.00	4.00	5.00	3.00	3.00
	Change since 2007	+1.00	0.00	0.00	0.00	+1.00	0.00	0.00
Overall weighted average for sub-dimension 2.1: Company Identification numbers	2009	**5.00**	**2.75**	**3.50**	**3.50**	**4.50**	**2.00**	**3.50**
	Change since 2007	+0.50	0.00	0.00	0.00	+1.00	0.00	0.00

Craft registration and notification

Croatia and the former Yugoslav Republic of Macedonia are the only two countries that have adopted different registration and notification procedures for crafts. Kosovo under UNSCR 1244/99 has introduced a simplified procedure for craft registration, including the delivery of the business registration certificate within one day for a fee of EUR 9.

In Croatia, craft business owners can complete the registration procedures with the Hitro contact point within five days. The registration and licence fees are substantially lower than company registration fees, totalling around EUR 65 In addition, certain activities require a technical licence at a cost ranging between EUR 55to EUR 150 depending on the activity. In the former Yugoslav Republic of Macedonia, craft registration is handled by the Chamber of Crafts, acting as a single reference point. The entire process is completed in eight days for fee of approximately EUR 100.

Table 2.5

Scores for sub-dimension 2.3 : Crafts registration

	ALB	BIH	HRV	XK	MK	MNE	SRB
Number of days for craft reg. certificate	5.00	3.00	3.00	4.00	5.00	4.00	5.00
No of admin. steps for craft. reg. certificate	5.00	3.00	5.00	3.00	5.00	5.00	5.00
Official costs for craft. reg. certificate	5.00	2.00	3.00	4.00	3.00	5.00	5.00
Overall weighted average for: Crafts registration certificate	**5.00**	**2.50**	**3.50**	**3.75**	**4.00**	**4.75**	**5.00**
Administrative identification numbers	5.00	3.00	4.00	3.00	4.00	1.00	4.00
No of days for craft identification number(s)	5.00	3.00	4.00	3.00	5.00	3.00	3.00
Overall weighted average for: Crafts identification numbers	**5.00**	**3.00**	**4.00**	**3.00**	**4.50**	**2.00**	**3.50**

Compliance and overall process

The indicators covering the entire business establishment process paint quite a different picture from the one that emerged from the previous set of indicators, although the country trends appear to be in line with the results of the previous analysis.

The country scores for this sub-dimension are largely based on the results of the annual *Doing Business* published by the International Finance Corporation/ World Bank. The section on "Starting a Business" of *Doing Business* measures the overall number of procedures, number of days to complete those procedures and the overall cost of starting up a new company (from the starting to the time the new company can legally start business operations). It therefore includes procedures performed by public bodies, at central and local level, as well as procedures performed by other players, such as lawyers or public notaries. It includes the time and costs for licences and permits. Data have been collected by local legal advisers, using the case of a locally owned company involved in commercial/industrial operations that do not involve specific health or environmental risks, with up to 50 employees and a start-up capital of ten times the per capita gross national income (GNI). The new business is incorporated as a limited liability company. The data in Table 2.1 refer to the performance of the public administration bodies directly involved in the registration and notification process, from the time a new application is presented. They are not related to a specific class of companies and exclude data on craft registration.

Although the methodology is not exactly comparable, the discrepancy between the *Doing Business* observations and data collected through the Charter monitoring exercise on public administration performance provides an indication of the level of actual barriers faced by entrepreneurs in completing the start-up process.

As noted before, over the last two years the Western Balkan countries have taken actions to improve the performance of the public administration bodies in charge of processing company registration applications, with the exception of Bosnia and Herzegovina, and a more limited improvement in the notification process.

Data from *Doing Business* seems to confirm that such actions had an impact on the overall start-up process (see Table 2.6.), but also that the main obstacles and the most significant charges are related to procedures outside the scope of the company registration and notification bodies, and are often incurred at local level.

In Albania, there has been a significant drop in the time and procedures in completing the start-up process, as a result of the company registration reform. Overall time and procedures have also been reduced in Croatia and the former Yugoslav Republic of Macedonia, two countries that are moving towards the implementation of one-stop-shop systems. Costs have been cut in the former Yugoslav Republic of Macedonia, but remain unchanged in Croatia. In Serbia, one more step has been added to the process, in light of the new money laundering legislation.

Data for Montenegro show that the main obstacle to complete the start-up process is still related to obtaining the municipal business licence and receiving municipal inspection, compromising the performance improvement consolidated for the registration and notification phase (a point already highlighted in the 2007 report). A similar situation is present in Kosovo under UNSCR 1244/99. The company registration and notification procedures at central level are quite efficient, but procedures at municipal level for obtaining the work permit and the approval of the local technical committee are still relatively lengthy. In addition, start-up costs are very significantly increased by the need to pay a EUR 1 000 work permit fee at a commercial bank, while official fees are low.

Doing Business data for Bosnia and Herzegovina indicate a worsening of overall performance, due to a significant increase in the number of procedures and the overall time required to complete the start-up process. However, there are some differences between the two entities, with the Federation of Bosnia and Herzegovina recording the weaker performance. Again the main delays and obstacles are concentrated at municipal level. Actions planned under the project Streamlining Permits and Inspection Regimes Activity (2005-09) supported by USAID have not had yet a measurable impact at municipal level.

Over the last two years, the former Yugoslav Republic of Macedonia and Kosovo under UNSCR 1244/99 have eliminated the minimum capital requirement, joining Montenegro that had already eliminated this requirement when it reformed the company registration process. In all the other Western Balkan countries, the minimum capital requirement remains in place and it is set at a relatively high level for Albania, Bosnia and Herzegovina, and Croatia.

Table 2.6

Overall business establishment process in figures

		ALB	BIH	HRV	XK[4]	MK	MNE	SRB
No. of days to complete overall process	2007	39	54	45	23	18	24	18
	2009	8	60	40	22	9	21	23
No. of steps to complete overall process	2007	11	12	10	5	10	15	10
	2009	6	12	8	12	7	15	11
Total cost of the overall process (EUR)	2007	429	679	739	N/A	158	182	252
	2009	575	845	930	1 088	99	192	97
Total cost of the overall process (% of income per capita)	2007	22.4	37	12.2	22	7.4	6.6	10.2
	2009	25.8	30.8	11.5	78	3.8	4.4	7.6
Minimum capital requirement (% of income per capita)	2007	36.7	52	20.6	Over 40	112.0	0.0	7.6
	2009	32.3	36.3	16.6	0	0	0	6.9

Source: *Doing Business 2007, 2009* (for Kosovo under UNSCR 1244/99, *Doing Business 2006, 2009*).

Table 2.7

Scores for sub-dimension 2.1: Completion of the overall registration process[6]

		ALB	BIH	HRV	XK	MK	MNE	SRB
No. of days for overall registration process (Doing Business)	2009	3.00	1.00	1.00	2.00	3.00	2.00	2.00
	Change since 2007	+2.00	0.00	-0.50	0.00	+1.00	0.00	0.00
No. of steps for overall registration process	2009	3.00	1.00	2.00	1.00	3.00	1.00	1.00
	Change since 2007	+2.00	0.00	+1.00	-1.00	+2.00	0.00	0.00
Silence-is-consent	2009	5.00	1.00	1.00	5.00	5.00	5.00	5.00
	Change since 2007	+4.00	0.00	0.00	0.00	+4.00	0.00	0.00
Costs of registration for limited liability companies	2009	1.00	1.00	1.00	1.00	3.00	3.00	2.00
	Change since 2007	0.00	0.00	0.00	-2.00	+1.00	+1.00	+1.00
Minimum capital requirements	2009	2.00	2.00	3.00	5.00	5.00	5.00	4.00
	Change since 2007	0.00	+1.00	+1.00	+4.00	+4.00	0.00	0.00
Overall weighted average for sub-dimension 2.1: Completion of the overall registration process	2009	**2.75**	**1.25**	**1.75**	**3.25**	**4.00**	**3.75**	**3.25**
	Change since 2007	+1.50	+0.25	+0.50	+0.50	+2.50	+0.25	+0.25

Source: Based on data from World Bank *Doing Business 2007, 2009.*

As noted in the previous report, the application of the silence-is-consent principle[5] is a useful way to speed up the overall process of setting up a business, as it shifts the costs of delaying the processing of a company application from the entrepreneur to the public administration. In 2006, the silence-is-consent rule was applied to the company registration process by Kosovo under UNSCR 1244/99, Montenegro and Serbia. (In the case of Kosovo under UNSCR 1244/99, the rule applied and continues to apply only to craft registration.) Following the reform of the registration process in 2007, Albania also introduced a silence-is-consent rule for the issue of the company registration certificate. Unless the National Registration Centre has not communicated the refusal or suspension of the registration application within one day from the application, the registration certificate is automatically approved.

Online registration

Online registration is making progress in the Western Balkans, as shown by Table 2.8. Croatia is still leading the progress in this area, being the only country in which electronic signature is fully operational and where pilot projects are under way. Online registration is already available in two counties: Varazdin and Medjimurje. All the other Western Balkan countries are taking steps to pass the supporting legislation, integrate databases and develop the software system. However, the lack of an operational electronic signature system remains a key obstacle to launching online registration procedures, even on a pilot basis.

The introduction of online procedures for applying for permits and licences presents a picture similar to that

Table 2.8

Status of online registration

	ALB	BIH	HRV	XK	MK	MNE	SRB
2007	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.	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 online registration, but the possibility is actively being investigated.	Evaluation of existing administrative procedures and proposals for introduction of online registration.	Law on online registration, action plan and budget provisions approved.
2009	The NRC is preparing to introduce online registration, but process blocked by the unavailability of the electronic signature.	No major change, still waiting for the approval of the law on the electronic signature.	Online registration for crafts operational through Hitro. Two pilot projects for online registration for companies.	Legislation adopted, technical preparation under way, but online registration not yet operational.	Tendering process for the development of an integrated database under way. Online registration targeted for October 2009.	Integration of electronic database under way, waiting for the entry in operation of the e-signature.	Online application in place, but online procedure cannot be completed yet, as e-signature not yet operational.

Table 2.9

Scores for sub-dimension 2.2: Increase in online access for registration

		ALB	BIH	HRV	XK	MK	MNE	SRB
Online registration	2009	3.00	1.50	4.00	2.50	2.50	2.50	3.50
	Change since 2007	+2.00	0.00	+1.00	+1.00	+0.50	+0.50	+0.50

of online registration. However, progress in this area has been relatively slower. It is closely linked to progress made on broader regulatory reform, as well as progress on the entry into operation of an electronic signature system.

Croatia and Serbia are the only two countries that offer the possibility of online application for a number of permits and licences. The other countries only offer so far the possibility to download online application forms.

Figure 2.2 Dimension 2 scores by sub-dimension

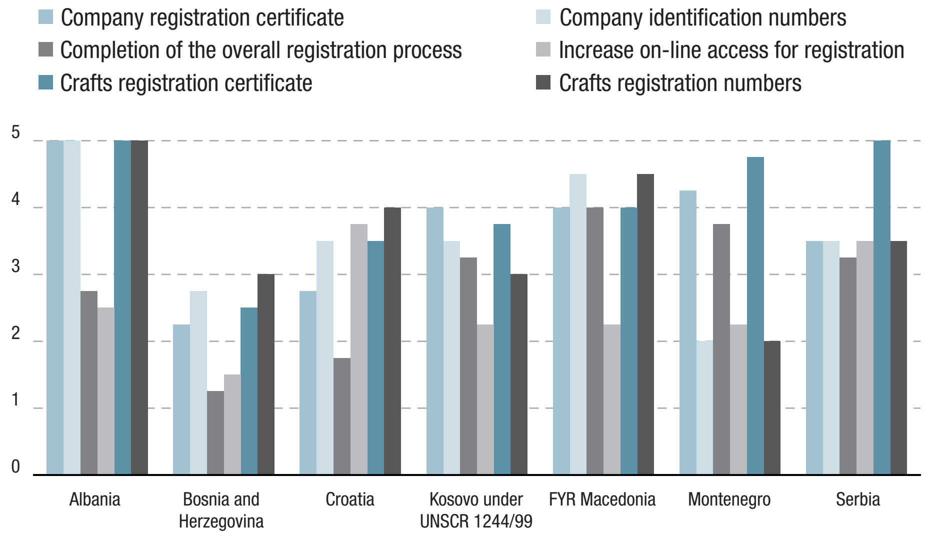
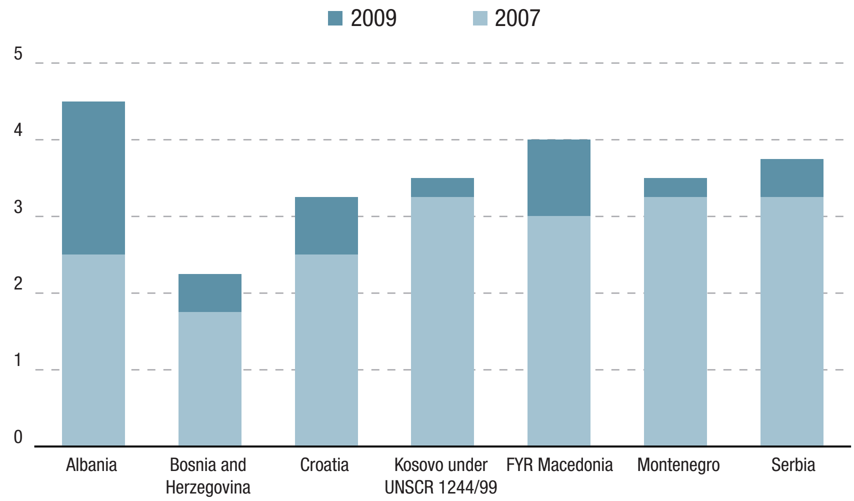


Figure 2.3 Overall scores for dimension 2



2.4 The way forward

The 2009 report shows that there has been significant progress across the region in promoting faster and cheaper start-ups. Progress has been more impressive in the registration phase. Today, new entrepreneurs can complete average registration procedures with company registers (specialised agency or commercial court) in less than five days from the time of application in all the Western Balkan countries, excluding Bosnia and Herzegovina. In most countries, it takes a day to obtain the company registration certificate from the time of application, for a fee less than EUR 60. The pre-application steps have also been streamlined. Progress in the notification phase has been less marked. Two countries (Croatia, the former Yugoslav Republic of Macedonia) are moving towards the one-stop-shop model. Progress has been patchy and slow in the compliance phase, with intervention focusing on the elimination or reduction of minimum capital requirements for start-ups (the former Yugoslav Republic of Macedonia and Kosovo under UNSCR 1244/99). Over the last two years, Albania and Serbia were the most successful reformers in this dimension, while Bosnia and Herzegovina lagged further behind the regional average. Overall, the priorities set out in the 2007 Charter report were only partially tackled and therefore remain largely valid for the near future.

Having successfully dealt with the first phase of the start-up process, governments should focus on the two other phases and in particular on the main remaining obstacle to cheaper and faster start-ups. The most critical area is compliance. There, governments need to find the right balance between the need to conduct checks and thorough inspections, in order to secure compliance with laws and regulations concerning health, security and environmental risks; and the desire not to put excessive burden on new business ventures. In addition, a number of compliance functions are handled by local authorities. The implementation of a wider regulatory reform programme (already adopted by most of the Western Balkan countries) will bring about progress in this area.

In the previous report, it was suggested as a medium-term objective to transform the company registration body into a centre of collection and dissemination of company data for the public administration (tax administration, office of statistics and employment office) and the private sector, within the limits set by confidentiality rules and regulations. This would require the establishment of an electronic data bank covering the entire population of registered enterprises (not only the latest entries) and the integration of a number of new functions. A further important development is the integration of the company registration systems into international networks, such as the European Business Registers. Steps in this direction have been taken by a number of countries (Albania, Croatia, the former Yugoslav Republic of Macedonia and Serbia), but further work remains to be done.

Notes

1 *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 complete 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.*

2 *All SME Policy Index scores have been rounded up or down to the nearest 0.25*

3 *Although this report is published in 2009, its data collection took place in 2008. For the SME Policy Index Report 2007, data were collected in 2006.*

4 *Doing Business 2006.*

5 *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.*

6 *Although this report is published in 2009, its data collection took place in 2008. For the SME Policy Index Report 2007, data were collected in 2006.*

Dimension 3

Better Legislation and Regulation

Better Legislation and Regulation

3.1 Introduction

The survey of the business environment identifies the administrative burden as a key concern. This is the case both for the EU Member States and for the candidate and potential candidate countries.

According to the Report of the Expert Group on "Models to reduce disproportionate regulatory burden on SMEs", the regulatory burden per employee is proportionally inverse to the number of employees.[1] Therefore, the regulatory burden for micro enterprises is twice as high as for the small enterprises with fewer than 20 employees, and three times as high as for the small businesses with 21 to 49 employees. (Bigger companies will face a regulatory burden of one fifth or less than micro enterprises.)

The economies in the region understood the importance of this aspect and launched major regulatory reform projects. However, because this is only one aspect that contributes to a good regulatory framework, the regulatory impact analysis (RIA) and the institutional set-up are also assessed. Most of the countries in the region progressed in all three areas.

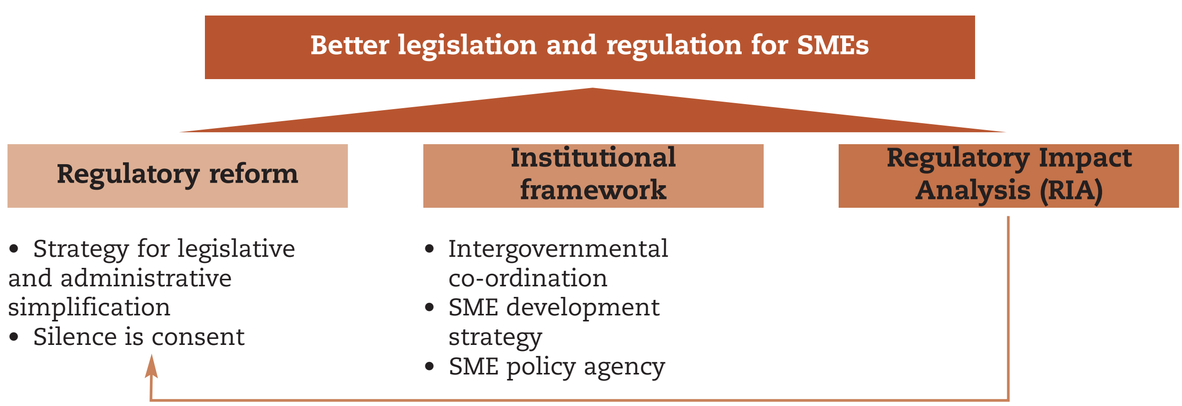
3.2 Assessment framework

This dimension is a relatively complex one as it encompasses three different elements as depicted in Figure 3.1. All three elements are essential to the creation of a stable and friendly business environment.

The objective of the first sub-dimension is a national legislation which is clear, understandable and user-friendly. This aspect was very important for the countries in the region as they had to eliminate from their economy obsolete pieces of legislation inherited from the former Yugoslav Federation, as well as other pieces introduced afterwards. Since the previous report, the indicators have been changed in order to focus on the strategic approach of this process and also assess the actual burden reduction.

The measures adopted under the "Simplification of SME-related legislation" have to be complemented by the introduction of RIA, the third sub-dimension, in order to keep the regulatory environment free from overburden and overregulation. This is because the aim of RIA is to improve the quality of the policies, and to improve and simplify the regulatory environment. It should also help to ensure consistency among different policies and to

Figure 3.1 Assessment framework for dimension 3



contribute to sustainable development by assessing the economic, environmental and social impacts of policy proposals. This area had been developed in the SME Policy Index, by looking at both the use and the type of RIA.

Another important aspect related to this dimension is that these countries are candidate and potential candidate countries which, as a precondition for becoming members of the EU, will have to adopt the *acquis communautaire*, leading to an improvement of their regulatory environment.

As the key ingredient for a coherent SME policy and regulatory environment is the institutional framework, this is assessed in the third sub-dimension.

3.3 Analysis[2]

Better regulatory environment

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

- Review of the current legislation;
- Regulatory impact analysis;
- Silence-is-consent principle.

Simplification of existing legislation strategy and review of legislation

The 2007 report assessed that Albania and Croatia have the most advanced and formalised simplification strategies of the existing legislation, with evidence of implementation. The former Yugoslav Republic of Macedonia joined this group in 2008. The three countries conducted reviews of legislation. All had already conducted the simplification of the regulatory environment, with Albania focusing more on eliminating or simplifying business permits and licenses, while the other two envisaged both the elimination of redundant legislation and the simplification of permits and licences.

Both Montenegro and Serbia registered progress in this area, with Montenegro being close to the first group as it launched implementation of its Operational Plan for 2008, in the framework of the Programme to Eliminate Business Barriers. In 2008, Serbia adopted its Regulatory Reform Strategy for 2008-2010 and the screening of the legislation should be carried out in the period end 2008-2009.

Although Bosnia and Herzegovina obtained higher scores in this sub-dimension than in the previous report, thanks to the Public Administration Reform Strategy, the objective of having a stable, friendly regulatory environment is far from reality: regulatory reform at the national level is not enough for this purpose. Apart from a systematic review of the legislation at the national level, the same should happen at the entity/district level, as they have legislative powers as well. The most cumbersome barriers appear when doing business across the border of entities/districts, as Bosnia and Herzegovina does not have an internal market. Therefore, co-ordinated efforts from national as well as entities/districts are the cornerstone of a successful regulatory reform and an improved business environment.

Kosovo under UNSCR 1244/99 was not assessed under this sub-dimension due to its status, in order to avoid penalising it for something that it does not need at this point in time. The main challenge for Kosovo under UNSCR 1244/99 is to regulate its business environment. However, in order not to over-regulate, it is recommended that RIA be introduced.

Table 3.1

Scores within sub-dimension 3.1: Review of the current legislation[3]

	ALB	BIH	HRV	XK	MK	MNE	SRB
Strategy for legislative and administrative simplification	4.00	3.00	4.00	N/A	4.00	3.50	3.00
Review and simplification of current legislation	4.00	3.00	5.00	N/A	4.00	4.00	3.00
Elimination of redundant legislation and regulations	4.00	2.00	4.00	N/A	4.00	3.50	1.00
Overall weighted average for sub-dimension 3.1: Business simplification strategy and review of the current legislation	**4.00**	**2.75**	**4.25**	**N/A**	**4.00**	**3.75**	**2.50**

Regulatory impact analysis

In the current report, a new indicator has been added to the RIA component in order to have a clearer view on its use in the different countries. This has led to small variations in the overall score compared with the 2007 report. Otherwise the picture remained almost the same with one exception, namely the former Yugoslav Republic of Macedonia.

The former Yugoslav Republic of Macedonia, with the adoption of the legal framework for RIA in 2008, registered a substantial increase in scores. However, the impact of RIA has not yet been felt as this procedure only became mandatory in January 2009.

Serbia maintained the position of the most advanced user of RIA, where it is applied to all draft regulations and has been formally introduced into the legislative system.

Croatia made further progress in the field of RIA. In June 2007 the Croatian government adopted a decree establishing the Central RIA Co-ordination Office. According to the 2004 Government Decision on RIA, before being submitted to the Parliament, an act must undergo four types of RIA: financial impact, market competition and state aid, environment protection and social impact. The CARDS BIZIMPACT project supported RIA implementation in Croatia by developing an RIA manual and organising study tours and training sessions.

The remaining countries are at a similar level, with Albania standing out as it is currently preparing the introduction of RIA with the help of the World Bank BERIS project. Montenegro plans the introduction of RIA by December 2009. For Bosnia and Herzegovina and Kosovo under UNSCR 1244/99, the plans in this field are not yet clear.

Table 3.2

Scores in sub-dimension 3.1: Regulatory impact analysis (RIA)

		ALB	BIH	HRV	XK	MK	MNE	SRB
Use of regulatory impact analysis		2.00	1.50	4.50	1.50	3.00	1.50	4.50
Type of regulatory impact analysis		1.00	1.50	4.00	1.00	3.00	1.50	4.50
Overall weighted average for sub-dimension 3.1: Regulatory impact analysis	2009	**1.50**	**1.50**	**4.25**	**1.25**	**3.00**	**1.50**	**4.50**
	Change since 2007	0.00	0.00	+0.25	-0.25	+1.5	0.00	0.00

Box 3.1

Regulatory impact analysis in Serbia

Serbia is the most advanced country in implementing systematic RIA for new legislation as this obligation is included in the Government's Rules of Procedure of 2005. As RIA is only one component of the better regulation process, it is part of the Regulatory Reform Strategy for 2008-2011, together with the regulatory review.

The Council for Regulatory Reform and Quality Control was set up in 2003 to help the government in the regulatory reform process, focusing on RIA.

As the type of RIA applied in this country is not very sophisticated, further improvements are needed. However, a soft RIA is applied for each piece of legislation. Serbia benefited from the help of Swedish International Development Co-operation Agency and the World Bank Group for the introduction of RIA and the development of procedures and methodology.

Silence is consent

Overall, the use of silence is consent in standard SME administrative practice is underdeveloped, but progress has been made since the last report. The main reason for the increase in scores is due to its application in business registration: this is the situation in Albania, Serbia, the former Yugoslav Republic of Macedonia. Kosovo under UNSCR 1244/99 also currently applies it for business registration. Montenegro plans to introduce it in the practice of the public administration, and Croatia recognises the importance of this principle but no concrete steps have been taken yet towards the general application of this principle. No progress was registered in Bosnia and Herzegovina since the last report.

Table 3.3

Scores for sub-dimension 3.2: Silence is consent

		ALB	BIH	HRV	XK	MK	MNE	SRB
Silence is consent	2009	2.50	1.00	1.50	2.50	2.50	2.00	2.50
	Change since 2007	+0.50	0.00	+0.50	-1.50	+1.50	+1.00	+0.50

Institutional framework

Since the 2007 report there are several changes in the overall ranking, as well as significant progress in the cases of Albania and Serbia.

The institutional structure for the SME policy remained almost the same from the previous report in terms of both policy making body and executive agency, with one exception: Kosovo under UNSCR 1244/99, due to the establishment in 2006 of the SME Support Agency. The increases in scores came from the improvements in the efficacy of these bodies in carrying out their tasks. Table 3.5 offers an overview of the bodies in charge of the inter-ministerial co-ordination and the basis for this co-operation.

The higher score for Serbia is thanks to increased co-operation between the policy making body and the executive agency. At the bottom of the ranking are Kosovo under UNSCR 1244/99 and Bosnia and Herzegovina. In Kosovo under UNSCR 1244/99, the elaboration of the SME policy was transferred to the newly created agency, which also has executive functions. Although they are building their capacity and are helped by different donors, their expertise is still limited and they rely heavily on the technical assistance of donors.

Bosnia and Herzegovina has yet to improve the capacity of the Department for Economic Development and Entrepreneurship in the Ministry for Foreign Trade and Economic Relations, especially concerning the co-ordination between the entities/district. This situation should change with the creation of the Council for SME Development previewed in the draft SME strategy.

The situation in Croatia, the former Yugoslav Republic of Macedonia and Montenegro has not changed significantly since the previous report.

In examining the executive agencies to implement SME policy, there are few marginal improvements in the cases of Albania, Kosovo under UNSCR 1244/99 and Serbia (the Serbian Agency is leading the ranking). The main characteristics of the agencies in the regions are presented in Table 3.6.

The Serbian Agency for the Development of SMEs and Entrepreneurship stands out, together with the Directorate for Development of SMEs of Montenegro, in terms of staff, budget and network of local offices, with a considerable increase in the case of Serbia. In terms of projects, both the Serbian Agency and the Montenegrin Directorate have several well defined and well funded projects to improve the business environment, supported by international organisations.

In the case of the former Yugoslav Republic of Macedonia, although the projects to be implemented (stipulated in the Strategy for SMEs and the Action Plan) are well defined, they do not have adequate staffing and more importantly, the necessary financial resources to implement them.

The performance of Croatia compared with the other countries is due to the fact that the agency has not set

Table 3.4

Overview of inter-ministerial co-ordination

	ALB	BIH	HRV	XK	MK	MNE	SRB
The inter-ministerial co-ordination is carried out by :							
The body elaborating the SME policy	✔	✔	✔	✔	✔	✔	✔
How	Specific committees composed of different institutions responsible for SME Development and donor forum meetings.		Through co-operation with the stakeholders on ad hoc basis.	It should be done through the Advisory Body of the Agency, but this is not yet in place.	In conformity with the Government's Rules of Procedure.	Through regular government sessions.	
External advisory body			National Competitiveness Council	SME Consultative Council, advisory body to the Ministry for Trade and Industry			SME and Entrepreneurship Council

clear objectives. Its communication with the Ministry of Economy, Labour and Entrepreneurship could be improved.

Both Albania and Kosovo under UNSCR 1244/99 increased their scoring, as Albania stepped up its efficiency in implementing the SME Strategy, and Kosovo under UNSCR 1244/99 established its agency.

The situation of Bosnia and Herzegovina remained the same, where an executive body at the national level has yet to be established. Again, the draft Strategy should improve the situation in the near future.

With the exception of Bosnia and Herzegovina, and Kosovo under UNSCR 1244/99, all other countries in the region adopted and began implementing a strategic document for the development of SMEs. Both countries have elaborated their strategies, but as the strategies have not yet been adopted, they are at the same level as in the previous report.

The most advanced countries in this area are Croatia, Montenegro and Albania (the latter thanks to the adoption of the Business and Investment Development Strategy for 2007-2009, and the SME Strategic Development Programme for 2007-2009). All these countries' strategies include a medium to long-term policy agenda, explicitly aimed at developing the SME sector, accompanied by time-bound targets and an analysis of the necessary financial resources. There is strong evidence of implementation in all three countries.

Serbia is in the early stages of a new strategy for SMEs in October 2008, designed to contribute to the development of competitive and innovative SMEs, but it is too early to have proof of its implementation (hence the lower score for this country). There is also a slight decrease in the case of the former Yugoslav Republic of Macedonia. The National Development Strategy for SMEs for 2002-2012 was updated after six years of implementation, taking into consideration the results of the first period. The decrease in the score is due to the insufficiency of funds for implementation.

Table 3.5

Comparison between the executive agencies from the region

	ALB	BIH	HRV	XK	MK	MNE	SRB
The name of the body	AlbInvest	No	Agency for Small Enterprises (HAMAG)	SME Support Agency	Agency for Promotion of Entrepreneurship	Directorate for Development of SMEs	Serbian Agency for the Development of SMEs and Entrepreneurship
Type of body	Executive agency		Executive agency	Executive and policy making body	Executive agency	Executive and policy making body	Executive agency
Total number of staff/ professional staff	11/5 for the SME and Export Promotion Department		40/N/A	12/no information	12/9	20/17	35/26
2008 budget excluding donor funds (in EUR)	1 800 000 but for all three fields: export and investment promotion and SME development		N/A	approx. 2 400 000	325 000	3 150 000	3 000 000
Network of local offices	No		No	No	No	9 local offices	17 local offices

Table 3.6

Scores for sub-dimension 3.3: Institutional framework

		ALB	BIH	HRV	XK	MK	MNE	SRB
Inter-governmental co-ordination in policy elaboration	2009	4.00	2.00	4.00	3.00	4.00	4.00	4.00
	Change since 2007	0.00	0.00	0.00	0.00	0.00	0.00	+1.00
SME development strategy	2009	4.00	2.00	4.00	2.00	3.00	4.00	3.50
	Change since 2007	+2.00	0.00	0.00	0.00	-0.50	0.00	+1.00
SME policy implementation agency or equivalent	2009	3.50	2.00	3.50	3.00	3.50	4.00	4.50
	Change since 2007	+0.50	0.00	0.00	+0.50	0.00	0.00	+0.50
Overall weighted average for sub-dimension 3.3: Institutional framework	2009	**3.75**	**2.00**	**3.75**	**2.75**	**3.50**	**4.00**	**4.00**
	Change since 2007	+0.75	0.00	0.00	+0.25	-0.25	0.00	+0.75

The overall situation on this sub-dimension, presented in Table 3.7, is positive. Albania, Kosovo under UNSCR 1244/99 and Serbia demonstrated improvements, while the slight decrease registered in the former Yugoslav Republic of Macedonia was due to the insufficient funding for SME policy.

Figure 3.2 Dimension 3 scores by sub-dimension

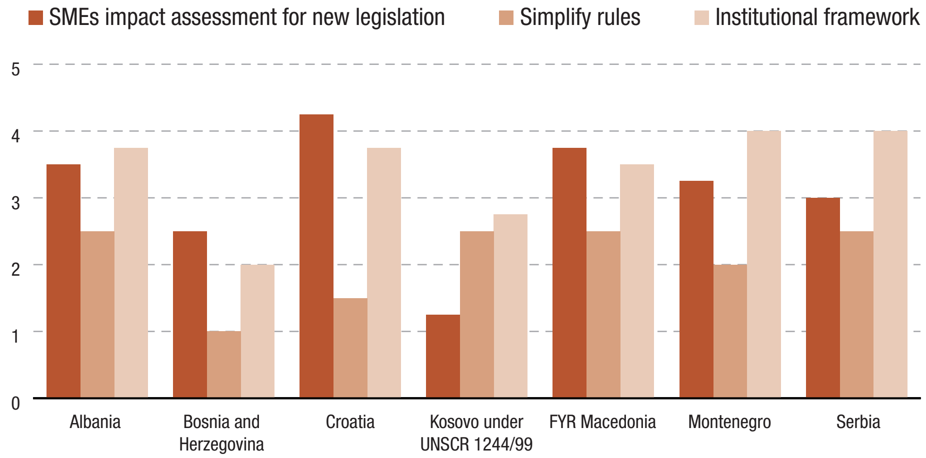
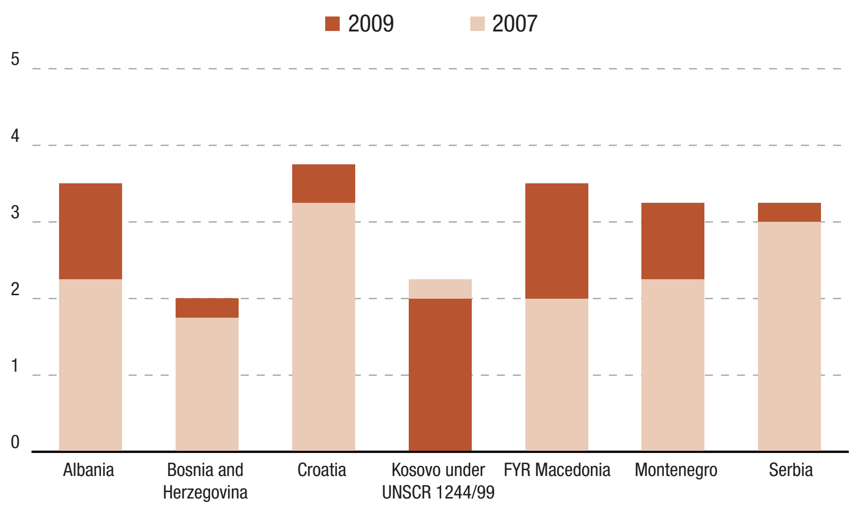


Figure 3.3 Overall scores for dimension 3



3.4 The way forward

The situation for the Better regulation dimension has improved from the previous report. The overall average for the Western Balkans has increased significantly; all but two (Bosnia and Herzegovina, and Kosovo under UNSCR 1244/99), are above level 3, considered as a threshold at which a solid legal and/or institutional framework is in place.

Of the three elements considered in this dimension, the poorest performance across the region is in the application of the silence-is-consent principle, and further efforts are needed in this area.

The systematic application of RIA also requires attention. There are two countries with relative good track record in RIA, namely Croatia and Serbia, and this system should also start to be implemented in the former Yugoslav Republic of Macedonia this year. The main challenge that has to be addressed in this area is the improvement of the authorities' capacity to carry out pertinent analyses of the implications of the respective legislative proposal, and then incorporate the respective results in the draft of the law.

Currently, for the overall situation of this dimension, there is a compact group of five countries. All have an effective institutional framework in place and have adopted strategic documents for the SME sector's development and for the regulatory environment. (Further efforts need to be put into implementation of their strategies.) Bosnia and Herzegovina, and Kosovo under UNSCR 1244/99 are lagging behind because they miss one or both of these elements. They have to adopt their strategies and start implementing them without delay.

Notes

1 *European Commission, Report of the Expert Group on "Models to reduce disproportionate regulatory burden on SMEs", May 2007, http://ec.europa.eu/enterprise/entrepreneurship/support_measures/regmod/regmod_en.pdf*

2 *All SME Policy Index scores have been rounded up or down to the nearest 0.25*

3 *Although this report is published in 2009, its data collection took place in 2008. For the SME Policy Index Report 2007, data were collected in 2006.*

Dimension 4

Availability of Skills

Availability of Skills

4.1 Introduction

The case for investment in education and training has never been stronger. Economists and policy makers increasingly consider human capital as crucial for enterprises operating in more open and volatile markets and where knowledge-intensive economies, dependent on quality education and training, replace traditional manufacturing. Set against these challenges, a primary message from the Charter is that workforce competencies should be regularly reviewed and improved, with resulting implications for the education system and wider training market.

A primary conclusion of the 2007 Charter report was that getting to a more comprehensive understanding of human capital within enterprises in the Western Balkan region was problematic, given lack of skills' data on those already employed. Workforce statistics (including data on education and skills where they exist), are generally concerned with those out of work rather than those already employed. The 2007 Charter report recommended more systematic tracking of enterprise human capital (especially training needs) to allow for better targeting of investment, particularly for training and re-training programmes. This issue takes on further significance as the severity of the global financial crisis bites, and where enhanced human capital is considered as an essential element in the recovery effort.[47]

A particular interest within this dimension of the Charter is to determine the degree of investment and support for training for new businesses (start-ups), as well as the extent to which expanding enterprises are engaging training as part of their growth drive. This is set against the potential that start-ups and growth enterprises may have in contributing to the EU Lisbon objectives of economic growth and employment. Given EU integration perspectives, all countries participating in the Charter will be required to gradually work towards these objectives and to meet the challenge of the economic criteria for EU accession - the capacity to cope with competitive pressure and market forces within the Union.[1]

This chapter discusses the outcomes of the assessment of six indicators whose objective was to determine how the business world in the Western Balkan region was engaging training as part of the region's efforts to step up its competitiveness drive. It concludes with proposals for the countries to consider in the bid to improve enterprise human resource developments.

4.2 Assessment framework

The assessment framework covers six indicators: training needs analysis, enterprise training, access to training, start-up training, enterprise growth and quality assurance. The indicators as a whole have an inherent policy focus and in terms of content are generally qualitative. Nonetheless, most of the indicators contain quantitative criteria. For the purposes of the assessment, each of the indicators was considered as a separate unit in the assessment. However, all six indicators have a cumulative value in providing a primary assessment framework for human capital within the enterprise environment in the Western Balkan region.

The assessment differs in two respects from the 2007 report. Firstly, two additional indicators have been introduced. These address training for start-ups and training for growth enterprises. Secondly, based on the experience of the first run of the indicators in the 2007 report, small adjustments were introduced to the indicators addressing training needs analysis and quality assurance. Further details on the changes are detailed below.

An indicator addressing affordability of training in the 2007 report was not included in the 2009 report as it was considered unworkable.

Given a more elaborate set of indicators in the 2009 assessment, a strict comparison with the 2007 assessment is not possible but the outcomes underline important trends in enterprise human resource developments.

Training needs analysis (TNA) and enterprise training

The rationale behind the TNA indicator is that effectiveness of training supported by public and private investment is more likely to be successful when it reflects the specific demands of the market. The indicator foresees TNA as fulfilling three functions: determining skill weaknesses in the workplace, identifying skill gaps and defining future skill requirements. In the absence of concrete data on training within the small enterprise sector in the Western Balkans, the objective of the Charter indicator is to encourage countries to develop an intelligence framework that ensures that data on enterprise skills is available and provides a measure of the health of human capital within the private sector.

A second indicator (enterprise training) seeks to quantify the extent to which small enterprises in the Western Balkan region are engaging in training. As such, it acts as a policy barometer to determine the wellbeing of HRD within a country's enterprise environment. Assuming sufficient recognition within a country of the potential of a skilled workforce to contribute to competitiveness and growth, the indicator additionally provides a number of policy signposts which countries could use to upgrade knowledge and skills within small enterprises.

Start-up training

The purpose of the "start up" indicator is to encourage the development of training for start-ups with a particular emphasis on e-training (i.e. where those in a business start-process would engage in self-learning through training available on line).

Enterprise growth

The "enterprise growth" indicator focuses on training within expanding enterprises where HRD investment in new markets, products and services creates business opportunities. Central to the indicator is that policy and support structures are available to provide HRD support to businesses ready to take the growth route; and that investment in enterprise growth strategies is systematically monitored.

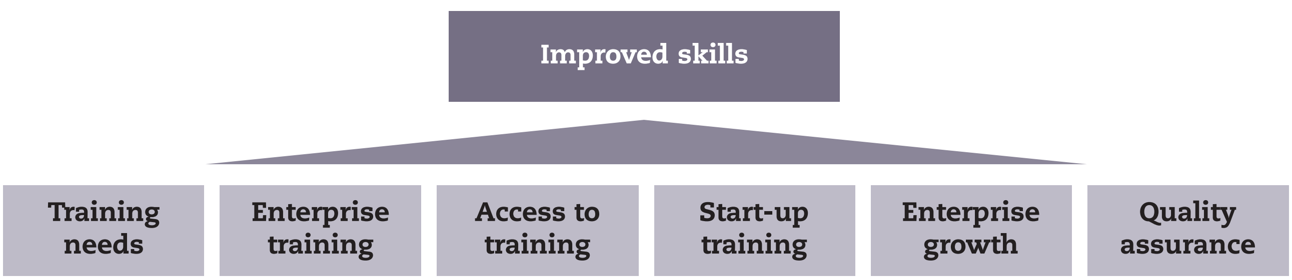
Access to training

The "access to training" indicator seeks to determine the extent of training services within a given country with particular reference to geographical spread. The rationale for the indicator is that a well developed training market should ensure that small businesses have ready access to training, thus enhancing the prospects for better business performance.

Quality assurance

The rationale for assessment of quality assurance in the training market is that cash-strapped enterprises are more likely to engage in training when they are assured of the quality of the training. Further, enterprise confidence in the quality of training should create further demand for training, making for a more developed training market. The indicator specifically encourages the development of a quality assurance framework for training programmes and training providers.

Figure 4.1 Assessment framework for dimension 4



4.3 Analysis[2]

This section considers the findings from the assessment. Overall, and taking into account the various adaptations to the indicators for this Charter dimension, the progress by the countries since the 2007 report has been slow. With an overall weighted average of 2.2, the results break the countries into two groups: Croatia and Serbia are above the regional average and the remaining countries make up a weaker performing group (see Figure 4.2), although the former Yugoslav Republic of Macedonia falls just short with 2.1.

A limitation in the assessment exercise was the lack of comprehensive and reliable data on enterprise training (improved data on enterprise training was cited in the 2007 report). With little strategic development by the countries to establish more comprehensive data on human capital within the small enterprise environment, and generally poor data to consult in the assessment exercise, it was decided not to include the quantitative results for the enterprise training indicator within the overall analysis. While four other indicators involved quantitative criteria, the quantitative demands lay primarily in the upper levels of the indicators (apart from start-ups where evidence was relatively easier to identify) and therefore allowed for assessment.

Training needs analysis (TNA) and enterprise training

Both the "TNA" and "enterprise training" indicators are addressed together given their interconnectedness and the concerns raised by the assessment about reliable data.

First, the enterprise training indicator determines the extent to which businesses are engaging in training in each country. This requires comprehensive and reliable data. The assessment could not identify sufficient, reliable statistics on human capital within the small enterprise sector in all countries. At best, although more data sources were available compared to the 2007 report, the data were confined to projects. This differed according to a diverse range of purposes and was generally dispersed across a plethora of organisations (ministries of economy, SME agencies, employment authorities, chambers of commerce, programme management units of internationally supported enterprise development programmes, employer organisations) with no apparent attempt to bring order to the data.

With the available data, arriving at confident conclusions on the situation of human capital in the small enterprise sector in each country was not possible. For these reasons, data on enterprise training have not been included in the assessment. Nonetheless, a number of countries are taking initiatives to build more comprehensive data particularly on training needs of small businesses. Kosovo under UNSCR 1244/99's Chamber of Commerce, for example, intends to establish more systematic tracking of enterprise skills, building on a model enterprise survey of small companies. Another example involves the Montenegrin Employers' Federation (MEF) which has piloted a TNA survey in its most underdeveloped region in the north of the country. The MEF data found that only 15% of existing businesses had benefited from start-up training while just 1% of small enterprises had engaged in training since business operations started.[3] The findings have spurred MEF to move forward with country-wide development of enterprise human capital intelligence. Meanwhile, Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia and Serbia have each reviewed the range of training data available within their enterprise environments, with options for improving enterprise training data shared with key stakeholders. The extent to which the recommendations associated with each review will be followed through remains to be seen.

A proposal for the countries as a group to move towards more strategic intelligence building on human capital for small enterprises supported by the European Union provides an opportunity for the countries to move beyond the constraints imposed by weak data on enterprise human capital in the region.

Data aside, the assessment identified considerable effort to promote training in all countries with good networks of training providers, for the most part public training services. Given that training provided by public training services is generally targeted at the unemployed, the extent to which this training provision is directly accessible by enterprises is not clear. This issue is considered further below.

Access to training and quality assurance

In terms of access to training, the assessment puts particular emphasis on information on training programmes available, particularly online information that enterprises could draw upon in their quest to develop human resources. The assessment identified a range of information sources available across all countries. Information generally included details on training provided by public training centres and whose training offer is primarily marketed at job seekers, as well as training information services provided directly by SME support institutions. Croatia's HITPOP portal provides a good example of multi-functional, web-based information on the training market.

Information on private sector training provision is generally not available, underlining an undeveloped training market. One constraint to development of the training market is quality assurance. Without an established and transparent quality assurance framework for training, enterprise confidence and consequently take-up of training services will remain compromised. Nonetheless, a number of countries (e.g. the former

Yugoslav Republic of Macedonia and Serbia) are already taking steps to introduce formal accreditation arrangements for training providers, which will go some way to addressing quality concerns.

Specifically on public training services, it is not clear to what extent training provided by these services (usually under the auspices of the labour administration) is directly available to workers already employed. Assuming each country undertakes to develop more systematic data on training within/for the enterprise environment, the sources of training (public and private training providers) would make it possible to determine public support for human resources already employed within enterprises, including funding frameworks and incentives schemes to encourage enterprises to develop understanding of the potential that investment in staff can bring to the enterprise.

Box 4.1

Using technology to promote access to training

Since 2008, Croatia's HITPOP web portal has provided a comprehensive range of information to the enterprise world on training (providers and their programmes) available within the country. It features a search function for easy identification of training by geographical area as well as content of training. It provides details on upcoming training events, including costs. In some instances, visitors to the web portal are also able to download training materials. With password access, visitors may join online discussion groups. The portal is financed and managed by the Ministry of Economy, Labour and Entrepreneurship.

Visit the HITPOP website: http://eobrazovanje.mingorp.hr/default.aspx

Start-up training

All countries were able to furnish some evidence of start-up training, which immediately allowed for a level 2 in the assessment. Determining more precise data for higher levels within the indicator was difficult. Overall, the assessment finds that data on start-up training are generally drawn from singular sources, including ministries of economy (e.g. Croatia), SME agencies (e.g. Serbia) and enterprise support institutions (e.g. Montenegro). Data for Serbia, however, are drawn from intelligence gathered from a specific campaign by Serbia to promote business start-ups, which (combined with more data available at the SME agency) allowed for a fuller assessment.

Aside from general statistics, a further gap in the region's intelligence framework is weak empirical enquiry in the area. Results from the Global Entrepreneurship Monitor (GEM) 2009 report nevertheless provide some general indications on start-up training in three countries (Bosnia and Herzegovina, Croatia and Serbia).[4] In a survey of the adult population, some 28% of respondents in Croatia had undertaken some training for business start-up, with 20% of respondents in Bosnia and Herzegovina, and 10% in Serbia.[5] While the data may not be entirely relevant for the purposes of the Charter assessment, they suggest clear differences between the countries in terms of how the learning systems are preparing people for business start-up. (By way of comparison, statistics for Finland and Slovenia stand at 50% and 36%, respectively.)

The start-up indicator particularly seeks to promote self-learning (i.e. budding entrepreneurs accessing start-up training online). The 2009 report suggests that start-up e-learning is not being promoted as a strategic option for preparing people for new ventures. One good practice example from outside Europe and reported in the GEM 2008 report could be considered by the governments from the region. Chile provides online training for business start-ups. Some 20% of adults surveyed here had undertaken self-learning. The high rate of self-learning for business start-up is a result of online learning that is integrated with the online business registration system in that country.

To move forward on this indicator, all developments to build intelligence on human capital within the enterprise environment should also track how training is promoted for business start-ups. Including training as an integral feature of the start-up registration process could also be considered.

Enterprise growth

The assessment reveals varying degrees of policy support across the region for training for growth enterprises. Growth enterprises featured within national economic plans (or similar instruments) in most countries. However, the extent to which financial support is earmarked for training and advisory services for growing businesses is difficult to determine, given that financing is generally included in a more global budgetary allocation for broader enterprise development. This suggests that training and advisory services for businesses with growth potential are not receiving sufficient priority.

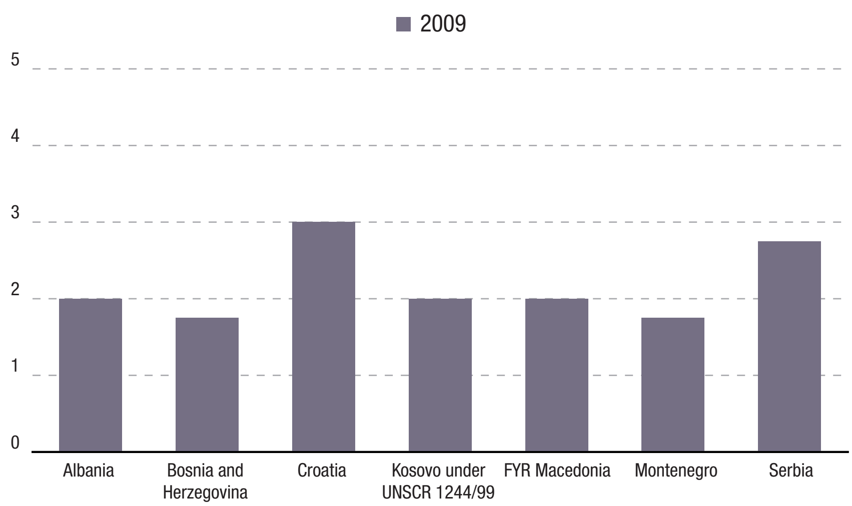
Croatia and Serbia demonstrate more developed policy commitment and targeted financial support specifically for growth businesses. For example, Serbia's SME strategy and five-year operational plan for the promotion of competitive and innovation SMEs gives particular emphasis to expanding businesses. Croatia's

Table 4.1

Scores for dimension 4: TNA and enterprise training[6]

		ALB	BIH	HRV	XK	MK	MNE	SRB
Training needs analysis policy	2009	2.00	1.50	2.50	2.50	1.50	2.50	2.50
Quality assurance	2009	2.00	2.00	3.50	2.00	2.50	1.00	3.00
Access to training	2009	1.00	2.50	4.00	1.00	3.00	1.00	3.00
Start-ups	2009	2.00	1.00	2.50	1.00	2.00	1.50	3.00
Enterprise growth	2009	2.00	1.50	3.50	2.00	2.00	1.50	3.00
Overall weighted average for dimension 4: Availability of skills	2009	**2.00**	**1.75**	**3.00**	**2.00**	**2.00**	**1.75**	**2.75**

Figure 4.2 Overall scores for dimension 4[7]



SME agency (HAMAG) gives financial support to growing enterprises as part of its wider package of services for the enterprise community. Its policy commitment to growth enterprises is backed up with training data gathered by the economy ministry.

To improve training provision for expanding enterprises, all countries would do well to raise their profile beyond the national development plans to be included within more specific policies with clear budgetary allocations earmarked. Secondly, assuming that a specific budgetary line can be established for training and advisory services for growth enterprises, this should be allocated against pre-defined business growth criteria (e.g. product development) and clearly indicate type of training eligible for support (e.g. training for quality assurance, HRD, strategic planning, marketing, financial management, information technology skills, coaching and performance management). More developed data on human capital needs and developments of growth enterprises would allow for improved policy focus, as well as more targeted allocation of public financial support.

4.4 The way forward

Two areas are proposed here that would allow countries to move forward on dimension 4 of the Charter: systematic data development and development of the training market.

Systematic data development

There remains a dearth of data on enterprise training across the Western Balkan region. A shift to evidence-based policy making will be important if the countries are to ensure that investment in training is more effective. To quickly address this data gap, a regular survey of enterprises, particularly those operating in more developed economic sectors, should be considered. The survey should address both management and trade skills, while taking into account the knowledge requirements of the business sector *vis-à-vis* European trade. The survey should focus on three areas: skill gaps, so that these can be addressed as a priority; skill weaknesses in areas such as ICT, so that businesses and sector associations can determine solutions with training providers; and future skill and knowledge requirements. Given specific EU recommendations for more developed labour market intelligence, all efforts in this area would ensure that the countries also respond to the EU's "jobs and growth" strategy[8]. Further, given a more specific concentration on gender within the European Small Business Act, all data developments should be gender-sensitive.

Plans for development of TNA models across all EU pre-accession countries (Turkey included) by the South East European Centre for Entrepreneurial Learning should go some way to meeting this requirement. But given the regional focus of the Centre, efforts here will not be sufficient to address the needs at national level. All data developments ideally should involve a partnership arrangement in each country, with responsibility, ownership and commitment clearly defined between public and private sector.

In terms of data collection, management, analysis and reporting, an established business support organisation(s) or university (with applied research interests within each country) could provide the service. All strategic data developments should accommodate the information needs of the range of policy makers (enterprise, economy, education and training) involved.

Finally, while data build-up is fundamental, there is clearly a need for more developed, independent research on human capital in the region. Earlier research efforts on transition economies in Europe (such as the ACE initiative supported by the EU's Phare programme in the 1990s) provided for independent, professional analysis on common areas of socio-economic concern in transition economies, with emphasis on policy making. With an agreed research framework and financial backing, identification of common areas of human capital concern (including wider enterprise policy interest) for all Western Balkan countries could be considered.

More developed training market

Setting aside the potential impact of the global economic crisis on the economies of the Western Balkans, the perspective of all countries should be geared towards a more developed training market where both public and private sector training providers respond to increasing demands from enterprises for training and advisory services as the national economies grow. The role and contribution of public training organisations, with training infrastructure and capacity in providing services on trade skills, should be reconsidered to allow for "services on demand" for local enterprises. Given a particular emphasis of public training services on training for the unemployed, extension of training to those already employed within enterprises will require further investment. This also requires a more concerted policy dialogue between those responsible for employment and economic policies, with enterprise representations to determine options that provide staff of existing enterprises access to affordable training.

All developments in the training market should be undertaken within a quality assurance framework, thereby generating confidence and further demand from enterprises for services. With the potential for training providers to deliver services across the region, co-operation amongst the countries on quality assurance and accreditation of training provision could be explored.

Notes

1 *European Commission (2008), New skills for new jobs: Anticipating and matching labour market and skills needs. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, COM (868/3).*

2 *European Council (1993), Conclusions of the Presidency, Copenhagen, 21-22 June 1993.*

3 *All SME Policy Index scores have been rounded up or down to the nearest 0.25*

4 *Curovič, V. (2008), Training Needs Analysis for the Municipality of Berane, Montenegrin Employers' Federation, Podgorica.*

5 *GEM (2008), Global Entrepreneurship Monitor: 2008 Executive Report, Babson College and Universidad del Desarrollo, Santiago.*

6 *This data do not refer to existing and potential start-ups. They capture education and training which have addressed business start-ups within the formal school environment as well as non-formal training provided outside national education systems.*

7 *Although this report is published in 2009, its data collection took place in 2008. For the SME Policy Index Report 2007, data were collected in 2006.*

8 *Op cit. European Commission (2008).*

Dimension 5

Improving Online Access for SMEs

Improving Online Access for SMEs

5.1 Introduction

This chapter examines the development of, and support for, 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 online support services related to filing of annual tax returns by individuals or companies, and advice on various tax matters, export support, etc.

Encouraging enterprises to adopt ICT solutions is 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, engage in e-business activities, and access new and richer information sources in order to enhance innovation and competitiveness.

Online access to e-government is of particular importance to micro and *small companies* where 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 provide 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 Kosovo under UNSCR 1244/99 in providing online services to businesses, two sub-dimensions have been evaluated:

Interaction with government services. The interaction between governments and enterprises is of central importance to both. Creating an online filing system requires reviewing existing procedures and adapting and simplifying them for the online environment. It should reduce the compliance costs to enterprises (with respect to government tax requirements) and enhance their ability to estimate tax liabilities. Online filing will also reduce collection costs, enabling the authorities to devote more resources to providing information and support to taxpayers. In addition to online filing of *taxes*, this year's assessment also includes an indicator on the possibility of filing social security returns and reporting enterprise statistics online. A last new indicator in this dimension covers any other online services provided by the government, such as procurement, pensions or cadastre.

Online information for SMEs, including a dedicated portal with interactive capacity. With the Internet explosion, the range and variety of information available online has grown exponentially. This includes government-generated information describing the services and programmes they provide to businesses, and the requirements of the business community. In this area, the level of information available and its accessibility were investigated. 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.

The set of indicators within this dimension have been altered slightly since the 2007 SME Policy Index Report: the former sub-dimension on tax returns was complemented by three indicators on additional online government services, namely online social security returns, online reporting on enterprise statistics, and an indicator on any other online government services, such as public procurement or cadastres. In turn, the sub-dimension on managing permits and licences online was taken out of this dimension, as it is already covered by the indicator on online registration in dimension 2. Finally, the sub-dimension on information online, which formerly only included one general indicator, was broken down into two separate indicators: one indicator measuring the availability of online information for SMEs and the existence of an online portal for SMEs, and a second indicator measuring the quality of the online portal, if existent.

Figure 5.1 Assessment framework for dimension 5

5.3 Analysis[1]

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 definitely leading to an overall reduction of private sector costs in their dealings with governmental bodies. Since 2007, the programme has had several parts: e-Administration, e-Justice, e-Education, e-Health Services and e-Business. The Central State Administrative Office for e-Croatia co-ordinates all e-initiatives. A number of e-programmes (e.g. e-Land Registry, e-Cadaster, e-REGOS, e-VAT and e-Government) have significantly contributed to better business access to public authorities and regulations. Albania, Montenegro and Serbia have also made significant progress in rendering government services more accessible online. Together with the former Yugoslav Republic of Macedonia, they form a second group of countries behind Croatia.

Interaction with government services

Since the 2007 report, only Albania has joined Croatia and Montenegro as the group of countries where SMEs can file tax returns and/or social security returns online. In the case of Croatia this is in large part due to the effective implementation of the electronic signature, including a functioning accreditation body (see dimension 9 for further details on the application of the electronic signature). As in the 2007 report, Croatia maintains the leading e-government system in the Western Balkans: it has been operating smoothly for several years now, and is thus working with increasing efficiency. In Montenegro, online tax returns operate through the revenue RTSX model - clearance system. For social security returns, the recently adopted law on common registration and reporting systems for calculation of tax and contribution payments describes the introduction and function of a central register of contribution holders for social insurance reporting systems and data protection. Albania has achieved the most marked progress since the 2007 report. Taxpayers can pay value added tax, income tax and profit tax online, and submit social security returns since July 2008 in the Tirana tax office and in Durres; since October 2008 in Vlore, Lezhe, Elbasan and Shkoder; and since November 2008 in Korce and Fier. In the case of paying tax, the relevant forms can be downloaded directly from the website, which includes a guide published by the General Directorate of Tax on how to proceed with the tax payment online. These developments in e-government are part of the US-funded Millennium Challenge Account support. The key problem, nevertheless, remains the e-signature system. As it lacks a functioning accreditation body, the electronically available forms still have to be signed and handed to the relevant public body in person.

The former Yugoslav Republic of Macedonia has made some concrete plans to implement a comprehensive system of online filing of taxes and social security returns, but has fallen short over technical difficulties. In Bosnia and Herzegovina, Kosovo under UNSCR 1244/99 and Serbia, concrete plans are still lacking, although in Serbia several forms for filling tax and custom declarations can be downloaded online. In fact, in Bosnia and Herzegovina, and Kosovo under UNSCR 1244/99, e-government initiatives remain very much in their infancy.

Reporting on enterprise statistics

Regarding the possibility of reporting on enterprise statistics online to government agencies and bodies, Croatia's and Serbia's progress is most notable. In Croatia, FINA has introduced a Registry of Annual Financial Reports through its website and WEB-Bon. The Serbian government posts all of its major enterprise surveys online (although they have to be submitted by mail or in person, due to the lack of a functioning electronic signature).

Table 5.1

Scores for sub-dimension 5.1: Interaction with government services[2]

		ALB	BIH	HRV	XK	MK	MNE	SRB
Tax returns	2009	3.50	1.50	4.00	2.00	2.50	4.00	1.50
	Change since 2007	+2.50	+0.50	0.00	+1.00	-0.50	0.00	+0.50
Social security returns		4.00	1.50	4.00	2.00	3.50	3.50	1.00
Reporting on enterprise statistics		2.00	1.50	4.00	1.00	2.00	2.00	4.00
Extension to other services		3.50	1.50	4.00	1.00	4.00	2.00	1.50
Overall weighted average for sub-dimension 5.1: Interaction with government services		**3.25**	**1.50**	**4.00**	**1.50**	**3.00**	**2.88**	**2.00**

Table 5.2

Main SME-related government websites

	Address	English + local language	Government information	Official forms	e-business services	FAQs (frequently asked question)	Fully inter-active
Albania	www.albinvest.gov.al	✔	✔	✔	✔	X	✔
Bosnia and Herzegovina	www.fbihvlada.gov.ba www.vladars.net www.rars-msp.org www.bdcentral.net www.mvteo.gov.ba	✔	✔	✔	X	X	X
Croatia	www.hitro.hr	✔	✔	✔	X	✔	✔
Kosovo under UNSCR 1244/99	www.odaekonomike.org www.kosovo-eicc.org www.mti-ks.org www.kosovatenders.org www.kosovabiz.com www.sme-ks.org	✔	✔	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.rs www.sme.gov.rs www.euprava.rs www.poreskauprava.gov.rs	✔	✔	✔	X	✔	✔

Extension to other services

Croatia again leads the way in the region, on the topic of extension of online applications to other government services not mentioned above. Although in an early stage of implementation, the government has introduced e-REGOS, e-pension and e-cadastre systems. In Albania, public procurement procedures can also be filed online, thanks to an electronic procurement law that was approved on 20 November 2006 (Law no. 9643). Interestingly, in the former Yugoslav Republic of Macedonia, the Public Procurement Bureau operates an Information System for Electronic Filing, through which all physical or legal persons may access calls for tenders and advertisements. The Bureau website provides full information regarding tenders.

Online information for SMEs and quality of online portal

All governments in the region have improved their provision of information online, but the quality and quantity of this information varies. In most cases, a number of unrelated sites are maintained by different institutions and programmes. Some of these sites are financed by donor programmes, and their future sustainability is unclear.

Although much information is available on these sites, 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 the languages of the key foreign investors).

Serbia and Croatia have the highest quality and variety of online information. In Serbia, online information for SMEs is particularly abundant, and is spread across several, well-structured websites available in Serbian, English and often one or several additional European languages. The most notable websites are those of the Ministry of Economic Development (Directorate for SMEs and Entrepreneurs), the Serbian Business Registration Agency, the National SME Agency and the newly developed website of the Chamber of Commerce. Together the websites provide the SME sector with information on registration, taxation, regulations and credits, and more, as well as answers to frequently asked questions and the possibility to ask specific questions. However, only the website of the Chamber of Commerce resembles a portal, bundling several websites and services. The Strategy for Competitive and Innovative SMEs of the Serbian Agency for the Development of SMEs and Entrepreneurship includes the creation of an SME-dedicated online portal and there are concrete plans to establish such a portal in 2009. Information in Croatia is also extensive on the websites listed above. The presentation of the information, however, has several shortcomings: lack of translation into English, information dispersed over several websites and limited promotion of these websites across SMEs in Croatia.

Websites in the remaining countries have more fundamental deficiencies; in most cases, a lack of focus on SME issues. In Albania, for example, AlbInvest, which also deals with SME development, has established a professional and well-designed website available in Albanian and English. Its focus, however, is almost entirely on servicing foreign investors, with no information and links targeted to SMEs.

Table 5.3

Scores for sub-dimension 5.2[3] : Information

		ALB	BIH	HRV	XK	MK	MNE	SRB
Online information for SMEs	2009	2.50	2.00	4.00	2.50	2.50	3.00	4.00
	Change since 2007	+0.50	-0.50	0.00	+0.50	-0.50	0.00	+1.00
Quality of online portal		3.00	2.00	4.00	3.00	3.00	2.00	4.00
Overall weighted average for sub-dimension 5.2: Information		**2.75**	**2.00**	**4.00**	**2.75**	**2.75**	**2.50**	**4.00**

Figure 5.2 Dimension 5 scores by sub-dimension[4]

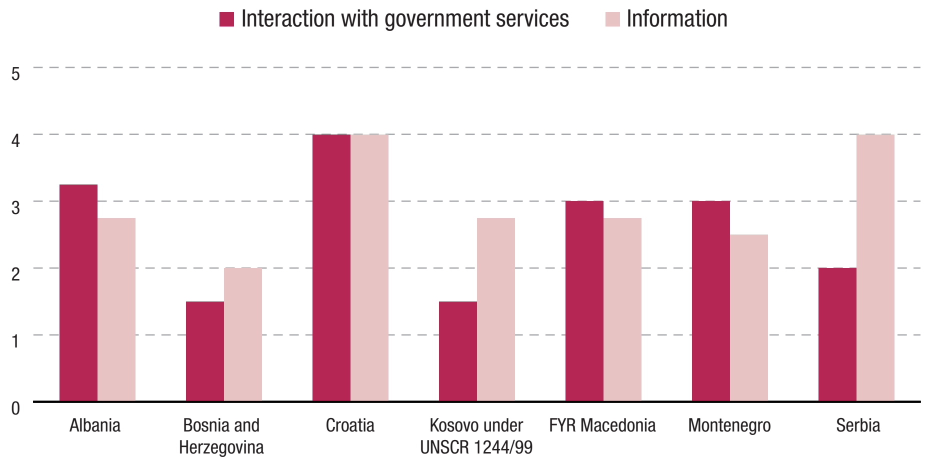
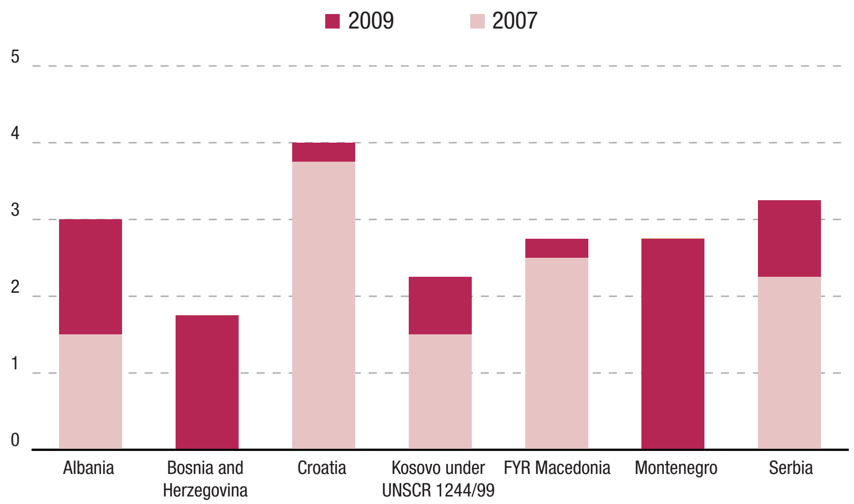


Figure 5.3 Overall scores for dimension 5[5]



5.4 The way forward

The comparison to the 2007 SME Policy Index Report shows that almost all Western Balkan governments have made progress in improving online access for SMEs to government services, particularly Albania and Serbia. More marked progress, however, remains necessary to fully profit from the new possibilities offered by the Internet.

Although *ad hoc* improvements have been made in several countries to make government services available online, there is generally still a need for encouraging progress in the context of wider e-government issues and strategies designed to improve relations with citizens and to encourage ICT activity. This includes setting up a functioning e-signature system (see Chapter 9).

There is a clear need in all Western Balkan countries to provide more (and bundled) SME-dedicated online information. Although the quality and variety of government online information has improved drastically, SME-specific portals are still categorically lacking.

Notes

1 *All SME Policy Index scores have been rounded up or down to the nearest 0.25*

2 *Although this report is published in 2009, data collection took place in 2008. For the SME Policy Index Report 2007, data were collected in 2006.*

Dimension 6

Getting More Out of the Single Market

Getting More Out of the Single Market

6.1 Introduction

The 2007 report recognised that the move towards full integration in the EU single market presents a major challenge and, at the same time, a huge opportunity for the Western Balkan countries. Dismantling tariff and non-tariff barriers is a necessary condition for trade integration. Yet without a major effort to promote productivity and competitiveness of the Western Balkan enterprises to bring quality and technical standards up to the EU level, companies (and in particular SMEs) will struggle to establish a presence in the EU market. They will find it difficult to withstand competition from EU firms in their domestic and regional market. The 2007 report concluded that the Western Balkan countries had identified the key issues and started to introduce measures aimed at enhancing SME competitiveness. At the same time, the report recognised that the Western Balkan countries were only on the cusp of a multi-year effort to enhance enterprise competitiveness.

Over the last two years, the process of economic integration of the Western Balkan countries into the EU economy has made significant strides. The Stabilisation and Association Agreements (SAA), now in place with all Western Balkan countries, provide the scope for the elimination of remaining tariff (on import from the EU) and non-tariff barriers, the adoption of EU quality and technical standards, and the progressive implementation of a free goods circulation regime between the EU and the candidate and potential candidate countries in the Western Balkans.

Croatia is most advanced in the EU integration process, as it is currently negotiating EU Accessions. At October 2008, negotiations were open on 21 of the 35 Accession Chapters, including all those chapters related to economic integration. The former Yugoslav Republic of Macedonia (which signed a Stabilisation and Association Agreement in 2001) is well advanced in its implementation and has reached a high level of compliance. Albania and Montenegro (which signed SAAs in 2006 and 2007, respectively) are gradually aligning their legislation with the *acquis communautaire*. Bosnia and Herzegovina, and Serbia (which signed SAAs in July and in April 2008 respectively) are in the initial implementation phase. However, both countries have signed Interim Agreements, focusing on trade-related areas, aimed at speeding up the implementation of measures supporting trade integration. Relations with Kosovo under UNSCR 1244/99 are conducted within the framework of the Commission Communication, A European Future for Kosovo under UNSCR 1244/99, of April 2005.

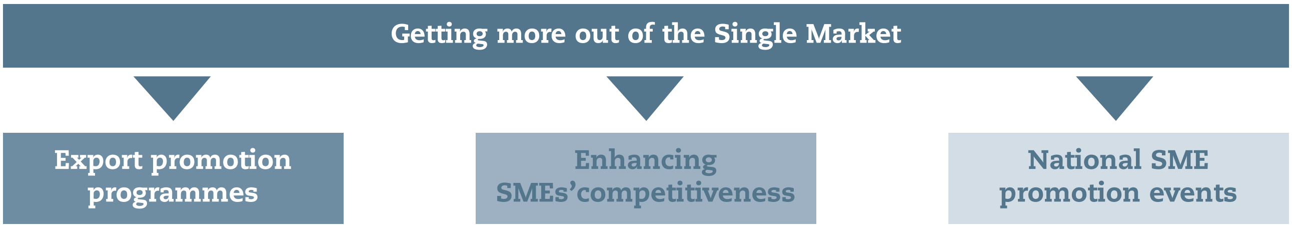
The 2009 report shows that progress on this dimension has been relatively limited in the last two years. It has been more significant in the area of export promotion, but remains particularly weak in the area of competitiveness enhancement. Only two countries (Croatia and Serbia) are currently implementing comprehensive support programmes targeted at SMEs.

6.2 Assessment framework

The assessment framework for this dimension has been only marginally modified compared to that reported in 2007. In addition to the two policy areas covered in 2007 (export promotion programmes and competitiveness programmes), a new area covering national SME promotion events has been included. Over the last two years, SME development agencies and other government and non-government organisations have organised promotion events for the SME sector, such as exhibitions, national SME conferences, awards to the most innovative and performing enterprise, etc. These events provide an opportunity to present government policies, to raise the profile of the SME sector, and to stimulate innovation and competitiveness at company level.

Many export-oriented companies in the Western Balkans rely heavily on supplier credits and overdrafts for their working capital, and act as subcontractors for EU-based companies. This makes them particularly vulnerable to the combined impact of a sharp slowdown of demand from the EU economy (as a result of the global economic crisis) and the lack of short-term financing due to the credit crunch. Under such conditions, schemes providing support for export financing, such as export

Figure 6.1 Assessment framework for dimension 6



credit insurance schemes or guarantees on export credits, as well as programmes aiming at diversifying clients and export markets, could play an important role in helping companies to weather the crisis. Access to finance issues are covered in Chapter 7. This section explores the provision of services to export-oriented companies.

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 internationally recognised certification. This section assesses the range of available export programmes, their comprehensiveness and co-ordination, and the degree to which they remain funded by donors.

SME competitiveness programmes

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 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, the analysis is 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.

National SME promotion events

As mentioned before, such events have multiple purposes, ranging from commercial purposes, to the presentation and debate of policy measures aimed at the SME sector. Successful events are built upon a close co-operation among stakeholders, including government agencies, chambers of commerce, local authorities and professional associations.

6.3 Analysis[1]

Export promotion programmes

In the 2007 Charter report we noted that, while all governments in the region had launched active export promotion programmes and a number of countries had established export promotion agencies, seldom were those actions based on a multi-year strategy, integrated in the SME development strategy or the broad competitiveness agenda.

Over the last two years the situation has generally improved. A number of countries (Albania, Croatia and Serbia) have elaborated and approved integrated multi-year export promotion strategies. Others such as the former Yugoslav Republic of Macedonia and Montenegro have re-financed and expanded existing programmes.

In Kosovo under UNSCR 1244/99, the export base is still very limited and export promotion initiatives are still conducted on an *ad hoc* basis, support largely by donor funding. In Bosnia and Herzegovina, export promotion activities remain fragmented, mostly donor-supported and conducted at entity or regional development agency level.

In the 2007 Charter report we had identified three groups of countries, according to three criteria: the level of institutional development (presence and performance of an export promotion agency, presence of an export promotion strategy), the range of services provided to exporters (export intelligence, insurance, support for marketing and promotion activities) and the amount of resources available to support those programmes.

Croatia and Montenegro were in the most advanced group, while the former Yugoslav Republic of Macedonia and Serbia were in the second group, made up of countries with active trade policy promotion programmes that initially began with donor support but were increasingly supported by government funding.

Albania, Bosnia and Herzegovina, and Kosovo under UNSCR 1244/99 were in the third group; they were at different stages of establishing pilot export promotion programmes.

The results of the 2009 report show that the first and second group have largely converged, with Croatia, the former Yugoslav Republic of Macedonia, Montenegro and Serbia now offering similar ranges of services and support to exporters. Albania has also joined this group, following the approval of an integrated export strategy in February 2007 and the establishment of the Competitiveness Fund, with an initial budget of EUR 200 000 managed by AlbInvest, the government investment and trade promotion agency.

The situation is Bosnia and Herzegovina has not significantly changed, despite the establishment of an Export Council and Export Promotion Agency (BHEPA) at state level, while in Kosovo under UNSCR 1244/99, export promotion is now under the portfolio of the newly established Investment Promotion Agency.

The countries belonging to the first group have all introduced cost-sharing support schemes, where government contributes part of the export promotion costs (participation in international exhibitions, marketing operations, etc.) sustained by exporters. Budget are still relatively limited in Albania, the former Yugoslav Republic of Macedonia and Montenegro, while are more significant in Croatia and Serbia. Countries still benefit from technical assistance support to build databases, develop contacts in foreign markets, and upgrade skills and operational tools, but financial resources are now largely provided by the state budget. In this context, the participation of most of the countries in the region in the Enterprise Europe Network (EEN) comes as important advantage (see Box 6.2 on EEN).

Currently, Serbia and Croatia are leading the first group. They both have a well structured and fully operational export promotion agency (covering both

Box 6.1

Serbia Investment and Export Promotion Agency

The Serbia Investment and Export Promotion Agency (SIEPA) is a governmental agency, established in 2001. It provides a range of services free of charge, to both foreign and domestic companies, and is financed from the government budget and other donations (mostly from foreign governments and international organisations).

SIEPA can be considered as a one-stop-shop for information and advising. SIEPA provides foreign investors with various business information (e.g. about taxation, set-up procedures, relevant legislation, etc.); offers legal advice; assists foreign investors in obtaining licences and permits; organises visits and contacts with officials from the government and municipalities, as well as potential local suppliers; assists in selection of the investment site, *inter alia* by maintaining a database of investment locations; presents ready-to-invest projects etc. Recently SIEPA has become in charge of organising a contest for allocation of state grants for Greenfield and Brownfield investment projects.

Concerning export promotion activities, SIEPA maintains a database of exporters, organises participation of Serbian companies at trade fairs abroad, offers training and education for exporters, provides information about important export markets, and also subsidises certain export marketing activities of SMEs (such as market research, product and packaging design, promotional materials, etc.).

Table 6.1

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	Export Promotion Agency (BHEPA) operates within the BiH Foreign Trade Chamber	N/A	N/A	N/A
Croatia Trade and Investment Promotion Agency (APIU)	Merged functions: Investment and Export Promotion	N/A	✔	✔
Kosovo under UNSCR 1244/99 Investment Promotion Agency	Executive agency operating under the supervision of the Ministry of Trade and Industry Trade Promotion section recently established	✔	N/A	N/A
The former Yugoslav Republic of Macedonia	Agency for Foreign Investments	✔	✔	N/A
Montenegro	Department within the Directorate for SME Development of the Ministry of Economy	N/A	✔	✔
Serbia SIEPA	Executive Agency Investment and Export Promotion	✔	✔	✔

Table 6.2

Scores for sub-dimension 6.1: Export promotion programmes

		ALB	BIH	HRV	XK	MK	MNE	SRB
Export promotion programmes	2009	**3.50**	**2.00**	**4.00**	**2.00**	**3.50**	**3.50**	**4.50**
	Change since 2007	+1.00	0.00	0.00	+0.50	+0.50	0.00	+1.50

export and investment promotion) and offer a broad range of integrated services to exporters, including export financing and export credit insurance. The Serbia Investment and Export Promotion Agency plans to open trade promotion offices in the main export markets, starting with Germany.

SME competitiveness programmes

The 2009 report shows that very limited progress has been made in the region in the elaboration and implementation of programmes enhancing SME competitiveness. As shown in Table 6.3, performance scores for most of the Western Balkan countries have remained unchanged, with the exception of Serbia and Albania.

This situation contrasts with the progress made on the implementation of export promotion programmes and, together with the results emerging from Chapter 8 (on strengthening technological innovation), casts doubts on the ability of the Western Balkans to benefit in the medium term from the integration into the EU market and to withstand competition from EU firms.

Competitiveness-enhancing programmes address structural issues affecting company productivity. These include the adoption of EU technical standards and international quality standards, the improvement of managerial skills, the creation of company networks and the development of joint projects between private and public sectors to improve operational environment (such as logistic centres, training facilities and technological centres).

The range of initiatives and programmes covered by this indicator is therefore quite broad and complex. However, the analysis looks at two main factors: developments at policy level and company assistance programmes.

At policy level, a number of Western Balkan countries have established specific bodies in charge of promoting and co-ordinating competitiveness-enhancing policies and projects. Croatia and the former Yugoslav Republic of Macedonia were the first countries to establish National Competitiveness Councils. These councils bring together key stakeholders in a forum for policy elaboration that builds synergies among institutions and programmes, and launches broad-based projects. Such initiatives have generated significant donor support, particularly from USAID, the EC and a number of other bilateral donors. Serbia followed the same route in 2008. In the remaining countries, competitiveness enhancement is part of the broad portfolio of the Ministry of Economy. Initiatives are mainly conducted on an *ad hoc* basis, as there are no specific mechanisms in place to ensure programme co-ordination and monitoring.

At company level, as noted in the previous report, most of the Western Balkan countries have launched targeted programmes at sector, cluster or regional level. These programmes provide direct technical and financial support to companies, fostering the adoption of international standards and upgrading of managerial and technical skills. However, progress in adopting EU standards at company level is heavily determined by gains made by the country on standardisation, accreditation, metrology and market surveillance. While those areas are not directly covered by the Charter assessment process, they are monitored by the annual Progress Report of the European Commission and measured by indicators included in the Investment Reform Index of the OECD Investment Compact.

Croatia and Serbia are most active in policy development and co-ordination, as well as in the company assistance area.

Croatia has had an active National Competitiveness Council since 2002, representing all the key private and public stakeholders. It has launched a number of programmes managed by BICRO, the Croatian business innovation centre.

Croatia still leads the region in this sub-dimension, in terms of scope of competitiveness-enhancing programmes and the resources dedicated to those initiatives. It is actively working on the implementation of the 55 recommendations for promoting competitiveness elaborated by the NCC in 2004. These cover such areas as education for growth and development, compliance with EU standards, cost and price competitiveness, development of innovativeness and technology, strengthening small and medium-sized enterprises, regional development, cluster development, positive mindset and leadership, and monitoring programme implementation through annual National Competitiveness Reports. However, Croatia is still trying to fully develop synergies among various programmes (export promotion, innovation, financing of innovative enterprises and skill development). Co-operation and communication between the Ministry of Economy, Labour and Entrepreneurship and the Ministry of Education and Science needs to be strengthened.

Over the last two years, Serbia has launched a number of initiatives with the broad aim of enhancing SME competitiveness. Following the path developed by Croatia and the former Yugoslav Republic of Macedonia, the government formally established the National Entrepreneurship and Competitiveness Council in January 2008. Its membership includes all key economic ministries, the Central Bank, the main private sector associations, leading academics and business leaders. The Council has the mandate to conduct analysis on competitiveness issues, elaborate policy proposals, monitor policy development and foster programme co-operation. It operates an annual programme and it is projected to become a key policy forum. On 17 March 2008, the government launched a Competitiveness Fund with an annual budget of about EUR 7.5 million in 2008 and about EUR 5.6 million in 2009. The facility refunds up to 50% of the costs sustained by SMEs (established for at least two years) that have invested in technical and quality standards and in marketing activities. In 2008 the Competitiveness Fund received 1 779 applications, approved 449 of these and allocated EUR 1,2 million. In addition, the government is co-operating with donor-funded projects that provide assistance to SMEs. The most relevant is the Competitiveness Project, launched in October 2007 with the support of the USAID and with a budget of EUR 11 million.

The former Yugoslav Republic of Macedonia was one of the first countries in the region to establish a National Entrepreneurship and Competitiveness Council in 2003, but over the years this body has progressively lost its catalyst role. There are currently proposals by private sector associations to revamp it, with a wider membership base. However, in 2008 the government launched a programme with a total budget of EUR 81 623 to help companies adopt ISO standards, upgrade skills and invest in ICT solutions. Montenegro is focusing on company assistance programmes, with substantial donor support, conducted through the directorate for development of small and medium size enterprises (SMEDA), the Chamber of Commerce and the Montenegrin Business Association. No new major policy initiative has been launched over the last two years.

In Albania, the main new development has been the establishment in 2007 of the Albanian Competitiveness Fund, already mentioned in the previous section. The fund, with an initial budget of approximately EUR 200 000 is intended to cover both export promotion and technical standards adoption. It is expected to be supplemented by the launching of a new competitiveness-enhancing endeavour under the new Instrument for Pre-Accession Assistance (IPA) programme. So far AlbInvest (in charge of managing the fund) has approved 49 projects, 20 of which are already fully implemented.

There has been no significant development in this area in Bosnia and Herzegovina at state level. However, regional development agencies are implementing company support schemes, as part of their cluster development programmes. Equally, in Kosovo under UNSCR 1244/99 there has been no major development in this policy area over the last two years, excluding those conducted by donors. The main government focus has been on building institutions and developing the main SME policy framework, rather than launching targeted policy actions.

Box 6.2

The Western Balkans in the Enterprise Europe Network

Croatia, the former Yugoslav Republic of Macedonia, Serbia and Montenegro are currently participating in the Enterprise Europe Network (EEN), a network with 600 partner organisations from 40 countries. Bosnia and Herzegovina is fulfilling the necessary procedures to become associated member.

Building on the experience of the former European Information Centres (EIC) and the Innovation Relay Centres, EEN offers a broad range of high quality services to SMEs: information on EU policies, programmes and legislation; business partner searches and co-operation databases; brokerage events for technology and knowledge transfers; individual on-site visits to companies to assess their needs, etc.

EEN gives a chance to SMEs in those countries to get in contact with enterprises across the European Union and beyond and to learn more about EU policies which, due to their status of candidate and potential candidate countries, start to affect them more and more.

Table 6.3

Scores for sub-dimension 6.2: SME competitiveness

		ALB	BIH	HRV	XK	MK	MNE	SRB
SME competitiveness	2009	**2.00**	**2.00**	**4.00**	**2.00**	**3.00**	**3.00**	**3.50**
	Change since 2007	+0.50	0.00	0.00	0.00	0.00	-0.50	+1.00

National SME promotion events

All the Western Balkan countries schedule yearly promotion events for the SME sectors, most often sponsored by SME development agencies, chambers of commerce and professional associations. Trade fairs are the most common form of events.

In addition, Croatia and Serbia every year hold national SME conferences which are often used by the

Table 6.4

Scores for sub-dimension 6.3: National SME promotion events (2009)

	ALB	BIH	HRV	XK	MK	MNE	SRB
National SME promotion events	2.50	2.50	4.50	2.50	4.00	3.00	4.00

Figure 6.2 Dimension 6 scores by sub-dimension

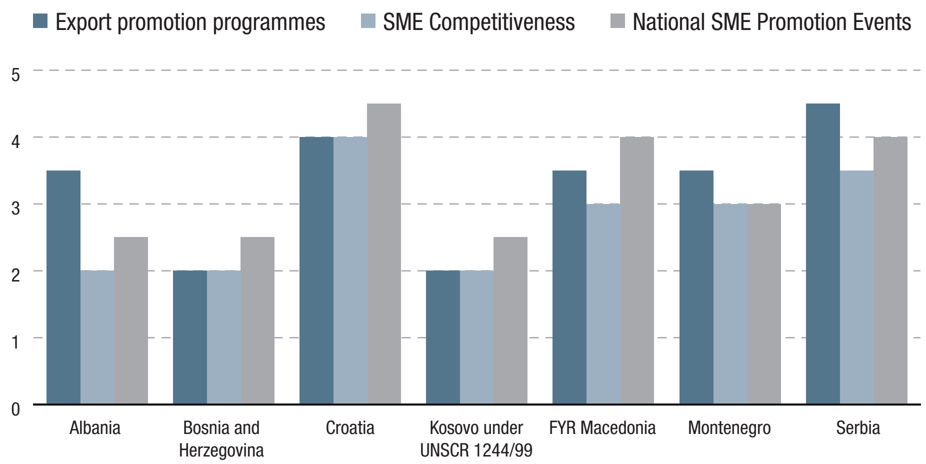
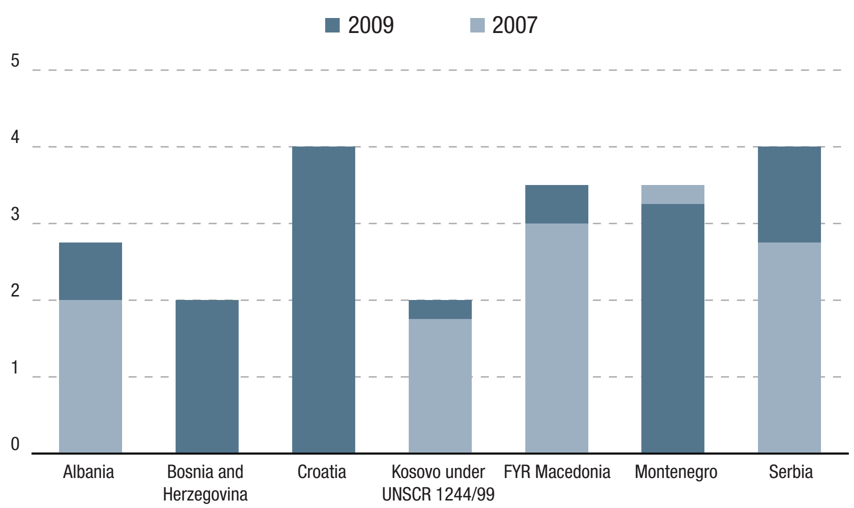


Figure 6.3 Overall scores for dimension 6



governments to present their SME policy agendas. These are an occasion for policy dialogue and for exchange of experiences among stakeholders (regional development agencies, SME associations and non-governmental organisations). The national SME conferences are an opportunity for taking stock of the adoption of EU policy guidelines and country participation in EU programmes.

Award competitions stimulate entrepreneurship, innovation and competitiveness among SMEs. The former Yugoslav Republic of Macedonia hosts a contest for Entrepreneur of the Year. Similar events are held in Croatia and Serbia, targeting innovative enterprises.

6.4 The way forward

The global economic crisis is having a significant impact, especially on companies that rely on exports to the EU market and on those that operate in network industries (such as the automotive, electronic and mechanical sectors) and supply components to manufacturers based in EU countries. SMEs in the Western Balkans have to deal with a drop in the external demand, a shortage of supplier and buyer credit, and sudden shifts in their competitive position due to the sharp currency movement across East and South East Europe. In this situation, governments in the Western Balkans have to address simultaneously contingent and structural issues:

On export promotion, the priority in this phase is to provide export insurance and export credit to companies affected by the increase in commercial risk in export market and the drying up of liquidity. Countries that have already in place export credit insurance schemes and developed export financing schemes in partnership with commercial banks (Croatia, Serbia and, to a certain extent, Albania and the former Yugoslav Republic of Macedonia) are in a better position to respond to this challenge. They can expand the scope of existing schemes, allocate more resources, mobilise support from international financial institutions, and strengthen dialogue and co-operation with the commercial banks. On export promotion, priority should be given to market diversification, for instance, pursuing market opportunities arising from the implementation of the 2006 Central European Free Trade Agreement.

On enhancing competitiveness, countries that have already launched support programmes (such Albania, Croatia, the former Yugoslav Republic of Macedonia and Serbia) should closely monitor the impact of those programmes and adapt the range of supporting tools to the differentiated needs of SMEs. Given the limited resources available, it is also necessary to step up policy targeting and synergies among different schemes and programmes, managed either at local or central level.

Given the significant contribution of donor-funded programmes in these areas, all the Western Balkan countries need donor-supported programmes that are integrated and co-ordinated into a government medium-term strategy for competitiveness and support to high-growth enterprises. It is also essential that lessons learned across various business support programmes are reviewed and compared, then integrated into the government action.

Notes

1 *All SME Policy Index scores have been rounded up or down to the nearest 0.25*

Dimension 7

Taxation and Access to Finance

Taxation and Access to Finance

Within the European Charter for Small Enterprises, taxation and access to finance are combined into one dimension. Within this, chapter, however they have been separated into two sections, with separate scoring: due to their dissimilarity, it is impossible to compare them.

Tax policy development for small enterprises

7.1 Introduction

Tax policy development for small enterprises should select a mix of applicable taxes and specific design features that foster small business creation and growth. At the same time, tax policies and administrative approaches must encourage compliance with the tax system and contribute to overall tax revenues.

Given complexities inherent in tax systems, policy makers are encouraged to rely on certain basic analytical frameworks to guide their decisions. Tax policy development requires, for example, estimates of how tax liabilities are likely to respond when tax rates or other tax parameters change. It is also important that policy makers can assess effective tax rates on business profits and can take a disaggregated approach, given that tax burdens can vary by a significant margin across firms of differing size, structure and business activity. This assessment covers all the Western Balkan economies with the exception of Serbia. Data was not available in time for publication. Within this assessment, the Republika Srpska and the Federation of Bosnia and Herzegovina were assessed separately due to the differing tax systems. The Brcko District was not assessed.

The assessment framework for dimension 7 (tax policy development) of the European Charter for Small Enterprises in the Western Balkans scores countries in their progress in implementing certain basic models and methods to assess the tax burden on small businesses, possible tax effects on the cost of funds, tax arbitrage behaviour and risk-taking, and in measuring and addressing tax compliance costs.

7.2 Assessment framework

The assessment framework outlined below includes eight sub-dimensions. Five sub-dimensions address progress in estimating revenue and a number of basic analytical frameworks to guide tax policy development. The other three sub-dimensions address efforts to assess and address tax compliance costs (taxpayer resources required to comply with tax obligations).

The first sub-dimension considers reliance on micro-simulation models to estimate changes in income tax paid by small enterprises resulting from tax reform of income tax rates and/or tax base rules. Such models – based on taxpayer-level data from samples of tax returns filed by unincorporated businesses and by incorporated small enterprises – are necessary in order to assess how tax policy reform specifically impacts small enterprises. This need recognises that tax reform provisions, even where uniformly applied to all firms (regardless of size), can have a significantly different impact on small firms compared to large.

The second sub-dimension considers progress in implementing marginal effective tax rate (METR) models to assess tax distortions to investment decisions by small enterprises. A standard METR model is the basic model used by policy analysts to assess whether investment can be expected to be positively or negatively impacted by tax reform. Now widely used, METR statistics are helpful in guiding tax reform decisions. They summarise the net effect on pre-tax “hurdle rates of return” on investment, resulting from changes to one or more key tax parameters (profit tax rates, depreciation rates, shareholder dividend and capital gains tax rates, property taxes, capital taxes and sales taxes on inputs).

The third sub-dimension addresses the potential for double taxation of profits to discourage investment in small enterprises, and considers levels of analysis carried out by policy makers in assessing, within their own country context, possible effects on required pre-tax rates of return and thus on levels of investment. Comprehensive analysis would include assessments of the pros and cons of alternative approaches to alleviate double (corporate plus shareholder-level) taxation, taking into account the treatment of marginal providers of finance, varying degrees of complexity of different integration provisions and the degree of numeracy of the taxpayer population.

The fourth sub-dimension addresses the potential for system design, in particular the relative setting of tax rates, to introduce tax arbitrage possibilities (realised by exploiting differences in effective tax rates) tending to distort various decisions of small business owners. These decisions might include the choice of business form and earnings payout policies, implying revenue and efficiency losses. The focus is on assessing scope for revenue losses, with differences in effective tax rates on labour versus capital income creating taxpayer incentives to artificially mischaracterise wage income as capital income. The various indicators applied in this context consider the breadth of analysis carried out by policy makers to assess and address tax arbitrage possibilities.

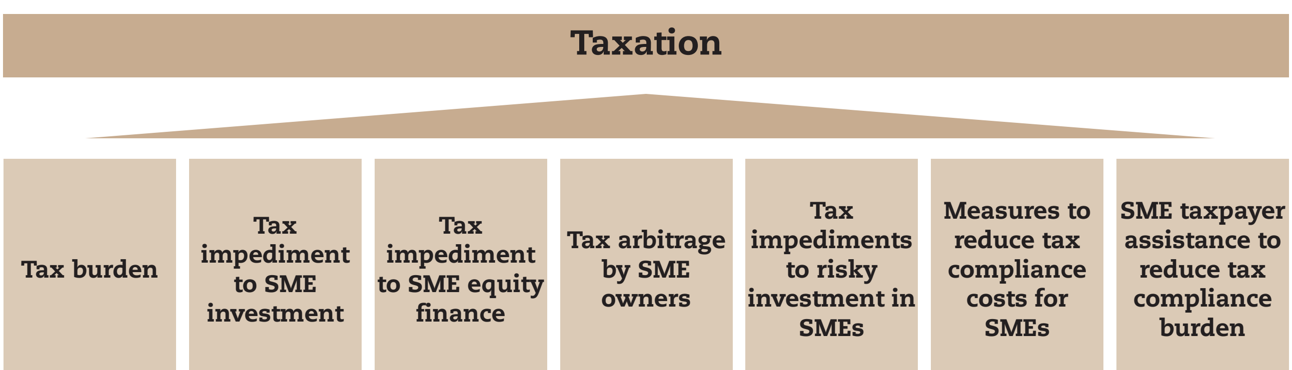
The fifth sub-dimension addresses the potential for tax design, in particular the treatment of losses, to discourage investment in small enterprises with relatively high-risk business ventures, leading to reduced investment that would be observed without taxation or under neutral tax design. The focus is on whether possible tax impediments to risk-taking are taken into account in choices over the limiting or "ring-fencing" of deductions for business losses, and where generous treatment is provided, what steps have been taken to guard against possible significant revenue losses under flexible loss offset rules.

The sixth sub-dimension addresses the relatively high resource burden on small business of complying with the tax system (e.g. preparing and filing tax returns). The review considers whether assessments have been made of compliance costs involved with main taxes, on average, for small business. In general, reductions in tax compliance costs may be achieved by simplifying tax administration procedures and/or adjusting tax policy (e.g. introducing simplified replacement (presumptive) taxes) for small enterprises. The sixth sub-dimension considers progress in implementing simplified tax administration procedures found to be relatively onerous.

The seventh sub-dimension also addresses relatively high tax compliance costs on small business, and considers whether countries have assessed the implications of alternative tax policies, such as the taxation of small enterprises using some form of simple presumptive tax as a replacement for income tax or value added tax (or possibly both). Evidence of analysis of policy considerations and trade-offs with the choice of the turnover level for a presumptive tax versus "normal" tax system are assessed favourably, as is the adoption of simplified taxes where analyses indicate that such reforms would be desirable and appropriate.

The eighth and last sub-dimension assesses countries in terms of the range and level of taxpayer assistance and education service programmes in place or planned to reduce tax compliance costs on small enterprises. This focus recognises limits in reducing compliance costs by adjustments to tax administration and tax policy, and that for a given tax system (policy and administration), the costs to taxpayers of complying may be significantly reduced by efforts of government to ensure that required tax forms and information are readily available, including information that facilitates an understanding of required tax calculations, information gathering, reporting and payment practices.

Figure 7.1 Assessment framework for dimension 7a: Taxation



7.3 Analysis[1]

Micro-simulation analysis of the tax burden on small business

The first sub-dimension considers reliance on micro-simulation models to estimate changes in the amount of income tax paid by small enterprises, following tax reform that includes targeted provisions. A common approach to target support to small business investment is to enrich tax depreciation allowances or provide enhanced or additional tax deductions on purchases by small businesses of new capital equipment (e.g. machinery and buildings). For example, the former Yugoslav Republic of Macedonia provides preferential treatment of investment by micro-enterprises in fixed assets.[2] Another approach is to tax small business profits at a relatively low rate, as occurs where business profits are taxed according to a tiered (rather than flat) tax rate schedule that applies lower statutory tax rates to lower bands of taxable income.[3] Albania, for example, taxes income of unincorporated businesses at tiered personal tax rates,[4] while taxing profits of incorporated businesses at a flat 10% rate. In Croatia, unincorporated business income is taxed under progressive personal rates, while offering unincorporated businesses meeting certain size-related requirements to opt instead for 20% flat rate corporate income taxation.[5]

Estimates of the impact of tax provisions that target or differentially impact small business cannot be derived from models that rely on aggregate data. Micro-simulation models are required, using data drawn from a sample of tax returns filed by small businesses (unincorporated and incorporated). By providing estimates of how a given tax regime impacts firms differently, depending on size, profitability and capital structure, micro-simulation models can identify winners and losers of tax reform. This information helps policy makers strike a desired balance of policy considerations including revenue, efficiency and competitiveness effects, implications for tax administration and compliance costs, and likely support by the public at large.

The indicators under this dimension assess countries on their level of implementation of corporate and personal income tax micro-simulation models. No country in the region maintains corporate income tax (CIT) and/or personal income tax (PIT) micro-simulation models that distinguish taxpayers by type (e.g. turnover and total business assets in the case of CIT). However, the Federation of Bosnia and Herzegovina, the Republika Srpska, the former Yugoslav Republic of Macedonia and Montenegro have been taking steps to implement such models. Moreover, Croatia and the former Yugoslav Republic of Macedonia recently participated in an OECD tax modelling workshop, covering the implementation of these models.

METR analysis of tax effects on small business investment

METR models are routinely used by OECD countries, and by an increasing number of transition economies and developing countries, to assess whether business investment is encouraged or discouraged by the tax system, and whether a tax distortion is increased or decreased as a result of tax reform. METR models facilitate policy analysis and assessments of tax reform options by providing summary indicators of the likely net impact of corporate and personal taxation on investment, which is often not evident where tax reform includes elements that are encouraging to investment (e.g. reduction in the tax rate on profit), and others that are discouraging to investment (e.g. reduced capital cost allowances).

When used together with micro-simulation models, analysts are able to predict both the net impact of tax reform on tax revenues (on a disaggregate and aggregate basis) and on investment behaviour. An advantage of METR analysis is that the input “tax parameter” data are specified in income tax provisions, rather than collected from actual tax returns, facilitating the implementation of the framework. METR models have been widely used in many countries to help guide fundamental tax reform (e.g. reform aimed at broadening the income tax base, enabling a revenue-neutral lowering of the tax rate), as well as *ad hoc* policy adjustment.

The indicators under this second dimension assess countries on their implementation of a METR model that incorporates main corporate and shareholder-level tax parameters determining the tax burden on investment by small business. In this area, both the former Yugoslav Republic of Macedonia and Montenegro have been taking initial steps to implement a METR model. Montenegro hopes to have a METR model in place within a year.

Tax impediments to equity financing

The third sub-dimension considers whether effective tax rates on dividends and capital gains on shares are measured, and assessments are made of possible tax impediments to equity financing of small businesses linked to double taxation of small business profits. It also considers whether advantages and disadvantages of alternative tax treatment of dividends and capital gains on shares are assessed, including options for alternative integration mechanisms.

A central consideration when looking at the tax treatment of incorporated small businesses is scope for double taxation of business profit arising from shareholder taxation of dividends and/or capital gains.[6] Double taxation of corporate profit may limit business creation and growth in several ways. First, dividend taxation may discourage the creation of an incorporated business. While it is common that an entrepreneur may wish to establish a business in unincorporated form, this will not always be the case. An entrepreneur may wish to access the advantages (e.g. limited liability) that incorporation provides, before deciding to create a small business. However, injecting capital into a new incorporated business may not be attractive on account of double taxation of dividend returns.[7]

For growth-oriented firms that start up as unincorporated businesses, continued growth beyond some size may require incorporation to efficiently reach capital markets. Double taxation of returns on capital that is withdrawn from an unincorporated business and injected into a newly created incorporated enterprise may discourage incorporation and thereby growth.[8] More generally, dividend taxation may increase the hurdle rate of return on new share capital, and thereby discourage business expansion funded by new equity. Furthermore, capital gains taxation may increase the hurdle rate of return on reinvested profits, and thereby discourage investment financed by internal funds. Additionally, to the extent that required rates of return on shares of multinationals are not grossed up to cover personal tax on returns, this group may enjoy a cost of capital advantage relative to small businesses relying on local investors, implying a competitive disadvantage that may seriously hamper growth prospects.

Classical tax treatment of corporate profits may impede the financing of small businesses (unincorporated and incorporated) in other ways. In particular, taxation of capital gains on a realisation as opposed to accrual basis tends to create "capital gains lock-in" incentives for investors to hold onto (not sell) assets producing capital gains, which may impede an efficient allocation of capital to certain start-up businesses requiring external equity capital.[9] While established small businesses may benefit from "patient capital" encouraged by realisation-based taxation of capital gains and resulting lock-in effects, this benefit would not apply to new small business start-ups which have yet to raise external equity financing. To the extent that investments in capital gains-producing assets are locked in, to benefit from tax deferral, the financing needs of start-up firms may be frustrated. This outcome is inefficient if a new business idea could lead to a profitable business enterprise, but does not go forward due to this tax distortion.

Furthermore, taxation of dividends may impede the financing of small businesses (unincorporated and incorporated) where it encourages mature (established) companies to retain rather than distribute profits to avoid dividend taxation (corporate lock-in effect), and where individual shareholders are more inclined to invest in small businesses than mature companies.[10] While dividend taxation may not affect the timing of dividend payments, it may be that in practice shareholders of mature companies are more likely to agree to dividend retention in order to defer dividend taxation. Where this is the case, the pool of financial capital available to small businesses may be reduced.

The indicators under this dimension examine countries in terms of their assessment of the degree of double taxation in their tax systems, and the impact that double taxation may have on the availability and cost of equity financing to small businesses. In Albania, Croatia, the former Yugoslav Republic of Macedonia, the Federation of Bosnia and Herzegovina, and the Republika Srpska, no studies have yet been undertaken to examine the potential impact double taxation may have on enterprise financing, given the relatively low personal tax rates applied to returns on equity. In Albania, personal taxation of dividends is limited to final withholding tax at 10%, and similarly capital gains on shares are taxed at a flat 10%. In Croatia, dividends and capital gains on shares are both tax exempt. While dividends and capital gains are subject to personal income tax in the former Yugoslav Republic of Macedonia, recent tax reform has implemented a flat 10% rate of personal tax, with an inclusion rate for capital gains limited to 70%. In Kosovo under UNSCR 1244/99 and Montenegro, studies have been undertaken to examine potential effects of double taxation on equity financing, and alternative integration systems have been explored. Kosovo under UNSCR 1244/99 reports that the results of these studies have been considered in current tax policy and proposed reforms and will lead to a new tax system starting 1 January 2009 with a 10% corporate tax and stepped income tax system (4/8/10%).

Tax arbitrage opportunities of small business owners

Where different types of income – including self-employment income (dependent) employment income, dividends, capital gains and interest – are taxed at significantly different tax rates, owners of small businesses and in particular closely held private companies may alter their decisions over business form, capital structure, earnings distribution and other financial policies, in order to reduce their overall tax liability.[11] It is important that policy makers consider tax avoidance opportunities and incentives under alternative tax rate structures, so that potential revenue losses accompanying such tax arbitrage behaviour can be taken into account when making an overall assessment of the advantages and disadvantages that a given tax structure may provide.

For example, where the corporate income tax rate is low, and distributed profits are free of shareholder tax (or are taxed but at a low final withholding rate), while wages are subject to relatively high personal income tax and social security contribution rates, an owner/worker of an incorporated small business may pay himself an artificially low wage (an amount less than an arm's length wage for his labour input), in order to receive not only capital income, but also some portion of returns on labour, as dividend income. To take another example, if capital gains on shares are tax-exempt, while wages and dividends are subject to personal income tax, incentives may be created for small business owners/workers to retain earnings in a company, rather than receive them as wages or dividends, and to invest the funds actively in productive capital, or passively in portfolio assets. Public awareness of examples of tax relief obtained in this way (e.g. little tax paid on wages) may contribute to a general public sense that the tax system is unevenly applied and thus unfair, tending to erode voluntary compliance of others.

The indicators under this dimension examine countries and regions in terms of their assessment of effective tax rates on different forms of income earned by owners/workers of closely held corporations, looking in particular at the possible distortions caused by different payout policies. Throughout the Western Balkans, however, no country has yet to conduct studies on the potential of tax arbitrage by small business owners.

Treatment of risky investment in small businesses

The fifth sub-dimension addresses the tax treatment of risk – that is, the tax treatment of unincorporated business losses, and capital losses on small business shares – a consideration particularly important in the context of potentially high-growth (and high-risk) small business ventures. In general, risk-taking – that is, investing in cases where the rate of return is uncertain, falling above the rate on a safe asset (government bond) in "good" years, while falling below the safe rate in "bad" years and possible negative – may be discouraged if the tax treatment of profits and losses is asymmetric.[12] In general, symmetric treatment requires that losses are deductible at the same effective tax rate as profit/gains are taxed, for only then is the government an equal partner in the investment, sharing equally in profits and losses.

Policy makers may be reluctant to provide fully symmetric treatment of income and losses, because of the implied revenue loss. Lengthy carry-forward (and possibly carry-back) provisions may be viewed as sufficient to enable scope for the claiming of capital losses, albeit typically without an interest adjustment. Also as owners of small businesses in general have some scope to mischaracterise personal consumption expenses (e.g. in running a hobby farm) as business expenses, some limits may be expected on personal business and corporate loss claims. Restrictions on claims on capital losses generally follow the same policy concerns, notably revenue loss and subsidisation of private consumption (reflected both in corporate losses and capital losses on corporate shares).

At the same time however, the possible effects of asymmetric treatment of taxable income/gain and losses may encourage policy makers to consider whether the trade-off could be adjusted through more liberal treatment of losses, with revenue losses possibly covered by more restrictive rules governing allowable business deductions (i.e. the denial of certain deductions that tend to have a consumption, and not pure business expense, element).

A comparison of policies across the Western Balkans finds considerable diversity in approaches. For example, in the former Yugoslav Republic of Macedonia, considerable flexibility is provided in obtaining relief in respect of business losses. With the aggregate of net income of various categories of taxable income, losses realised in one category of income (with the exception of certain capital losses) may be deducted against other categories of income in the same year. At the same time, however, no carry-over is allowed for excess losses. Croatia also provides relatively flexible loss offset rules, while also providing a five-year business loss carry-forward. The tax system in Albania, while providing a loss carry-

Box 7.1

Risk-taking and symmetric tax treatment of profits/losses

In systems that tax unincorporated business profits in full in the year earned, symmetric treatment requires that business losses are deductible in full in the year incurred, with excess deductions carried forward with interest until claimed. Options for immediate deduction of business losses include allowing them to be carried back to offset taxable business profit in prior years. Another option is to allow (self-employment) business losses to be deducted against other types of personal taxable income (e.g. interest income, wage income).

Where a business is in incorporated form, relevant loss considerations include the treatment of corporate losses and capital losses on shares in a loss-making company. As with unincorporated business income, symmetric treatment of corporate profits and losses would require that corporate losses can be deducted in the year incurred, involving a loss carry-back to offset corporate taxable profit in prior years, or carried forward indefinitely with interest. Where a corporation undertakes a range of business activities, allowing losses on one activity to offset profits on another also furthers symmetric treatment.

As losses at the corporate level result in capital losses at the shareholder level (just as corporate profits are reflected in shareholder capital gains), symmetric loss offsetting requires that capital losses on corporate shares be treated symmetrically with capital gains on shares. This implies the same inclusion rate for capital gains and capital losses, and current year relief (or the equivalent of current year relief with an indefinite carry forward, with interest) for capital losses (with allowable capital losses determined by the same inclusion rate used to measure taxable capital gains).

In comparing across countries the treatment of unincorporated business losses, systems can be distinguished according to the degree to which they ring-fence losses. Strict ring-fencing would deny a deduction of unincorporated business losses against other taxable income of the taxpayer in the same year (e.g. investment income, rental income, wage income, pension income), by only allowing business losses to be deductible against future business profits realised in subsequent tax years under business loss carry-forward provisions. More flexible ring-fencing provisions would allow business losses to be deductible against other types of taxable income, in addition to providing loss carry-forward and possibly also loss carry-back provisions, thereby providing greater scope for deductions for business losses (and thus greater symmetry in the treatment of business profits and business losses). Loss-offset provisions may differ considerably across countries in terms of the types of non-business income that business losses can be deducted against, and the allowed number of carry-forward (and carry-back) years.

Systems providing greater scope for business loss offsets, at the cost of foregone tax on other income, may (or may not) be designed to target the relief to genuine business losses (as opposed to losses on consumption activities), to active business owners as opposed to passive investors, and possibly to newly established firms to address possible tax impediments to business start-ups. Systems may be differentiated according to whether ring-fencing rules apply equally to firms regardless of their size, or whether more flexible rules apply to losses of smaller firms, targeted under some measure of size, possibly with additional restrictions to steer relief where intended.

forward for businesses subject to profit tax, limited to three years, requires separate tax computations for each category of income. Moreover, no loss relief is possible in respect of firms subject to a patent (lump sum tax) charge, as opposed to profit tax.

The indicators under this dimension examine countries in terms of their assessment of the impact of loss-offset rules on investment in early-stage, high-risk companies. In Albania, the Federation of Bosnia and Herzegovina, the Republika Srpska, Croatia and the former

Yugoslav Republic of Macedonia, no analysis has yet been done to determine how alternative approaches to the treatment of business and capital losses may affect incentives for relatively high-risk investment (e.g. in software development or investment in other intangibles), and tax avoidance. However, Montenegro has analysed the potential for its business loss-offset provisions to influence risky investment in small businesses, and has also examined tax planning opportunities under alternative loss-offset provisions. The results of these findings have been addressed and considered in current tax policy and proposed reforms. Kosovo under UNSCR 1244/99 has also recently assessed its business loss-offset rules with the findings documented and reported to senior Ministry of Finance officials for discussion and consideration.

Tax compliance costs and administrative approaches for small firms

The total resource cost imposed on business by a given tax system may be considered as consisting of two

Box 7.2

Rationale for tax simplification for small businesses

Tax compliance costs tend to increase with the number of taxes an entrepreneur is subject to, the frequency of submitting returns, the levels of government involved and the complexity of tax rules. Studies systematically find that tax compliance costs as a percentage of sales are relatively high for small firms. By reducing tax compliance costs and thus lowering the overall tax burden on small businesses, simplification provisions and taxpayer education and assistance programmes may help achieve more neutral tax treatment of firms of varying sizes. This can bring potential efficiency gains and encourage compliance with (adherence to) the tax laws of a country, including operating in the formal rather than informal (underground) economy, and full reporting of all amounts required to determine the true tax base.

A main efficiency concern associated with significant tax compliance costs incurred, regardless of firm size, is that absorbing this cost requires a higher pre-tax rate of return on capital, the smaller the size of a business measured by capital. This effect, tending to place small businesses at a competitive disadvantage relative to larger firms, implies an inefficient allocation of capital, with underinvestment in small businesses. A second efficiency consideration is that increased compliance, when resulting in increased tax revenues, may enable reduced tax rates on one or more possibly more elastic tax bases, with possible efficiency gains. Increased compliance may also be seen as desirable, taking into account the benefits to society of having all persons participate in the financing of programmes supporting economic and social development ("nation-building").

Simplification provisions of various types can be expected to impact small businesses differently, given the heterogeneity of the small business population. In particular, certain measures may directly encourage business creation and tax compliance for some small businesses, but not others, suggesting the need to consider a range of measures. For example, allowing simplified accounting or less frequent filing of tax returns may be of little practical consequence to small businesses with very low turnover (e.g. street vendors) that may regard the tax compliance burden of even a relatively simple regular tax system as excessive and discouraging to participation in the formal economy. But the same measures may operate to encourage other larger-scale small businesses to establish, and to comply.

For very low turnover businesses for the most part unaffected by simplified accounting and filing measures, tax compliance may call for the introduction of a simple replacement tax, for example a turnover-based presumptive tax, to replace regular income tax and/or value added tax (VAT) for firms with turnover below some (micro) business threshold. In such cases, key design considerations include the turnover level for the VAT threshold, the setting of the tax burden under a presumptive (replacement) tax, and in particular the avoidance if possible of large upward adjustments in tax burden when a business size turnover threshold is passed and the taxpayer is required to migrate from a replacement regime to the regular regime.

parts: the amount of money that taxpayers are required to pay to government to meet their tax liabilities ("statutory tax burden"); and the amount of administrative resources allocated by taxpayers to maintain tax accounts, and compute and file tax returns ("tax compliance costs"). Tax compliance costs typically have a significant fixed cost component, tending to impose a relatively higher burden on small businesses. Compliance cost considerations may factor into a number of decisions of small businesses, including whether to establish a business (become self-employed),[13] and whether to operate in the formal economy.

The introduction of simplification measures for small firms may bring about efficiency gains and other benefits (see Box 7.2). Certain administrative approaches may be taken to reduce compliance costs for small firms, including allowing cash accounting for value added tax and/or income tax, and allowing less frequent filing of tax returns. VAT and income tax systems may be accrual-based, or cash-based. Where accrual accounting is normally required, cash accounting targeted at small firms, determining taxable sales and profits based on entries of revenues actually received and costs actually incurred (rather than accrued or anticipated), may significantly reduce compliance costs, to a degree depending on the additional supporting documentation that taxpayers are required to maintain.

Another possible approach that reduces tax compliance costs, while at the same time provides firms with a cash-flow advantage, is allowing small firms to file (declare) VAT returns and/or income tax returns on a less frequent basis, typically with a small business test based on taxable turnover in the prior year. Where a country normally requires (large) firms to file VAT returns and income tax returns on a monthly basis, allowing small firms to file and pay less frequently (e.g. quarterly, semi-annually or annually) may reduce compliance costs. Cash-flow savings realised by less frequent payments of tax may be viewed as a form of subsidy to help defray remaining compliance costs.

The indicators under this sixth sub-dimension examine countries and regions in terms of their assessment of the average cost to small business of complying with taxes. They also look at whether countries and regions have analysed the advantages and disadvantages of simplifying certain elements of the central government tax administration. Albania has assessed the average cost to small businesses of complying with all main taxes. It has also prepared studies to determine the pros and cons of simplifying certain elements of the tax administration. In fact, Albania now includes compliance cost assessments when evaluating new tax policies or amendments. Kosovo under UNSCR 1244/99, the Federation of Bosnia and Herzegovina, the Republika Srpska and Croatia have assessed the average compliance cost for small businesses of some or all of their main taxes. For example, in the Federation of Bosnia and Herzegovina, compliance costs were assessed and taken into account when implementing the new CIT and PIT laws recently.

Tax policy measures to reduce tax compliance costs

In addition to administrative approaches to reduce VAT, certain policy approaches may be considered. Studies suggest, for example, that a simple VAT rate structure, in particular a single VAT rate, contributes considerably to reduced VAT compliance costs.[14] While a multiple rate system may satisfy public demands for lower rates on certain products, for a variety of reasons, adhering to a single or simple rate structure may limit tax distortions to consumption, and production, and at the same time reduce compliance costs. A VAT collection threshold that waives VAT collection for firms with turnover below some small business threshold level may provide an effective means to reduce tax compliance costs, while also containing the costs of tax administration.[15] The case may be especially strong in the context of transition economies where small firms collect relatively very little VAT and the system of tax administration is undergoing significant reform. As firms below a VAT threshold may be negatively impacted in some cases by an inability to claim input tax credits, countries may be encouraged to allow voluntary VAT registration and participation in the system by firms below the threshold.[16] Providing this option increases tax administration costs, and introduces compliance costs on those that elect to be in the system to protect their competitive position. But the trade-off may be viewed as necessary. At the same time, a number of factors would be expected to play a role in the choice of the VAT collection threshold (see Box 7.3).

Another possibility is a simplified VAT remittance calculation (presumptive taxation) for small firms.

Given difficulties in introducing a single rate VAT system, and in adjusting away from a multiple rate VAT system, compliance costs may be lowered by allowing small firms with turnover above a collection threshold, but below some second-tier small firm turnover level, to calculate VAT payments to government under a simplified

Box 7.3

Selection of VAT collection threshold

Choice of a relatively high VAT threshold, by excluding possibly large numbers of firms, may frustrate policy efforts to have all persons actively participate in the formal economy, recognising that once outside the system it may be less likely that individuals would decide at some point to fully participate. However, this concern may be at least partly addressed if firms below the VAT threshold (and not opting into the normal system) are required to pay another, simpler form of tax (e.g. a simple lump sum patent, with minimal compliance costs) and thus be part of the formal economy.

At the same time, selection of a relatively low VAT threshold, while encouraging participation by a greater number of firms in the regular tax system, and avoiding distortions to competition, may broaden the scope for taxpayer fraud, committed for example by firms forging false invoices to claim fictitious input tax credits. Where the number of taxpayers in the system tends to grow exponentially with lower threshold values, tax administration challenges may grow exponentially as well. However, such challenges also tend to arise in systems with higher threshold values that permit voluntary participation for those below the threshold (but possibly with a reduced rate of fraud if taxpayers opting into a system can be more carefully screened, with fewer firms in the regular system).

presumptive approach. For example, certain small firms may be allowed to apply a single flat rate to turnover to determine the amount of VAT to remit to government (instead of requiring a detailed VAT calculation). In some country examples, flat rates may vary by sector. An alternative approach relies on simplified input tax credit calculations. VAT charged on sales would remain unchanged from the regular system, but the amount paid to government would be calculated differently.

Similar approaches may be used to reduce compliance requirements on small business of (self-assessed) regular income tax. Exempting small firms (with turnover below some threshold level) from paying regular income tax, while requiring these firms to pay some form of presumptive tax as a replacement for income tax, may be an effective means to reduce tax compliance costs and costs of tax administration.[17] Indeed, solid arguments may apply to tax firms exempt from regular income tax with some simpler replacement tax, despite the (not insignificant) compliance and administration costs that such a system could entail.

Aside from contributing to tax revenues and supporting good governance by aiming to have all firms, including the very small, participate in the tax system, imposing a replacement tax may ease the transition of firms into the regular income tax regime when a small business turnover threshold is crossed, and thereby encourage continued participation in the formal economy. Additionally, to the extent that the economic incidence of regular income tax falls on business owners, providing an income tax exemption for firms under a small business turnover threshold, without a replacement tax, may place them at a competitive advantage relative to firms just over the same threshold and result in efficiency losses.[18] Moreover, largely unequal treatment may be expected to encourage businesses subject to regular income tax to operate in the informal economy. Such considerations encourage policy makers to assess the pros and cons of levying some alternative replacement tax on firms exempt from regular income tax.

The following types of presumptive taxes may be used to proxy a regular income tax: a patent, an indicator-based tax, a gross-basis turnover tax and a net (adjusted) turnover tax. A number of variants may be observed for each of these categories of tax. As reviewed in Box 7.4, presumptive tax bases and tax burdens may differ significantly from those under a regular income tax, to a greater or lesser extent depending on the type of presumptive tax and its design features (and the taxpayer's profit position).

Albania provides an example of a country relying on a lump sum patent to alleviate tax compliance costs, while encouraging participation in the taxpaying community. In particular, individuals carrying on business activities who are registered for VAT are subject to profit tax on net business income. On the other hand, Box 7.4

Presumptive taxes to replace regular income tax for small business

The simplest presumptive tax is a patent, levying a uniform fixed lump sum amount on all firms below some size threshold. However, as a lump sum fixed amount, a patent imposes a relatively high tax burden on firms with relatively limited turnover, tending to distort competition amongst firms of different sizes. The effective tax rate is also high on low (or negative) profits during downturns in business activity, tending to reinforce business cycles and create cash-flow problems.

Another relatively simple presumptive tax is an indicator-based tax, based on indicators of firm size, other than turnover or income, such as number of employees, floor space, inventory, electricity consumption and other variables that may be correlated with income. However, as such a tax is effectively a tax on the indicator(s) that form(s) the base, it may discourage employment or investment (depending on the base).

A common presumptive tax is a turnover tax, levied on gross revenues. Unlike a patent or indicator-based tax, a turnover tax varies directly with firm size measured by turnover, and thus goes some way towards avoiding size-related competitive distortions of profit-insensitive taxes. However, a fixed turnover tax rate imposes a relatively high effective tax rate on businesses that are less profitable than others, tending to discourage the allocation of capital to businesses where profit margins are relatively thin. To address this, reduced tax rates may be applied to turnover of businesses in sectors where profit rates on average are relatively low. With sector differentiation, complexity may be contained by applying a flat rate rather than tiered rate schedule. Under a system with varying flat rates across sectors, a degree of graduation may be introduced to encourage tax compliance amongst start-ups by relying on standard deductions from the turnover base. Compared to other presumptive taxes, turnover taxes may also facilitate the adjustment of firms to a regular income tax system by requiring the maintenance of cash accounts measuring turnover.

Closer in design and effect to a regular income tax is a net (adjusted) turnover tax, a presumptive tax that adjusts turnover tax base (gross revenues) in respect of business costs. Given the goal of replacement taxes to contain tax compliance costs, the cost adjustments tend to be ones that can be readily measured. Rather than capitalise capital costs, for example, firms may be allowed to expense capital cost (i.e. full and immediate deduction). Similarly, rather than require that firms track inventory costs, a simple lump sum deduction may be provided in respect of input costs, determined as a percentage of turnover. Deductions in respect of wages, and possibly other costs and taxes may also be factored into the base definition, on the presumption that the relevant information is required for other purposes (e.g. calculation of employee social security contributions) and therefore available for presumptive tax purposes.

individuals who carry on a business who are not so registered are subject to a local tax on small business, which is a lump sum amount depending on the type of business activity, annual turnover and location of the business.

The indicators under this dimension examine countries in terms of their assessment of the implications of alternative simplified income and VAT tax policy regimes to address small business compliance costs. In these indicators, progress among Western Balkan countries and regions has been impressive: all economies have prepared studies assessing alternative tax policy regimes. Albania, the Republika Srpska, the former Yugoslav Republic of Macedonia, Montenegro and Kosovo under UNSCR 1244/99 have also evaluated whether to establish threshold levels within alternative tax policy regimes and the distortions to economic activity those thresholds might cause. Albania, the Republika Srpska, the former Yugoslav Republic of Macedonia and Montenegro have even implemented reforms in their tax systems based on the results of these evaluations. In fact, from the findings of these studies, Albania and the Republika Srpska recently implemented presumptive turnover tax regimes of 1.5% and 2%, respectively. Montenegro has also recently implemented a simplified tax regime for SMEs.

Taxpayer assistance and education services

While limited simplification measures may be possible in relation to payroll deductions (given the need to rely on small business to withhold social security contributions and/or income tax on wages to employees), certain options may be available.[19] For example, some relief may be provided by reducing the frequency of remittance payments (e.g. allowing small withholders – firms withholding amounts in the previous year below some threshold – to make quarterly rather than monthly remittances). It may also be possible to align the timing of payment requirements of provisional income tax and social security contributions with payments of VAT (or other taxes) to reduce the number of tax payment dates. Another option may be to facilitate information gathering and reporting, for example through Internet access to forms and electronic filing of returns (rather than to reduce or otherwise simplify the information required for tax calculations, or simplify tax calculations themselves). Another option in some countries may be to provide small business with a form of subsidy to help defray the cost of using external payroll providers to comply with pay-as-you-earn (PAYE) tax obligations.

Other simplification measures of particular benefit to small businesses include wider availability and use of services and technologies to assist taxpayers in understanding and complying with the tax system. Electronic platforms may be used in some cases to facilitate business access to information on how to comply with payroll, income tax and social security systems, and to ease the transfer by business to government of relevant information (forms) and contribution amounts. While such measures may not be targeted at small businesses, they may be of benefit to firms with relatively low turnover and limited profit to defray the cost of compliance requirements having a significant fixed cost component.

Governments may consider making software freely available to employers to allow them to compile and possibly electronically transfer to the tax authorities data in relation to tax withholding, and possible other taxes (e.g. income tax, VAT), avoiding the need for taxpayers to rely on hard-copy forms and certificates.

Another simplification initiative may be to consider adoption by government of a single "small business" definition for tax and non-tax policy reasons (e.g. to standardise eligibility criteria for (all) small business tax concessions).

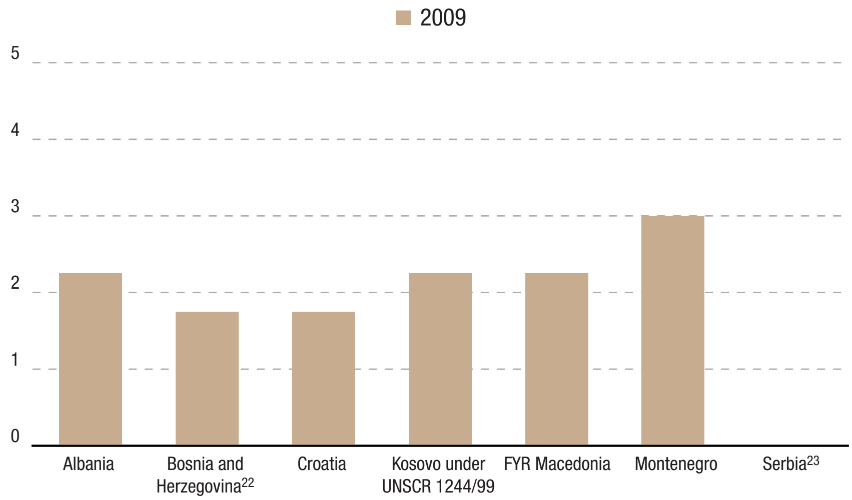
The indicators under this eighth and last dimension examine countries in terms of the access to information, supporting documentation and assistance they provide to assist small businesses in understanding and complying with the tax system. When sending out tax returns, all countries and regions in the Western Balkans also disseminate relevant information and documentation. Albania, the Republika Srpska, Croatia, the former Yugoslav Republic of Macedonia and Montenegro also provide information on the Internet,

Table 7.1

Scores for sub-dimension 7.1 : Taxation[20]

	ALB	BIH	HRV	XK	MK	MNE	SRB[21]
Analysis of tax burden on SMEs	1.00	2.00	1.00	1.00	2.00	3.00	N/A
Analysis of tax impediments to SMEs	1.00	1.00	1.00	1.00	2.00	2.50	N/A
Analysis of tax impediments to SMEs equity finance	2.00	1.00	1.00	4.00	1.00	2.50	N/A
Analysis of tax arbitrage by SME owners	1.00	1.00	1.00	1.00	1.00	1.00	N/A
Analysis of tax impediments to risky invest. in SMEs	1.00	1.00	1.00	2.00	1.00	4.00	N/A
Assessment of tax compliance costs for SMEs	4.00	2.00	2.00	3.00	1.00	1.00	N/A
Assessment of policy measures to lessen tax compl.	5.00	3.70	3.00	4.00	5.00	5.00	N/A
Assessment of SME taxpayer assistance	3.00	2.40	3.00	2.00	4.00	5.00	N/A
Overall weighted average for sub-dimension 7.1: Taxation	**2.25**	**1.75**	**1.75**	**2.25**	**2.25**	**3**	N/A

Figure 7.2 Overall scores for dimension 7: Taxation



and each country has established a toll-free telephone service with trained tax specialists available to respond to taxpayer questions. The Republika Srpska, the former Yugoslav Republic of Macedonia and Montenegro have also set up outreach programmes, including educational seminars on their tax systems. Indeed, both the Republika Srpska and Montenegro have gone one step further and regularly meet with local chambers of commerce and other professional groups to consider how taxpayer assistance and education can be improved.

7.4 The way forward

The assessment in this dimension aims to score seven economies in the Western Balkans on the basis of rough measures of progress to date in implementing various frameworks and in exploring a number of aspects of the tax treatment of small businesses, given policy interest in assessments of the tax burden on small businesses and in understanding possible tax effects on the cost of funds, tax arbitrage behaviour and risk-taking, and tax compliance costs.

While all economies forecast main tax revenues, and can generate rough estimates of effects of broad-based tax changes on aggregate revenues, no economy in the Western Balkan region has yet implemented micro-simulation models capable of estimating disaggregate revenue effects, and simulating the tax revenue consequences of detailed fine-tuning of their tax systems. However, the Federation of Bosnia and Herzegovina, the Republika Srpska, the former Yugoslav Republic of Macedonia and Montenegro are taking steps to implement such models. Croatia and the former Yugoslav Republic of Macedonia recently participated in an OECD tax modelling workshop, aimed at assisting countries in pursuing micro-simulation frameworks.

Another key analytical tool to guide tax policy assessment and development is the METR model and its variants, which are attractive in generating summary tax burden indicators that take into account a large number of tax provisions and interactions, while also offering the advantage of relying on tax codes and regulations for input data. In this area, both the former Yugoslav Republic of Macedonia and Montenegro have been taking initial steps to implement a METR model. Montenegro hopes to have a METR model in place within a year. Other Western Balkan countries are encouraged to also move in this direction.

Limited analysis has been undertaken of effects on the cost of capital of small business of double taxation of profits of incorporated firms. In Albania, Croatia, the former Yugoslav Republic of Macedonia, the Federation of Bosnia and Herzegovina, and the Republika Srpska, no studies have yet been undertaken to examine the potential impact double taxation may have on enterprise financing, given the relatively low personal shareholder-level tax rates applied to returns on equity.[24] In Kosovo under UNSCR 1244/99 and Montenegro, studies have been undertaken to examine potential effects of double taxation on equity financing, and alternative integration systems have been examined. Kosovo under UNSCR 1244/99 reports that the results of these studies have been considered in current tax policy and proposed reforms.

Throughout the Western Balkans, no economy has yet to systematically carry out studies of tax arbitrage by small business owners. A review of income tax rates on self-employed business income, dividends, interest and capital gains suggests that care has been taken in many economies to limit tax planning opportunities of owners/workers of closely held companies. Yet significant rate differences are observed in some cases, in particular when account is taken of social security contributions levied on wage income. Additional analysis and sharing of experience across the region would be welcome.

In Albania, the Federation of Bosnia and Herzegovina, the Republika Srpska, Croatia and the former Yugoslav Republic of Macedonia, detailed analyses have not yet been carried out to assess implications of alternative loss treatment on investment in small firms with relatively high-risk business ventures, and on scope for tax-avoidance (mischaracterisation of personal consumption expenses as business expenses). However, Montenegro has analysed the potential for its business loss-offset provisions to influence risky investment in small businesses, and has also examined tax-planning opportunities under alternative loss-offset provisions. The results of these findings have been addressed and considered in current tax policy and proposed reforms. Kosovo under UNSCR 1244/99 has also recently assessed its business loss-offset rules with the findings documented and reported to senior Ministry of Finance officials for discussion and consideration.

A number of Western Balkan economies have made significant strides in addressing tax compliance costs, arguably the most important impediment to address. Albania has assessed the average compliance cost of all of its main taxes and now routinely includes compliance cost assessments when evaluating new tax policies or amendments. Kosovo under UNSCR 1244/99, the Federation of Bosnia and Herzegovina, the Republika Srpska and Croatia have also assessed average compliance cost for small businesses of some or all of their main taxes. In the Federation of Bosnia and Herzegovina, compliance costs were assessed and taken into account when implementing the new CIT and PIT laws recently.

Progress amongst Western Balkan countries and regions has been impressive in assessing implications of alternative simplified income and VAT policy regimes to reduce small business compliance costs. Indeed, all countries have prepared studies assessing compliance costs under alternative tax policy regimes. Albania, the Republika Srpska, the former Yugoslav Republic of Macedonia, Montenegro and Kosovo under UNSCR 1244/99 have also evaluated the implications of alternative threshold levels under alternative policy regimes including potential distortions to economic activity. Albania, the Republika Srpska, the former Yugoslav Republic of Macedonia and Montenegro have implemented tax reforms based on the results of such evaluations. For example drawing on findings of threshold studies, Albania and the Republika Srpska recently implemented presumptive turnover tax regimes of 1.5% and 2%, respectively. Montenegro has also recently implemented a simplified tax regime for SMEs.

Encouraging progress is also found with respect to initiatives to improve taxpayer access to information, supporting documentation and assistance to aid small businesses in understanding and complying with the tax system. All countries and regions in the Western Balkans disseminate relevant information and documentation with tax returns. Albania, the Republika Srpska, Croatia, the former Yugoslav Republic of Macedonia and Montenegro provide information on the Internet, and each country has established a toll-free telephone service with trained tax specialists available to respond to taxpayer questions. The Republika Srpska, the former Yugoslav Republic of Macedonia and Montenegro now have outreach programmes, including educational seminars on their tax systems. Indeed, both the Republika Srpska and Montenegro regularly meet with local chambers of commerce and other professional groups to consider how taxpayer assistance and education can be further improved.

Notes

1 *Country-specific tax information reported in this section is obtained from questionnaire replies supplied by Ministry of Finance officials, and the European Tax Handbook 2007, IBFD. All SME Policy Index scores have been rounded up or down to the nearest 0.25*

2 *As from 1 January 2007, a qualifying micro-enterprise (with qualifying criteria including 9 or fewer employees, total income less than EUR 50 000) may deduct profits reinvested in fixed assets from its tax base.*

3 *Under a tiered (or progressive) tax rate structure, the average tax rate on business income is higher (lower) the larger (smaller) is taxable income.*

4 *Graduated personal tax rates are applied to the net income of unincorporated businesses that are registered as taxable persons for value added tax (VAT) purposes. Business income of individuals who are not registered for VAT are subject to a local tax (a lump sum amount, based on annual turnover, business activity and location).*

5 *An individual with an unincorporated business may opt for application of corporate (rather than personal) income tax if, in the preceding tax year, business turnover (gross revenue) was no less than EUR 277 000, net income was no less than EUR 55380, the business employed on average at least 15 employees, or the value of depreciable assets was greater than EUR 277 000.*

6 *Profits of incorporated small businesses are normally subject to corporate income tax. When after-tax profit is distributed, it may be subject – under so-called "classical" tax treatment – to personal shareholder income tax, or final withholding tax on dividends at the distributing company level, implying some degree of double taxation of distributed profit. In the absence of some adjustment to integrate corporate and personal-level taxation to avoid or limit double taxation, this may result in a relatively high pre-tax "hurdle" rate of return on new equity capital, relative to an investment subject to single taxation. Similarly, capital gains on retained after-tax profit may be taxed on a realisation basis, implying some degree of double taxation of retentions (in the absence of integration relief) tending to increase the hurdle rate of return on invested (retained) earnings. Increased hurdle rates linked to double taxation may be more likely to arise for small businesses with limited access to global capital markets. For large firms with such access, domestic shareholder tax rates may not be expected to factor into the cost of capital. Thus when considering small businesses that must rely on local financing, domestic shareholder taxes would be predicted to increase hurdle rates of return on funds particularly for this group.*

7 *Returns on certain other investments (e.g. interest on bonds) may be subject to only a single layer of taxation (e.g. personal taxation), or otherwise subject to preferential tax treatment (e.g. principal residence, pension savings).*

8 *Under most tax systems, unincorporated business income (comprising a blend of returns on labour and capital inputs) is subject to personal income tax alone (no corporate-level income tax). Self-employed social security contributions may also apply. In the incorporated business case, in addition to corporate and shareholder-level income tax considerations, employer and employee social security contributions may apply to labour income (e.g. of a worker/owner).*

9 *Taxing capital gains as they accrue (rather than when realised at the time of asset sale) is difficult on a number of counts. Valuation problems may be met in assessing current market values of assets giving rise to capital gains. Taxing accrued but unrealised capital gains may also introduce liquidity problems for taxpayers with insufficient cash-flow to cover the tax burden. Moreover, providing investors with the cash value of accrued losses in excess of accrued gains required for symmetric treatment of accrued gains/losses may be viewed as problematic.*

10 *This point recognises that mature firms may invest retained earnings directly in small businesses (thereby limiting small business financing problems linked to corporate lock-in effects on mature firms). However, to the extent that individual investors are more likely to invest directly (or collectively) in small businesses, than are corporate investors, corporate lock-in may continue to pose financing constraints.*

11 *Tax systems may also affect levels and the allocation of savings and investment, and employment participation and work-effort decisions, raising efficiency concerns. Thus policy makers are encouraged to assess how various features of income and other taxes may influence real behaviour. This section and its corresponding indicator focus on the exploitation of tax rate differences to minimise income tax for a given set of economic (as opposed to financial) variables (i.e. holding labour and capital fixed), by mischaracterising one form of income (e.g. wages) as another (e.g. capital income). For example, a worker/owner may pay himself less than an arm's length wage for a given amount of labour input, in order to characterise labour income as tax preferred capital income.*

12 *Depending on risk preferences, symmetric treatment of gains and losses may increase the level of risk-taking (i.e. increase the percentage of capital placed in assets generating uncertain returns) relative to the no-tax case. While this outcome is debatable, in practice risk-taking in small businesses may be expected to be discouraged where the tax system treats small business profits and losses asymmetrically.*

13 *This recognises that for many employees, personal income tax and social security contribution calculations are carried out by employers with tax withheld at the company level, saving employees considerable time/cost associated with self-assessment, record keeping and tax payment. For other employees, where tax is not withheld and compliance costs are met individually, the time/cost in completing and submitting tax returns may be relatively low for an employee, compared to compliance costs facing a self-employed individual, or the owner/worker of an incorporated company, which may grow as the complexity of the business operation expands.*

14 *For example, a study of VAT compliance costs in Sweden estimates that compliance costs would be reduced on average by roughly 30% if a single rate system replaced a multiple rate system. See Compliance Costs of Value-Added Tax in Sweden, Report 3B, Skatteverket, 2006.*

15 *A VAT collection threshold may be referred to as a VAT exclusion threshold. With aVAT exclusion, a firm is waived of the responsibility of collecting VAT imposed on consumers.*

16 *With some firms being part of a country's VAT system (participating firms, above the threshold) and others not (non-participating firms, below the threshold), the VAT system can be expected to affect the relative competitiveness of firms. Negative effects could be felt, for example, by non-participating firms that are suppliers of intermediate goods/services, selling to participating firms unable to claim an input tax credit in respect of VAT paid on purchases from those non-participating suppliers. On the other hand, non-participating firms may enjoy a competitive advantage when selling to final consumers, if they are able to sell their output at the same price as participating firms. This follows since, for participating firms, VAT paid on inputs is offset through their*

input tax credit, while the whole part of VAT charged on their (final) sales is transferred to government in VAT payments. For excluded (non-participating) firms, VAT paid on inputs is offset by inclusion in the output price of this VAT amount. But the part of the VAT inclusive price charged to consumers linked to final stage value added is retained by the firm (not transferred to government), implying a competitive advantage linked to this amount.

17 *Small businesses may be exempted from regular income tax, and/or excluded from VAT (not required to collect VAT). The term "exemption" is used in the case of income tax, as income tax is levied on businesses. The term "exclusion" may be used in the context of VAT, as VAT is imposed on consumers. Under a VAT exclusion, small businesses are waived of the responsibility of collecting this tax.*

18 *As considered in the previous section, firms falling under a VAT collection threshold may be placed at competitive disadvantage due to loss of input tax credits, creating pressure for possibility of opting-in.*

19 *In countries with social security systems, individuals owning an unincorporated business are typically required to pay self-employed social security contributions on their own behalf levied on business income, and employee social security contributions on wages paid to workers. For an incorporated small business, employer and employee social security contributions are typically imposed on the wage income of all workers, including wages of a business owner/worker.*

20 *Although this report is published in 2009, data collection took place in 2008. For the SME Policy Index Report 2007, data were collected in 2006.*

21 *The scoring for Serbia is absent due to lack of information.*

22 *Within this assessment, the Republika Srpska and the Federation of Bosnia and Herzegovina were assessed separately. The Brcko District was not assessed.*

23 *The data for Serbia is absent du to lack of information.*

24 *In Albania, personal taxation of dividends is limited to final withholding tax at 10%, and similarly capital gains on shares are taxed at a flat 10% rate. In Croatia, dividends and capital gains on shares are both tax exempt. While dividends and capital gains are subject to personal income tax in Macedonia, a flat 12% rate of personal tax applied in 2007, falling to 10% in 2008, with an inclusion rate for capital gains limited to 70%.*

7.5 Introduction

There has been notable progress in the provision of financial services in many of the economies of the region. Foreign banks have been competing vigorously to gain market share. Non-bank microfinance institutions have almost everywhere (Croatia is a notable exception) expanded to serve the most remote regions and the poorest clients and in one case (Bosnia and Herzegovina) are competing extremely forcefully. Other non-bank financial institutions have been slower to develop.

These improvements have been recognised and are reflected in the European Bank for Reconstruction and Development's transition scores. Every year the EBRD assigns scores to each of its countries of operation on various dimensions of transition. Two of these, the banking reform and interest rate liberalisation, and the securities markets and non-bank financial institutions, reflect progress measured in the financial sector. Scores range from 1 to 4+ with 1 representing little or no progress from a rigid centrally planned economy and 4+ representing the standards of an industrialised market economy. Of the nine upgrades in financial sector reform scores awarded by the EBRD in its *2008 Transition Report*, five have gone to the economies of the Western Balkan region, all in the area of banking reform and interest rate liberalisation. Table 7.2 shows the EBRD banking reform and interest rate liberalisation scores from 2006 to 2008 for each of the economies of the Western Balkans (excluding Kosovo under UNSCR 1244/99).

Table 7.2

Banking reform and interest rate liberalisation (scores ranging from 1 to 4.33)

Country	2006	2007	2008
Albania	2.67	2.67	3
Bosnia and Herzegovina	2.67	2.67	3
Croatia	4	4	4
The former Yugoslav Republic of Macedonia	2.67	2.67	3
Kosovo under UNSCR 1244/99	N/A	N/A	N/A
Montenegro	2.67	2.67	3
Serbia	2.67	2.67	3

Source: EBRD, 2009.

Albania's banking reform score went up from 3- to 3 (EBRD Transition Report 2008) as transparency in banking increased with the establishment of a new credit bureau and more effective implementation of the new banking law. Bosnia and Herzegovina's banking reform score was upgraded from 3- to 3 due to strong progress in the quality of the banking sector and increased financial intermediation, particularly in the cases of leasing and microfinance companies. The former Yugoslav Republic of Macedonia's banking reform score also went from 3- to 3 as a new banking law was implemented and general improvements were observed in financial practices of the banking sector. Montenegro saw its banking reform score also go from 3- to 3 due to important credit growth, and implementation of sound regulatory measures that may facilitate an orderly slowdown in credit growth. Finally Serbia's banking reform score was upgraded from 3- to 3 due to strong growth in financial intermediation and expansion of financial products within an improved regulatory framework.

Following years of very rapid growth of credit to the private sector, 2008 has seen a gradual but marked slowdown of this growth, as a result of the global financial crisis (see Table 7.3). However, year-on-year credit growth is still above 20% in most cases, except in Croatia where an upper limit on credit growth of 12% has been in place since 2007. This is an important factor when prospects for growth are discussed, as the growth of the banking sector has in recent years been a very important driver for growth in the region. Given that domestic credit to the private sector as a percentage of GDP is still very low (see Table 7.4) as compared to more mature economies and to the EU average, further stimulus to growth is expected from further expansion of financial intermediation.

The sector is dominated by mostly foreign-owned banks. So far these banks appear to be willing to remain fully engaged in spite of the economic crisis. The banking system is also highly liquid and still profitable, and the level of non-performing loans is typically low (though bound to rise in the coming months). For these reasons, there is hope that a credit crunch will avoid the region and businesses will still be able to access credit, albeit on tighter terms than before.

Growth in the degree of financial intermediation has had definite results for firms in terms of decreased reliance on internal funds. Preliminary results (see Table 7.5) from the Business Environment and Enterprise Performance Survey run by the EBRD in 2008 clearly show increased reliance on bank borrowing and to a lesser degree on equity finance as compared to the findings of the same survey run in 2005.

Table 7.3

Real growth in credit to the private sector (%)

Country	2006	2007	2008
Albania	53	43	30
Bosnia and Herzegovina	20	17	5
Croatia	21	9	7
The former Yugoslav Republic of Macedonia	27	31	N/A
Kosovo under UNSCR 1244/99	21	27	29
Montenegro	119	146	17
Serbia	10	24	16

Source: EBRD, 2009.

Table 7.4

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

Country	2006	2007	2008
Albania	21	29	35
Bosnia and Herzegovina	23	25	27
Croatia	64	67	69
The former Yugoslav Republic of Macedonia	29	36	N/A
Kosovo under UNSCR 1244/99	21	27	32
Montenegro	39	88	95
Serbia	30	35	38

Source: EBRD, 2009.

Table 7.5

Sources of finance for small firms (%)

Country	Internal funds or retained earnings	Equity (issue new shares)	Borrowing from banks	Trade credit	Other
Albania	75.11	5.77	13.56	0.09	0.68
Bosnia and Herzegovina	39.16	17.33	23.38	17.15	0.67
Croatia	56.57	0.84	31.7	5.61	5.28
The former Yugoslav Republic of Macedonia	63	4	25	2.40	1.50
Kosovo under UNSCR 1244/99	78.50	5.50	12.70	1.70	1.40
Montenegro	27	24	37	9.90	1.80
Serbia	45.90	12.10	27.90	10.30	3.90

Source: BEEPS, 2008.

This report looks at various policy tools and financial tools that can facilitate SMEs access to finance and are under the influence of policy makers. It looks at the presence and functioning of credit guarantee schemes; the type of collateral and provisioning requirements imposed by the financial authorities on lenders; bankruptcy laws; the presence, coverage and functioning of cadastres; the leasing industry, its regulation and supervision; and venture capital funds and the legislation that governs their functioning. From this year it also looks at the presence of registration systems for movable assets and at the presence of credit information services. These last two new indicators are important in the development of a financial sector in that they reflect the degree of risk faced by lenders in a specific economy, and consequently their propensity to lend.

7.6 Assessment framework

Dimension 7 of the Western Balkans Charter for Enterprise covers two components that are vital for enterprise development: access to finance and taxation. External finance (in the form of debt, equity or other financial products) allows companies to leverage their initial capital base, better manage cash-flow fluctuations, embark on investment plans and expand turnover at a faster rate than if the company had to rely exclusively on internally generated funds. According to BEEPS 2009, countries in the region have increased their reliance on external finance in comparison to 2005, although internally generated funds still make up the majority of their funding.

The assessment framework for access to finance in this report does not contain a complete evaluation of access to finance in the Western Balkans. This would require a full review of demand by each type of financial instrument by companies and their supply by financial institutions, as well as the related prices. Rather, the assessment framework is derived from the Charter and focuses on various policy tools and financial tools that can facilitate SMEs access to finance and are under the influence of policy makers. In this context, the report evaluates areas where government policy can build an environment conducive to the development of markets.

The assessment framework for Dimension 7 includes two subdimensions: credit environment and financial facilities for SMEs. From this year it also looks at the presence of registration systems for movable assets and at the presence of credit information services. These last two new indicators are important in the development of a financial sector in that they reflect the degree of risk faced by lenders in a specific economy, and consequently their propensity to lend. In looking at credit environment, the report evaluates five indicators: the type of collateral and provisioning requirements imposed by the financial authorities on lenders, laws and procedures on distressed companies, receivership and bankruptcy, the presence, coverage and functioning of cadastres, registration for movable assets and credit information services. In terms of financial facilities available to SMEs the report covers another three indicators: credit guarantee schemes, the leasing industry, its regulation and supervision; venture capital/equity funds and the legislation that governs their functioning.

Figure 7.3 Assessment framework for dimension 7b: Access to finance

Access to finance

Credit environment

- Collateral and provisioning requirements
- Bankruptcy law
- Cadastre
- Registration of moveable assets
- Credit information services

Financial facilities

- Credit guarantee schemes
- Venture capital/equity funds Leasing

7.7 Analysis[1]

Credit guarantee schemes

Guarantee schemes are an important 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 be best achieved through the incentive structure of a well-functioning private sector mechanism. Therefore economies with state-funded credit guarantee schemes which are privately managed are scored higher than economies where such schemes are non-existent or publicly run.

The former Yugoslav Republic of Macedonia is leading the way on this dimension with three credit guarantee schemes in place with a total capitalisation of approximately EUR 9.5 million. The largest of these schemes was established by the government through the *Macedonian Bank for Development Promotion* (EUR 4.5 million capitalisation), the second was established by the Swedish Investment Fund (EUR 3million capitalisation) and the third is a mutual scheme with mainly US capital (EUR 2.5 million capitalisation). All three funds were established in order to facilitate bank lending to SMEs.

The introduction of new credit guarantee schemes in Albania and Croatia have granted them increases in this score as compared to those assigned to them in the 2007 report.

Collateral and provisioning requirements

Collateral requirements (and relative provisioning rules for lenders) if too high, or too restrictive (e.g. collateral allowed is only real estate) seriously impede lending to the smallest borrowers who may not have sufficient assets to offer, or assets of the right type. Bosnia and Herzegovina is setting good standards along this dimension with flexible definition of collateral in place in all three entities and by allowing the extension of micro-loans in the absence of collateral. Improved flexibility in the definition of collateral used has granted increases in the scores for Albania and Serbia, and the creation of a collateral registry for Croatia.

Bankruptcy laws

Bankruptcy laws are a legal mechanism to enforce debt contracts in the presence of more than one creditor. The absence of such laws or their imperfect implementation result in lenders' reluctance to extend

Table 7.6

Bankruptcy legislation indicators

Country	Time (years)	Cost (% of estate)	Recovery rate (cents on the dollar)
Albania	no practice	no practice	0
Bosnia and Herzegovina	3.3	9	35.9
Croatia	3.1	15	30.5
The former Yugoslav Republic of Macedonia	3.7	28	16.7
Kosovo under UNSCR 1244/99	N/A	N/A	N/A
Montenegro	2	8	43.7
Serbia	2.7	23	24.4

Source: *Doing Business 2009*.

loans to enterprises as they would have no legal recourse in case of failure of the borrower to repay the loan. See Table 7.6 for the average time, cost and expected outcome of bankruptcy legislation in the Western Balkans, as measured by the *Doing Business 2009* report. The data show a situation not different from that of the 2007 SME Policy Index.

Cadastres

Cadastres are institutions that support the use of land as collateral where land registration has been completed. There was no upgrade on this dimension.

Leasing industry

The leasing industry can be an important channel of finance in countries where the banking system is not fully satisfying the demand for investment loans of the SME sector. Almost everywhere, the relevant legislation to regulate the sector is in place and leasing companies are operating. The only upgrades in the scores for this dimension have been for Bosnia and Herzegovina, where the relevant legislation was approved since the last SME Policy Index 2007, and in Albania, where there is evidence that the law is being implemented.

Venture capital/equity funds

Venture capital and equity funds can be important sources of long-term finance for SMEs. Their presence is linked to the level of development of the economy, its growth prospects, the legal framework and exit possibilities (i.e. a functioning stock exchange vs. direct sales). On this dimension the scores have been upgraded for Bosnia and Herzegovina, and Serbia where equity fund legislation is now in place and some funds are operating (although exit possibilities are limited to direct sales).

Registration systems for movable assets

Registration systems for movable assets allow small firms to effectively use collateral other than land or real estate when applying for a loan and reassure lenders that the same collateral has not been used for another loan application.

Bosnia and Herzegovina, Montenegro and Serbia lead the way, thanks to the presence and smooth functioning of registry agencies which keep record of pledges on movable property. The databases are available online, free of charge.

Credit information services

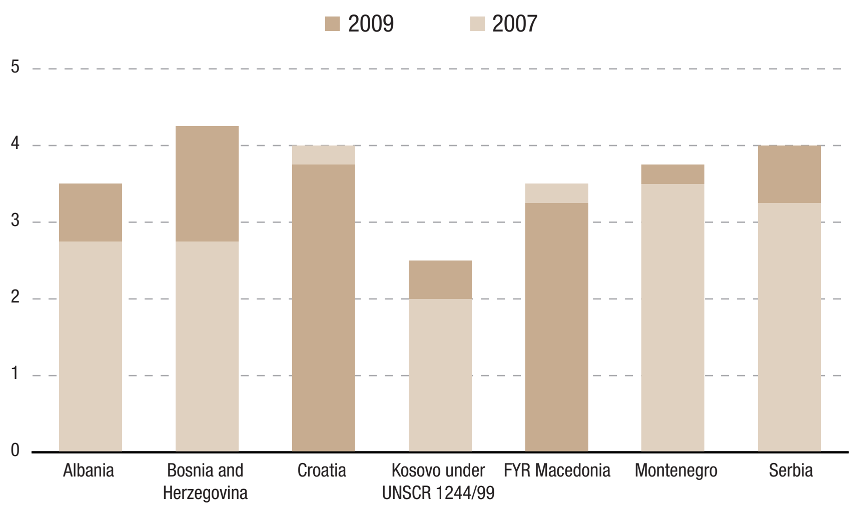
This measures whether the economy enjoys the services of public or private credit registries. Public credit registries are databases, managed by a government agency, often the central bank or the supervisory authority for the banking sector, containing information on the credit status of borrowers and making it available to lenders. Private credit bureaus are private (sometimes non-profit) organisations that maintain a database on the credit status of borrowers in the financial system.

Table 7.7

Scores for sub-dimension 7.2: Access to finance[2]

		ALB	BIH	HRV	XK	MK	MNE	SRB
Credit guarantee schemes	2009	3.00	2.00	3.00	2.00	5.00	2.00	3.00
	Change since 2007	+0.50	0.00	-0.50	0.00	+1.50	0.00	0.00
Collateral and provisioning requirements	2009	4.00	5.00	4.00	2.00	3.00	2.00	3.00
	Change since 2007	+2.00	+3.50	+0.50	0.00	-1.00	0.00	+0.50
Laws and procedures on distressed companies	2009	3.00	4.00	4.00	3.00	3.00	4.00	4.00
	Change since 2007	0.00	+0.50	0.00	+2.00	0.00	0.00	0.00
Cadastre	2009	3.00	3.00	4.50	3.00	3.00	4.50	3.00
	Change since 2007	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Leasing industry	2009	4.00	3.00	4.00	2.00	4.00	4.00	5.00
	Change since 2007	+1.00	+1.00	0.00	0.00	0.00	0.00	0.00
Venture capital/equity funds	2009	2.00	4.00	4.00	1.00	4.00	3.00	3.00
	Change since 2007	0.00	+0.50	0.00	0.00	0.00	-1.00	+0.50
Registration systems for movable assets		3.00	3.75	3.00	2.25	3.00	3.75	3.75
Credit information services		3.00	3.75	2.25	1.50	1.50	3.00	3.75
Overall weighted average for sub-dimension 7.2: Access to finance	2009	**3.50**	**4.25**	**3.75**	**2.50**	**3.25**	**3.75**	**4.00**
	Change since 2007	+0.75	+1.50	-0.25	+0.50	-0.25	+0.25	+0.75

Figure 7.4 Overall scores for dimension 7: Access to Finance[3]



These institutions are set up to facilitate the exchange of information among banks and financial institutions, in order to reduce the risk they face when taking lending decisions. Bosnia and Herzegovina, and Serbia are the leaders on this dimension with well functioning private credit bureaus making more than two years' history available.

7.8 The way forward

Increasing domestic bank lending to the private sector, particularly SMEs, is an important challenge for the financial sector. The analysis of selected indicators on access to finance has shown that government policies could improve the functioning of registries which together with a better functioning cadastre would facilitate the use of assets as collateral. 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 it 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. Lowering administrative barriers and costs for transferring remittances from abroad into the banking system is also important with respect to increasing access to finance for new investments. Other challenges include the promotion of non-cash transactions, strengthening of property rights and enforcement of contractual obligations. Broader availability of creditor information and improved bankruptcy laws would also make it easier for banks to lend to enterprises. In addition, there is room for improvement in credit guarantee schemes as such improvements would make it easier for SMEs to access finance. To supplement the low levels of bank lending, promotion of new financial instruments such as leasing, venture capital and private equity funds within the appropriate legal and regulatory regime is an important challenge with regard to the development on non-bank financial institutions. In order to help deepen and broaden the financial markets, government policies should ensure that the legal and regulatory framework is conducive to market development.

Notes

1 *All SME Policy Index scores have been rounded up or down to the nearest 0.25*

Dimension 8

Strengthening the Technological Capacity of Small Enterprises

Strengthening the Technological Capacity of Small Enterprises

8.1 Introduction

Small enterprises face higher barriers than large enterprises in developing and absorbing new technologies, due to shortages of skills, financing, and the ability to gather and process technical and market information. However, changes in technology development patterns and the great improvements in access to information made possible by ICT have allowed small enterprises to get closer to the technological frontier and in a number of cases to develop radical innovations. Small enterprises benefit significantly from the establishment of innovation and information networks, including other enterprises, universities, private and public laboratories, and research and development centres. Public policy has an important role to play in developing those networks, in establishing a favourable environment for innovative enterprises and in addressing some of the most critical market failures.

The Charter envisages three types of activities directed at strengthening the technological capacity of small enterprises:

- Developing programmes that promote 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 SMEs), 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 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 2007 Charter report showed that the Western Balkans lagged significantly behind the EU with respect to their policies for fostering competitiveness and innovation. Only a number of countries in the region had adopted an innovation policy and launched programmes supporting innovative enterprises to increase the absorptive capacity of small enterprises. A focus group survey conducted by the OECD Investment Compact in 2007 indicated that interaction between universities and research institutes and small enterprises across the Western Balkans was minimal. The main channels of transmission of innovation into the region were trade and foreign direct investment. Over the last two years, governments in the Western Balkans started to react to this growing policy gap. The extension of the Competitiveness and Innovation Programme (CIP) to the Western Balkan countries has acted as a catalyst to review government policies in this area. Currently six Western Balkan economies (Croatia, Serbia, the former Yugoslav Republic of Macedonia, Montenegro and Albania) are participating in the first pillar of the CIP, namely the Entrepreneurship and Innovation Programme (EIP). Croatia is also participating in the other two pillars of CIP: the Intelligent Energy Europe Programme and the ICT Policy Support Programme. However, the onset of the global economic crisis, which may force a reassessment of government priorities and a re-allocation of resources, may affect the development and implementation of programmes supporting innovative enterprises.

8.2 Assessment framework

The assessment framework to evaluate progress in strengthening technological capacity of small enterprises has remained unchanged from the previous report. 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 among 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 among 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 8.1 Assessment framework for dimension 8

Strengthening the technological capacity of SMEs

Technology dissemination	Technology co-operation and research	Development of inter-firm clusters
• Technical training	• Information and technology centres • Intellectual property rights protection	• Cluster support programmes

8.3 Analysis[1]

Support for technology training

Over the last two years there has been only limited progress across the region in this area. Only two countries, Croatia and the former Yugoslav Republic of Macedonia, have launched government-supported programmes to support technology training for small enterprises.

In Croatia, the Business Innovation Centre of Croatia (BICRO) plays a central role in supporting innovative SMEs. BICRO runs a number of programmes, ranging from R&D support to equity financing. The Koncro programme is specifically directed at strengthening the technical and managerial skills of innovative SMEs, through the co-funding of consultancy services. The programme has been recently expanded, however training activities are conducted mainly using the BICRO network of technology centres, not direct involvement of universities and research institutes.

The former Yugoslav Republic of Macedonia is continuing the Voucher Counselling Programme launched in 2005. The programme allows companies to use vouchers to buy consulting services (including technical and managerial assistance, and training) from private consultants. The vouchers finance up to 50% of the consulting fees. In 2008 the government introduced a new Innovation Voucher scheme and increase the ceiling from EUR 750 to EUR 1 500. However, the total budget for this programme is limited to EUR 50 000.

A number of other countries (including Bosnia and Herzegovina, Montenegro and Serbia) are conducting *ad hoc* initiatives, mostly financed through donor funding, but have not yet launched specific programmes supporting training and technical advising. In Bosnia and Herzegovina, several initiatives have been launched at entity level. Additional programmes are conducted by the regional development agencies, such as the programmes run by the North Economic Development Agency for the welding and woodworking sectors.

Albania and Kosovo under UNSCR 1244/99 still have no measures in place to support technology training. However, Albania has formulated a technological development programme, to be partly funded by the 2007-2013 Instruments of Pre-Accession Programme (see next section).

Box 8.1

Business Innovation Centre of Croatia – BICRO LTD

The Business Innovation Centre of Croatia, BICRO LTD, is an innovation and investment company established by the Croatian Government in order to facilitate technology transfer and commercialisation activities primarily in the sector of SMEs, contribute to the creation and development of private equity industry (specially VC), and promote the establishment and development of science and technology parks/centres/other related infrastructure.

BICRO's programmes were launched in February 2007. The programmes are open to anyone with an innovative technological idea but the least common denominator is the presence of potential IPR or protectable assets, which can be developed into a marketable technology/product. Examples of such programmes include:

RAZUM - Seed Capital Program

aims to ensure a sustainable increase in the number of knowledge-based technology-driven SMEs. BICRO identifies projects and firms, evaluates their capabilities and on that basis provides them with early seed financing. The program operates based on public support and other sources of financing contributing 70% of project costs in the form of conditional grants, and the remaining 30% is contributed from the private sector.

TEHCRO - Technology Infrastructure Development Program

is focused on developing efficient and self-sustaining technology and business support infrastructure in order to support commercialisation of research outputs and development and growth of knowledge-based technology-driven SMEs. The program provides 3-5 yrs financing to projects aimed at establishment, upgrading and/or development of Technology Business Centres, Incubators, Science parks and commercial R&D Centres linked to research/academic institutions or R&D-based industry.

Untill February 2009, RAZUM has funded 52 innovative projects and placed close to EUR 30 million of seed capital in SMEs, mainly start-ups, for R&D activities. In the last 2 years, TEHCRO invested 2.7 million Euros in technology infrastructure development projects (i.e. operations of science & technology parks, incubators and R&D centres) with close to EUR 6 million of already committed funds.

Table 8.1

Scores for sub-dimension 8.1: Promote technology dissemination

		ALB	BIH	HRV	XK	MK	MNE	SRB
Promote technology dissemination	2009	**2.00**	**2.50**	**3.00**	**1.00**	**3.00**	**2.00**	**2.50**
	Change since 2007	+1.00	+0.50	+1.00	0.00	0.00	0.00	+0.50

Fostering technological co-operation

Two areas are assessed here:

- 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 crucial, both to help countries meet international obligations and to create a firm foundation on which collaborative innovation developments can proceed.

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

In the 2007 Charter report, the Western Balkan countries were divided into three main groups according to the presence and level of development of innovation and technology (I&T) centres and technology co-operation programmes:

Croatia, the former Yugoslav Republic of Macedonia and Serbia, with a score of 3 and above, were included in the first group, as they had established a policy framework and I&T centres, and had launched programmes to foster technological co-operation;

Bosnia and Herzegovina, and Montenegro, with respective scores of 2.5 and 2, were in the second group, as they were in the policy elaboration phase, and had no active programmes and centres;

Albania and Kosovo under UNSCR 1244/99, with a score below 2, were part of the third group, with no significant policy action to encourage technology transfer planned.

According to the 2009 report, the situation has remained virtually unchanged: Albania has recorded progress (albeit starting from a low base), and Bosnia and Herzegovina, and Serbia marginally increased their score. All across the region, there are still major obstacles to co-operation among universities, research centre and SMEs. Those obstacles are related to the general poor conditions of university research facilities, the lack of financial incentives for universities and research centres for engaging in enterprise consulting activities, and the presence of cultural differences between the academic and the business worlds.

However, several governments in the region have started to launch initiatives favouring technological and innovation in enterprises, with specific schemes aimed at SMEs. At regional level, two main programmes are under implementation. The first one, the WBC-Inco-Net, focuses mainly on research activity, and contributed to the establishment of a network among universities and research and development centres in the Western Balkans. The second programme, the Business Advisory Service, a programme led by the EBRD and active in all the Western Balkan countries, provides consulting and technological development services to SMEs.

One of the most advantageous components of the EIP for the Western Balkans is the participation in the Enterprise Europe Network (EEN) (see Box 6.2). This network is constructed on the basis of the existing European Information and Innovation Relay Centres, and includes consortia from five economies in the region (Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Serbia, and Bosnia and Herzegovina). These will facilitate the integration of Western Balkan companies in exchange of technology and co-operation in R&D networks.

At country level, Croatia is still leading the Western Balkan countries in terms of policy framework, number of active programmes and pilot projects. Over the last two years, BICRO, established in 1999, has been expanding its activities and support programmes (see Box on BICRO above).

In the former Yugoslav Republic of Macedonia, there are four technology transfer centres (three in Skopje and one in Bitola) established with the support of GTZ, the German technical co-operation agency. Another nine centres are planned, under the USAID-funded Competitiveness Project. In addition, a local consortium formed of the Ss. Cyril and Methodius University, the Foundation for Management and Industrial Research, the Agency for the Promotion of Entrepreneurship and the Economic Chamber of the former Yugoslav Republic of Macedonia is providing technology transfer services in the context of the Enterprise Europe Network since the beginning of 2008, through the European Information and Innovation Centre in Macedonia (EIICM). A new law on supporting and facilitating technological development opens the door for enterprises to apply for government co-financing for up to 50% of research and development project costs. At the end of October 2008, 57 projects proposals were under evaluation. However, budget allocations are limited to EUR 146 920 in 2008.

Serbia has made progress on the implementation of the Innovation Law, introduced in 2005. In line with the requirement of the law, 3 innovations centres, 20 research and development centres, 39 research and production centres, 2 technological parks and 3 technological incubators had registered with the Ministry of Science and Technology by the end of October 2008. These entities became eligible for financial support covering up to 50% of their R&D projects, with a pre-determined cap. Budget allocation in 2008 amounted to EUR 4.7 million. Additional funding has been provided by the EC-funded the Enterprise Development and Innovation Grant Scheme, mostly channelled through cluster development. Part II of this report contains a comprehensive review of the innovation supporting measures introduced by the former Yugoslav Republic of Macedonia and by Serbia.

In Bosnia and Herzegovina the elaboration and implementation of technology and innovation policy remains under the entity domain with no significant actions taken a state level. However, at entity level, some progress on pilot project implementation has been made. For instance in the Republika Srpska, the Banja Luka University has established a co-operation agreement with the Agency for SME Development. Technological parks have been established in Zenica and Tuzla (Federation of Bosnia and Herzegovina) and a Business and Information Technology Centre has been established in Tuzla, operating in close co-operation with Tuzla University (particularly in the fields of ICT and electrical engineering).

No major developments have taken place in Montenegro over the last two years. The main initiative is the establishment of a University Centre for Design and Development, based at the University of Montenegro. The centre, planned in 2006, is not yet operational.

In Albania, the government has designed an innovation supporting programme, to be financed by IPA funds. It includes the establishment of a Business Innovation and Relay Centre in Tirana, the training needs analysis, the development of an Innovation and Technology Strategy, and the establishment of a scheme of support to innovative SMEs. Programme implementation is expected to start in early 2009.

Intellectual property rights

IPR assessment provides a summary of the progress made by the Western Balkans countries in the area of protection of intellectual, industrial and commercial property rights, as well as on the enforcement of the related legislation and international IPR agreements. The assessment is based on the information provided by governments as well as on the conclusions contained in the country *2008 Progress Report* published by the European Commission in November 2008.[2]

As noted in the 2007 Charter report, all Western Balkan economies have introduced basic IPR legislation. The only exception is Kosovo under UNSCR 1244/99, which was at the time at a very preliminary stage of legislative development.

Over the last two years there has been progress across the region: legislative measures have been improved, the institutions in charge of IPR registration and protection (intellectual property offices and industrial patent offices) have been strengthened, and IPR enforcement (customs and tax authorities and inspection bodies) has been improved, as the judiciary is better able to handle IPR cases. However progress has been unevenly distributed across the region.

Progress has been more marked in Croatia, on all fronts. Over the last two years, IPR legislation on copyrights and industrial property is further approximated to the *acquis communautaire* and there has been solid progress on enforcement, with a significant rise of misdemeanour proceedings resulting from investigations conducted by the State Inspectorate.

There has been some progress in the former Yugoslav Republic of Macedonia and in Serbia, specifically on strengthening the administrative capacity of their intellectual property offices and in the area of enforcement. In the former Yugoslav Republic of Macedonia, the Copyright Law has been amended, allowing the transfer of the responsibility of inspections from the Ministry of Culture to the State Market Inspectorate and raising the level of fines for copyright infringement. In Serbia the government appointed the Intellectual Property Office as co-ordinator for all government activities concerning copyrights, thereby improving institutional co-ordination.

In relation to IPRs, Montenegro is a specific case. Under the State Union of Serbia and Montenegro, IPRs were covered by a State of Union Law. After independence (declared in June 2006), Montenegro has continued to apply the pre-existing IPR legislation. However, amendments on administrative fees were introduced in April 2008, a law on geographical origins was adopted in July 2008 and a draft law on patents has been approved by the Council of Ministers.

Although some limited progress was made in Albania, and Bosnia and Herzegovina, the IPRs legislative framework is still under development and the enforcement record is limited.

In Albania, the legislative framework on IPRs was further improved with the approval (July 2008) of a new Law on Industrial Property, in line with the *acquis communautaire*. The government has also amended the provisions on the application of the Customs Code, in order to improve the country IPR enforcement capacity. However enforcement remains problematic, due to the limited resources of the Albanian Copyright Office. Inspection activity has been stepped up, but relatively few cases IPRs violation have been pursued in court.

In Bosnia and Herzegovina, the legal and institutional framework remains at an early stage of development. However, basic legislation has been put in place and the Institute of Intellectual Property is operational, with headquarters in Sarajevo, a branch in Mostar and a second branch in Banja Luka (not yet operational). One of the main outstanding issues concerns the area of industrial property rights, due to weaknesses in legislation and in the procedures for handling new applications, which results in long delays. The second main area of concern is law enforcement. The inspectorate bodies in charge of IPR enforcement operate under the remit of the two entities and the Brcko district. The state is in charge of enforcing criminal law in relation to IPR violations. The Indirect Tax Authority is in charge of IPRs enforcement at borders. The result of this fragmentation of competencies and mandate is that there is no unified track record of enforcement. As noted in the EC *2008 Progress Report*, in Bosnia and Herzegovina a "high level of counterfeiting and piracy persist and the country remains a point of distribution to the rest of Europe".[3]

In Kosovo under UNSCR 1244/99 the IPR legislative framework and institutional framework is at an early stage of development. A Law on Customs Measures in respect to IPRs was adopted in 2008 and implementation started in June 2008, providing the basic framework to the customs administration to take action against piracy and counterfeiting. The Office of Industrial Property became operational in November 2007, but further actions are needed to strengthen its technical and administrative capacity. The enforcement record remains very limited.

Table 8.2

Scores for sub-dimension 8.2: Foster technology co-operation[4]

		ALB	BIH	HRV	XK	MK	MNE	SRB
Innovation and technology centres/ co-operation	2009	1.50	2.50	3.50	1.00	3.00	2.00	3.00
	Change since 2007	+0.50	0.00	0.00	0.00	0.00	0.00	0.00
Intellectual property rights	2009	3.50	3.00	4.50	2.00	4.00	3.50	4.00
	Change since 2007	0.00	0.00	+1.00	+0.50	+0.50	0.00	+0.50
Overall weighted average for sub-dimension 8.2: Foster technology co-operation	2009	**2.75**	**2.75**	**4.25**	**1.75**	**3.75**	**3.00**	**3.75**
	Change since 2007	0.00	0.00	+0.75	+0.50	+0.50	0.00	+0.50

Development of inter-firm clusters and networks

As noted in the 2007 Charter report, cluster and enterprise network development is a key component of SME policy in the Western Balkans. All economies in the region had an active policy in this area and attracted substantial donor support. Croatia and the former Yugoslav Republic of Macedonia were highlighted as the most advanced in cluster development, with Bosnia and Herzegovina, and Serbia shaping up their clusters policies.

The results of the 2009 report raise a number of questions about the approach adopted by the Western Balkan governments in cluster development and the sustainability of donor-funded programmes.

Looking at the country performance presented in Table 8.3 we note that two countries, Serbia, and Bosnia and Herzegovina, have significantly improved their scores; Albania and the former Yugoslav Republic of Macedonia recorded negative progress; while Croatia, Kosovo under UNSCR 1244/99 and Montenegro recorded no significant progress.

In Serbia, progress in cluster and enterprise network development has been based on the dynamic combination of a well-defined government strategy, defined broadly in the national strategy for economic development (2006-2012) and more specifically in the strategy for clusters and business incubators (2007-2010). It is built on the participation of local administration, broad consultation with stakeholders and well-structured donor-supported programmes. (Most of those elements were already in place in Croatia and led to the development of 14 local clusters in 5 industries.)

In the case of Serbia, the Ministry of Economy and Regional Development has registered 20 clusters and is providing support to 14 of them, operating in wood processing, building materials, metal processing, shoemaking and textile, automotive components, agro-business and agricultural machinery, all sectors that already had a relatively high level of agglomeration. The EC and USAID have been the lead donors supporting cluster development. Their activity has been mainly directed at providing quality services at single enterprise or network level, while government support has mainly focused on infrastructure and human capital development.

The same combination of factors has been at play in Bosnia and Herzegovina, with a significant difference. State support has been negligible, while the role of the regional development agencies, of donors (especially GTZ, USAID and the EC), and of entities and cantons has been more substantial. Bosnia and Herzegovina has active clusters in wood processing, automotive components, plastic components and tourism. The automotive cluster, supported by GTZ, had led to the establishment of a dynamic enterprise network and schemes to share R&D, product testing and marketing activities.

The relatively poor performance of Albania and the former Yugoslav Republic of Macedonia is attributed to the lack of synergies among government action, donor-funded initiatives, and support by local stakeholders and authorities.

Table 8.3

Scores for sub-dimension 8.3: Develop inter-firm clusters

		ALB	BIH	HRV	XK	MK	MNE	SRB
Develop inter-firm clusters	2009	**1.50**	**3.00**	**4.00**	**2.00**	**3.00**	**2.00**	**4.00**
	Change since 2007	-0.50	+1.00	0.00	0.00	-1.00	0.00	+1.00

Figure 8.2 Dimension 8 scores by sub-dimension

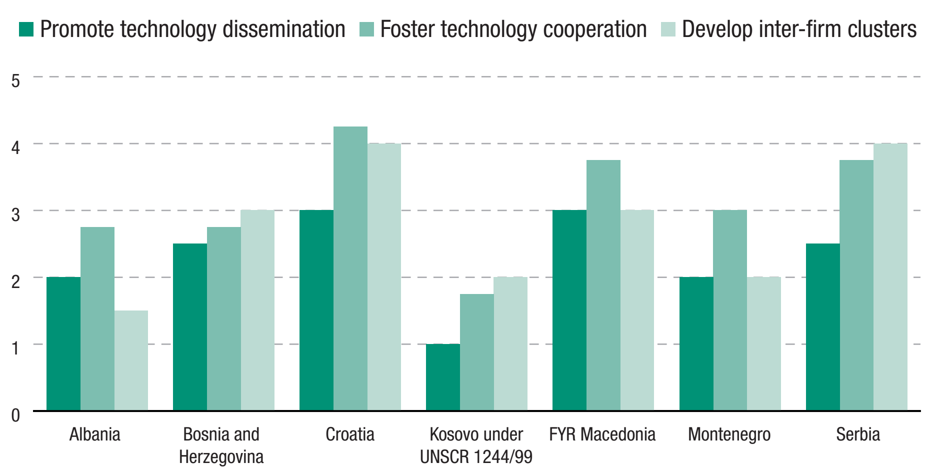
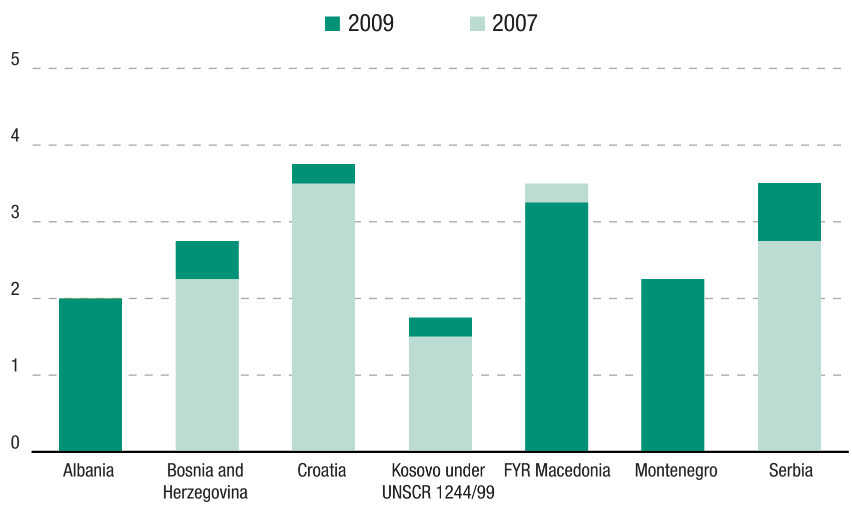


Figure 8.3 Overall scores for dimension 8



8.4 The way forward

All across the region, government policies directed at strengthening the technological capacities of SMEs are at an early stage of development. Croatia is the most advanced in the three areas of technology dissemination, technology co-operation, and research and development of inter-firm clusters. It has launched a comprehensive technological development programme (BICRO). In a number of other countries (Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia and Serbia), technology support programmes are mostly still in a pilot phase, although progress has been recorded in Bosnia and Herzegovina, and Serbia in the cluster development area. Albania, Kosovo under UNSCR1244/99 and Montenegro are at a very early stage of policy elaboration. There have been positive developments in the IPR area (in terms of institutional development and legislative upgrading and, to a lesser extent, policy enforcement) with a number of countries: Croatia, the former Yugoslav Republic of Macedonia and Serbia.

The special section on high-growth enterprise (Part II of this report) reviews good practices at international level, as well as a first picture of the experiences developed in the Western Balkan region; it broadly confirms the results of the 2009 report.

Given the limited progress achieved in this area, the priorities highlighted in the 2007 SME Policy Index Report, (underlined by the conclusions of the section on high-growth enterprise) are still largely valid.

- Government should further extend the support to initiatives establishing inter-firm clusters and networks, integrating those initiatives with other enterprise-supporting schemes (voucher schemes, business incubators, innovation supporting schemes, etc.). Governments should continue to orientate the existing and new clusters from the traditional sectors to include and address knowledge-intensive and high value added services.

- To strengthen the technological capacity of firms encouraging local co-operation with universities is not enough. The companies source technology worldwide and the services of the Enterprise Europe Network reply to this opportunity. R&D and innovation policies have to find the right balance between strengthening the local R&D base, in particular through specialisation and development of excellence, and technological modernisation in enterprises. New and better tools for regional, European and international co-operation and technology development and application should be put in place. The opening of existing innovation voucher schemes for international co-operation holds, in particular, potential in this respect.

- As argued in the section on high-growth enterprises, in order to forge an environment that encourages innovation and growth, it is important to move forward on diverse yet complementary areas (intellectual property rights, business incubators, cluster development and skills development). As noted in the previous report, it is vital to ensure a high level of co-ordination among the Ministry of Economy, Ministry of Education and Science, the private sector, universities and research institutes.

- Governments need to continue to act on IPRs; they 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, particularly in countries with weak IPR enforcement records.

Notes

1 *All SME Policy Index scores have been rounded up or down to the nearest 0.25*

2 *http://ec.europa.eu/enlargement/how-does-it-work/progress_reports/index_en.htm*

3 *Commission Staff Working Document, Bosnia and Herzegovina 2008 Progress Report (COM(2008)674), p. 40.*

4 *Although this report is published in 2009, data collection took place in 2008. For the SME Policy Index Report 2007, data were collected in 2006.*

Dimension 9

Successful E-Business Models

Successful E-Business Models

9.1 Introduction

This chapter measures the extent to which governments encourage small enterprises to apply best practice and adopt successful business models; and develop information and business support systems, networks and services that are accessible, understandable and relevant.

Growing integration with European markets is creating new opportunities for small businesses in the Western Balkans, 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 Kosovo under UNSCR 1244/99, including business incubators, general business services and information provision. While on general level the private sector or governments provide business support services, the key to their effectiveness is whether they are part of an efficient and effective national framework.

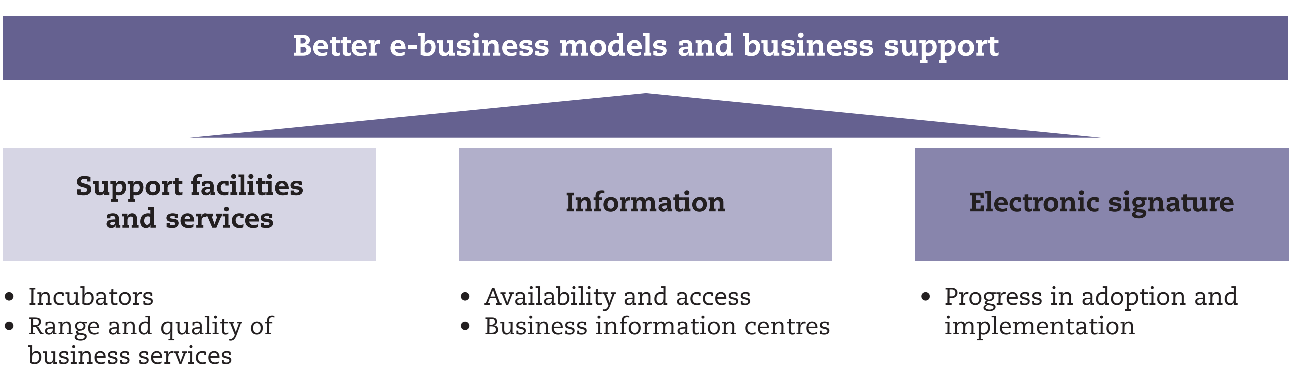
To assess performance in this dimension, the following three sub-dimensions were analysed (these sub-dimensions and their indicators have not changed from the 2007 SME Policy Index Report):

- 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 and whether the application of the electronic signature works effectively and through a functioning accreditation body (considered essential in the new economy).

9.3 Analysis[1]

The 2009 report reveals that only marginal progress has been made by governments within this dimension. A pattern of isolated and fragmentary initiatives to provide business support services (many of which are funded by

Figure 9.1 Assessment framework for dimension 9



donors) persists. To a great extent, there are no national strategies within which individual efforts can be co-ordinated. This leads to gaps and overlapping services. While business support services have been seen by most governments as important at both national and local levels, a lack of long-term strategies means that issues such as quality assurance and appropriate range of services have not been addressed.

The exception is (just like in the 2007 report) Croatia, where support services are being developed within a clear national 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 report, 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. The necessary technical and regulatory framework is being implemented through a number of initiatives. E-Croatia and Navigator are establishing the framework for the business-to-government (B2G) environment 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. 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 approved legislation, but advanced implementation is in place only in Croatia and to a more limited extent, the former Yugoslav Republic of Macedonia.

SME support facilities and services

In evaluating the business support facilities provided 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

Business incubators provide a range of focused support services for new businesses operating 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 (bookkeeping, 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.

Overall, the situation has remained very similar to the state of affairs in 2007: Croatia, the former Yugoslav Republic of Macedonia, Serbia, and now also Bosnia and Herzegovina are the countries in the region with the most advanced business incubator programmes.

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. Exit strategies for the tenants are still lacking in most cases; furthermore, one of the main problems remains the relative difficulty of finding alternative locations at affordable prices on the open market.

In Bosnia and Herzegovina, the entities/district have made independent progress in establishing business incubators, each entity holding a number of operational incubators. A strategy was recently adopted at the National Incubators Meeting on 16 and 17 November 2006 by a country-wide network of incubators, defining common activities to foster new incubators.

Business incubators in the former Yugoslav Republic of Macedonia have suffered from the ending of a World Bank project in 2001, which funded incubators in Prilep, Krusevo, Makedonska Kamenica, Delcevo, Stip, Strumica, Ohrid and Veles. The responsibilities and follow-up of the operation of the incubators were transferred to some departments and units in MoE, as well as APPRM, yet today only the Ohrid incubator is now partially operational. Since 2006, however, a number of new initiatives have resulted in the opening of new incubators and the planning of others, which will be launched in 2009. The most successful incubator is the YES incubator, which officially started operations in September 2007: at the outset, only two companies commenced operations, but over time this number has grown and now stands at 15, all of them functioning successfully and employing about 50 young people.

In Serbia there are 17 business incubators out of which 7 are operational. Within RASMEE a Training Center for Business Incubators was established. All business and technological incubators and scientific and technological parks are registered according to the Innovations Law.

In the remaining West Balkan economies, strategies for business incubators are still in their infancy. In Albania, a strategy is currently being discussed and efforts are being made to establish an incubator in the University of Tirana. In Montenegro, the need for more sophisticated business services is recognised by both public and private actors serving SMEs, although an incubator is currently being established through the EBRD TAM programme. In Kosovo under UNSCR 1244/99, strategic plans for business incubators still remain to be concretely implemented, although progress on the establishment of three incubators can be noted.

Range and quality of business services

As in 2007, still only in Croatia it is 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 local entrepreneurship centres.

In the rest of the Western Balkans, the situation can still 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 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, and has also started to develop a database of consultants and trainers. In Bosnia and Herzegovina, regional and local agencies receive assistance from a range of donors and local public sector support, with the Republika Srpska co-ordinating a programme of its own, including workshops and seminars.

In Kosovo under UNSCR 1244/99, there is 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 APPRM Voucher System of Counselling provides co-financing for business services to participants in the system (100% of costs for potential entrepreneurs and 50% for active enterprises). In Montenegro, a network of regional and local business centres has been developed (six regional centres and three local centres), providing a number of subsidised services for businesses. In Serbia, a network of 14 regional SME support agencies exists;[2] many basic subsidised services are also delivered at local level.

In addition to subsidised programmes in the region, there is 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.

Across the Western Balkans, programmes have been established to set 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, AlbInvest has established a database of Consultants and trainers so that businesses can 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 Bosnian Institute for Accreditation –

BATA provides accreditation services to all organs that deal with certification. Domestic firms do certification activities, whereas foreign certification firms which function in B&H deal with the certification which require international validity.

In Croatia, HAMAG implements the Certification of Business Consultant Project. The Project resulted in 58 certified consultants by the end of 2007. Some business services are standardized.

In Kosovo under UNSCR 1244/99, an accreditation scheme exists for a small voucher programme, and there has been some evidence of certification of trainers and consultants. In the former Yugoslav Republic of Macedonia, the quality certification of business services offered to enterprises is still in its early development phase. Although there are some attempts, it will still take several years to develop a body of service providers with the appropriate certification. In Montenegro, consultant accreditation is under elaboration. The same situation exists in Serbia.

Box 9.1

The Business Advisory Service (BAS) Programme in the former Yugoslav Republic of Macedonia

The BAS Programme in the former Yugoslav Republic of Macedonia was established in 2002 with funding from the Central European Initiative. Further funding has been provided by the Balkan Region Special Fund, DFID UK, Portugal, the Netherlands and EBRD. To the end of 2008, BAS in Macedonia has undertaken a total of 359 projects with 315 SMEs, engaging 159 consultants. Some 297 projects have been completed and 245 of these were evaluated with a success rate of 78.7 (highly successful).
The BAS Programme in the former Yugoslav Republic of Macedonia has also undertaken a number of market development activities, including eight training events promoting the development of the local consultancy market.

New initiatives:

In parallel to its standard programme, in December 2005 the BAS Programme in the former Yugoslav Republic of Macedonia launched the BAS Enviro Programme to strengthen environmental management within the SME sector and help enterprises to move into compliance with the Integrated Pollution Prevention and Control (IPPC) directive, without undue adverse effect on their viability and competitiveness.

As a result of the programme, 103 local environmental advisors were trained by international experts to deliver consultancy support to SMEs on the implementation of the IPPC directive, and related environmental impact assessment and environmental management systems.

The BAS Enviro Programme then supported 103 SMEs affected by the IPPC directive on issues related to compliance. The programme granted these companies a total of EUR 400 000 for covering 50% of the costs of the environmental projects.

The programme was funded by the European Union and was completed two years later in 2007.

Table 9.1

Scores for sub-dimension 9.1: SMEs support facilities and services[3]

		ALB	BIH	HRV	XK	MK	MNE	SRB
Business incubators	2009	1.50	3.50	4.00	2.00	3.00	2.00	3.50
	Change since 2007	+0.50	+1.00	+0.50	+1.00	0.00	0.00	+0.50
Range of business services	2009	2.50	3.00	5.00	2.00	3.00	3.00	2.50
	Change since 2007	+0.50	0.00	0.00	+1.00	0.00	0.00	+0.50
Quality of business services	2009	3.00	3.00	4.00	2.50	2.00	2.00	3.00
	Change since 2007	+1.50	+1.00	0.00	+1.50	0.00	0.00	+1.00
Overall weighted average for sub-dimension 9.1: SMEs support facilities and services	2009	**2.50**	**3.00**	**4.50**	**2.25**	**2.50**	**2.50**	**3.00**
	Change since 2007	+1.00	+0.50	+0.25	+1.25	0.00	0.00	+0.75

Information for SMEs

The assessment 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, information accessibility was given twice the weight of business information centres. Croatia is still leading in this field but Serbia has made the most 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, Croatia, and Serbia. 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 online information provision (Chapter 5).

In Albania, Bosnia and Herzegovina, Kosovo under UNSCR 1244/99, and the former Yugoslav Republic of Macedonia, it would be fair to say that information is available from business service providers and is accessible to some extent online, but the quality and extent of information are relatively low. While specific information centres exist within this network, their use and service levels should be increased. 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 Directorate for SME Development , that ensures that personalised business

Table 9.2

Scores for sub-dimension 9.2: Information for SMEs

		ALB	BIH	HRV	XK	MK	MNE	SRB
Availability and accessibility of information	2009	2.00	2.00	4.50	3.00	3.00	3.00	4.00
	Change since 2007	0.00	-0.50	0.00	+1.00	0.00	0.00	+2.00
Business information centres	2009	2.00	3.00	5.00	2.00	3.00	4.00	4.00
	Change since 2007	0.00	0.00	0.00	0.00	0.00	0.00	+2.00
Overall weighted average for sub-dimension 9.2: Information for SMEs	2009	**2.00**	**2.50**	**4.75**	**2.50**	**3.00**	**3.50**	**4.00**
	Change since 2007	0.00	-0.25	0.00	+0.50	0.00	0.00	+2.00

information is available on demand in paper form from the network of regional/local business centres and the EICC.

In Croatia there are 51 Business Information Centres that make business information available to SMEs, including extensive online access via a central website. Furthermore, a directory of business service providers is available on-line at the MELE, Chamber of Commerce, HAMAG, Croatian Employers Association and other business associations.

In Serbia, through the RASME, NES, SIEPA, SBRA and SCC network, on the local, regional and national levels, much high-quality business information is now available electronically, through periodicals and printed publications and can also be obtained by request.

Electronic signature

Electronic signature systems enable direct interaction with government services and create legally enforceable contracts within countries' legal systems. A functioning electronic signature system with an operational accreditation body are key factors to the success of e-government services such as online filing of taxes or social security returns.

All Western Balkan countries have at least passed the law on electronic signature, but only Croatia and the former Yugoslav Republic of Macedonia have also implemented its use. In Croatia the law and relevant by-laws were passed in 2002, and the electronic signature has been used extensively across the SME community of the country. In July 2008, the Act on Amendments to the Electronic Signature was adopted by the Parliament.

In the former Yugoslav Republic of Macedonia, the Law on Electronic Data and Electronic Signature was adopted in 2001, along with four sets of regulations. In June 2006, the first issuer of certificates was registered in the Single Register for Issuance of Certificates. The second issuer (Makedonski Telekomunikacii A.D.) was recently selected. In practice, any interested party may provide

Table 9.3

Scores for sub-dimension 9.1: SMEs support facilities and services

		ALB	BIH	HRV	XK	MK	MNE	SRB
Law on electronic signature	2009	**3.00**	**3.00**	**4.00**	**2.50**	**3.50**	**3.00**	**3.00**
	Change since 2007	+2.00	+1.00	0.00	+0.50	+0.50	0.00	0.00

Figure 9.2 Dimension 9 scores by sub-dimension

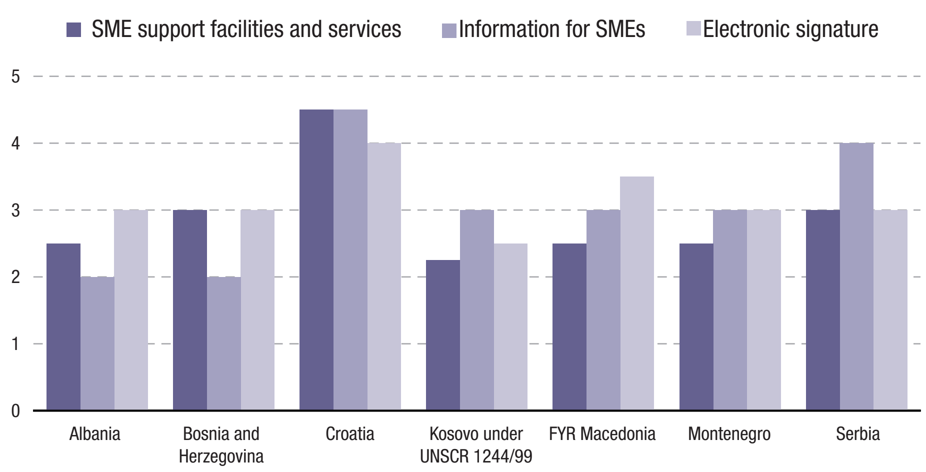
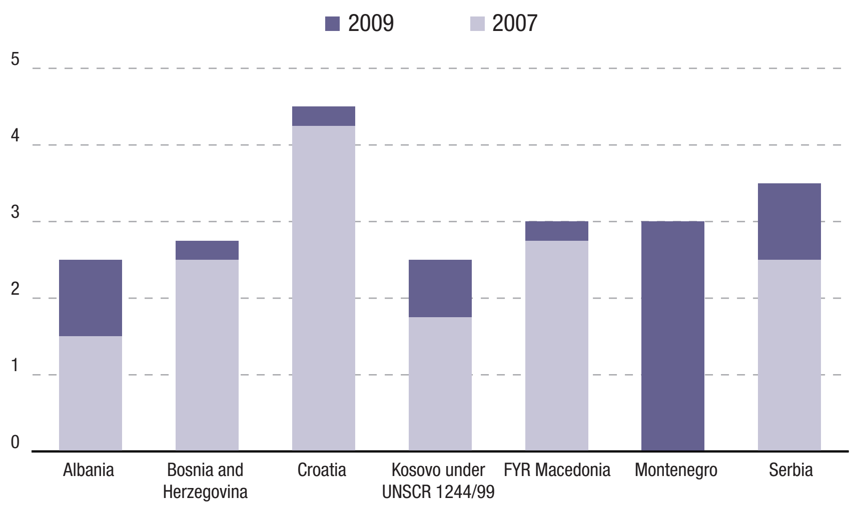


Figure 9.3 Overall scores for dimension 9



certificates at this moment and use them legally in all applications and services (key public infrastructure (KPI) for applications and services). The infrastructure is established, as well as the first applications that use digital certificates, but at this stage they are available only to a very limited extent. The beginning of the real upsurge of KPI for the applications is expected in the near future.

9.4 The way forward

There is an urgent need in most Western Balkan countries and Kosovo under UNSCR 1244/99 to complete the regulatory framework for introducing the electronic signature and establish a functional and legitimate accreditation body. This is a precondition to developing electronic commerce and more advanced online business-to-business functions, as well as for making the most of online government services.

There is a continuing need in the Western Balkans to 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. Thus far, most countries have established *ad hoc* and mostly donor-funded business incubators, which disappear once the funding does.

Information on business services is still fragmented and of low quality. A national directory of business service providers should be available in every Western Balkan country today, ideally online, with multiple criteria search engines and personalised information on demand.

Notes

1 *All SME Policy Index scores have been rounded up or down to the nearest 0.25*

2 *For details on the 14 agencies, see: http://www.sme.sr.gov.yu/?lng=3&tme=1240497832&obl=25&str=297*

3 *Although this report is published in 2009, data collection took place in 2008. For the SME Policy Index Report 2007, data were collected in 2006.*

Dimension 10

Developing Stronger and More Effective Representation of Small Enterprises' Interests

Developing Stronger and More Effective Representation of Small Enterprises' Interests

10.1 Introduction

The last line of action of the European Charter for Small Enterprises recognises the importance of the effective representation of the businesses' interest and the public-private dialogue (PPD).

The dialogue between the public and private sectors is essential to both a stable and conductive to growth business environment and a sound regulatory framework. PPD is thus a key preliminary step to the introduction of any measures taken towards the implementation of the European Charter for Small Enterprises.

PPD plays an essential role in establishing a sound regulatory framework. Input from the business community through business associations provides the administration with insight into highly complex issues, and can often contribute to the formulation of effective regulatory measures for enterprises. This is especially important in cases involving micro and small businesses, which often lack the capacity for advocacy. This dimension thus focuses on the advocacy capacity of business associations.

Compared with the situation depicted in the 2007 report, there are two main sources of improvement: the reforms undertaken by the chambers of commerce and the formalisation of the public-private dialogue.

10.2 Assessment framework

The 2009 SME Policy Index is building on the two perspectives included in the previous index, further developing the second one. The two perspectives are:

- The degree to which the SME sector has effective representation, in terms of general SME associations and the specific role of the chambers of commerce;
- The degree to which governments systematically consult the private sector, and whether this dialogue is institutionalised.

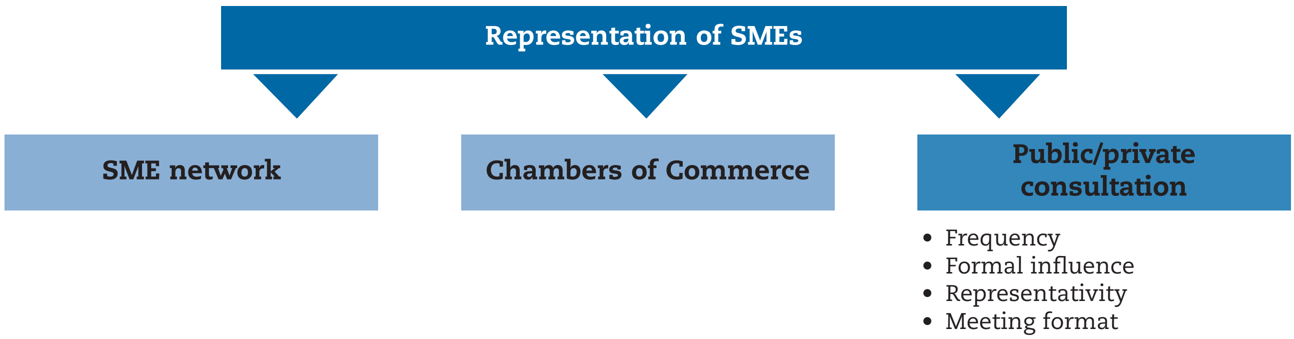
Regarding the first element, although the main component to be considered is the SME associations, there are several types of business associations that are included under this dimension, such as: trade/industry associations, women's associations and confederations (due to the fact that the some of them have stronger advocacy capacity and they also include SMEs). They are crucial in putting forward to the government the interest of the SMEs as well as informing them on changes and requirements in different policy areas. Apart from the advocacy and information role, they could also offer different services and training to SMEs.

In the same category, but with a specific status, we included the chambers of commerce. The system of chambers of commerce is present in each of the countries, split in two broad categories: mandatory membership and voluntary membership. Although some of the countries switched from mandatory to voluntary membership, the main reason to maintain mandatory membership is to ensure the necessary resources to the chambers of commerce so that they can offer good quality services to their members.

The second element of this action line was further developed from the previous report by adding indicators in order to have a more in-depth picture of the public-private dialogue. The following aspects for an effective consultation with stakeholders (featured in an experts report for the EC) were assessed in this report:[1]

- To establish workable and transparent consultation procedures (formal/legal or informal) that provide for efficient and effective exchange of information leading to a more informed decision-making process;
- To ensure inclusion and secure the participation of all relevant business stakeholders in the consultation process;
- To allow enough time for consultation to reach the objectives of the consultation process;
- To take into account the small business dimension;
- To publish results of consultations and inform all stakeholders involved when and where these results can be found.

Figure 10.1 Assessment framework for dimension 10



The key to a good consultation process is not only to have an institutionalised body in place, but it is also related to the capacity of the business organisations to reply to consultations. This process is quite demanding in terms of time, human resources and expertise.

The assessment framework pictured in Figure 10.1 has only slightly changed since the 2007 SME Policy Index Report. The only change is that the indicator public/private consultation has been broken down into four indicators, namely the frequency, formal influence, representation, and the meeting format of the public/private consultations.

10.3 Analysis[2]

SME networks and chambers of commerce

According to the scores in Table 10.1, the situation improved in all countries but one, namely Bosnia and Herzegovina. The decrease in Bosnia and Herzegovina is due to a change in the methodology of computing the score for this country. Compared to the previous report, when the score for this dimension was obtained as an average of the scores for the two entities, in this report the score is given for the situation at the national level, without taking into consideration the developments at entity/district level. The advocacy capacity of the chambers and other business associations in Bosnia and Herzegovina remains to be expanded.

The big increase in the overall weighted average scores for this sub-dimension was due to the reforms the different chambers of commerce underwent between 2006 and 2008. In the cases of Serbia and Croatia, the chamber improved both the advocacy role as well as the capacity to provide services. In Serbia, the national chamber is promoting the SME Forum as a body for structured dialogue between the business sector and the government. In both countries, the chambers have a network of foreign offices.

Table 10.1

Scores for sub-dimension 10.1: SME networks

		ALB	BIH	HRV	XK	MK	MNE	SRB
SME network	2009	3.00	2.00	4.00	3.00	3.00	4.00	3.50
	Change since 2007	0.00	-1.00	0.00	+1.00	0.00	0.00	+1.50
Chambers of commerce	2009	3.00	3.00	4.00	4.00	4.00	2.00	4.00
	Change since 2007	+1.00	0.00	+2.00	0.00	0.00	+1.00	+2.50
Overall weighted average for sub-dimension 10.1: SME networks	2009	**3.00**	**2.25**	**4.00**	**3.25**	**3.25**	**3.25**	**3.75**
	Change since 2007	+0.25	-0.75	+0.75	+0.50	0.00	+0.25	+2.00

In Albania, there were two revisions of the legislative framework for the chambers of commerce, reducing their number from 36 to 12 (according to the number of regions in Albania) and eliminating the compulsory membership in the chambers. Although the competition among them should generate an improvement in services and advocacy, this remains to be proven. The Montenegro Chamber of Commerce is also involved in a reform process, but it will need major effort to present it as an important advocate of businesses, as two other business organisations are very strong.

Regarding the SME networks, Kosovo under UNSCR 1244/99 and Serbia registered progress. The business associations are stronger in Kosovo under UNSCR 1244/99, and the sectoral associations are concentrating their attention more on the donor community. In Serbia the number of business associations increased and it is quite large now, but those with strong advocacy capacity are usually associated with different chambers.

Public-private consultation

Overall, the situation in the Western Balkans is improving, as shown in Table 10.3. The situation for the public-private dialogue is not as clear as for the previous set of indicators. The picture is mixed because of the additional indicators included in this section. The summarised information on the basis of which the scores were awarded is presented in Table 10.2.

The countries with the best performance are Montenegro, Croatia and Albania, while Serbia saw a substantial improvement. In Montenegro, the culture of public-private consultation is well developed. However, this is not fully captured in the scores because, although the dialogue is important, apart from the Council for Elimination of Barriers to Businesses and the National Social Council (of limited scope), there is no institutionalised body for the dialogue on SME-related aspects.

Croatia has three bodies for public-private dialogue: the National Competitiveness Council, the Business Advisory Council and the newly established SME Forum. With an appropriate institutional structure in place, it is important to further include the business sectors' opinion in the formulation and development of actual policy and legislation. Although there might be some overlapping between the forums they are focused on specific topics, for example, the Business Advisory Council was instrumental in revamping the regulation process.

In the case of Albania, the functioning of the Business Advisory Council improved. Although there are some complaints of the business community that not all their opinions are taken on board, it provides for a stable dialogue platform and it has already discussed a significant number of draft laws.

Serbia has again registered a significant progress due to the establishment of the SME Forum and the

Box 10.1

SME Forum

A recent initiative to put the SMEs' interest forward to the public administration was brought to life in Croatia and Serbia, where the SME Forums were established.

Although both Croatia and Serbia had other bodies for public-private dialogue, the creation of a forum dedicated to SMEs is one step forward. Both forums include representatives of the government and the SME community, who gather to discuss SME policy and legislative acts affecting them, among other topics. The main difference between them is that, while the forum in Croatia is institutionalised (created with the help of SMEPED IPA project under the leadership of the Ministry of Economy, Labour and Entrepreneurship), the forum in Serbia is still informal, an initiative of the Serbian Chamber of Commerce. The main advantage of this type of set-up is its focus on SMEs. The institutionalised forums address problems common to SME and large companies, and the large companies have a much stronger voice. Both forums had a good start, but their efficacy is still to be proven.

The former Yugoslav Republic of Macedonia also has such a forum in place, but its meetings are quite infrequent.

Table 10.2

Public-private consultation in the West Balkan countries and Kosovo under UNSCR 1244/99

	ALB	BIH	XK	SRB	MNE	HRV	MK
1. Organisation of consultations with SMEs	F: Business Advisory Council	No	FSME: SME Consultative Council	FSME: SME Council	F: Council for Elimination of Barriers to Business	F: National Competitiveness Council F Business advisory council FSME SME Forum	FSME: SME Forum
2. Regular meetings of the Forum	At least 4 meetings per year	N/A	2 4 meetings per year	Should meet every month, but not frequent in 2008	2	FSME 4/year	5 meetings since its creation in 2005 Also meetings at the local level
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	Serbian Chamber of Commerce initiated the SME Forum, with the intention to establish it as a consultative body to the Gov	National Social Council	Private sector representatives take part in parliamentary working groups	NECC
4. Influence	OL, PD, I, R	N/A	OL, PD, I, R	OL, PD, I, R	PD, R, OL	OL, PD, I,R	PD, R, I

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
$\geq$ 2 = 2 or more meetings last year
$\leq$ 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

resumption of activity of the SME Council (stopped temporarily due to the elections).

The slight decrease in the scores for the former Yugoslav Republic of Macedonia and Kosovo under UNSCR 1244/99 is due to the fact that although they have the respective bodies in place, their efficacy has still to be proven.

Bosnia and Herzegovina is the only country in the region with no consultation body in place. This situation should change with the adoption and implementation of the Strategy for SME Development.

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

Table 10.3

Scores for sub-dimension 10.2: Public-private consultations

		ALB	BIH	HRV	XK	MK	MNE	SRB
Frequency of public-private consultation (PPCs)		4.00	2.00	4.00	3.00	3.00	4.00	4.00
Formal influence of PPCs		4.00	2.00	3.00	2.00	2.50	4.00	3.50
Representativity of PPCs		3.00	2.00	4.00	3.50	3.00	3.00	3.00
How does the PPC meet?		3.00	1.00	3.00	3.00	3.00	3.00	3.00
Overall weighted average for sub-dimension 10.2: Public-private consultations	2009	**3.50**	**1.75**	**3.50**	**2.75**	**2.75**	**3.50**	**3.50**
	Change since 2007	+0.50	-0.25	0.00	-0.25	-0.25	-0.50	+1.50

Figure 10.2 Dimension 10 scores by sub-dimension

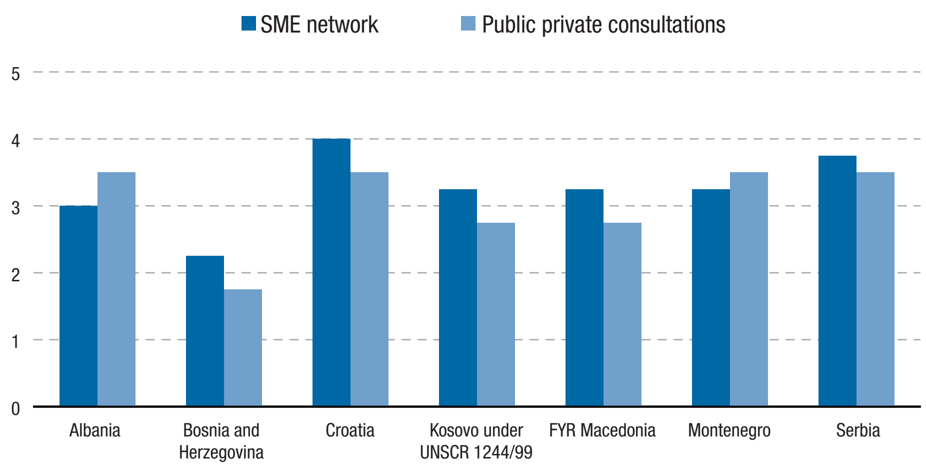
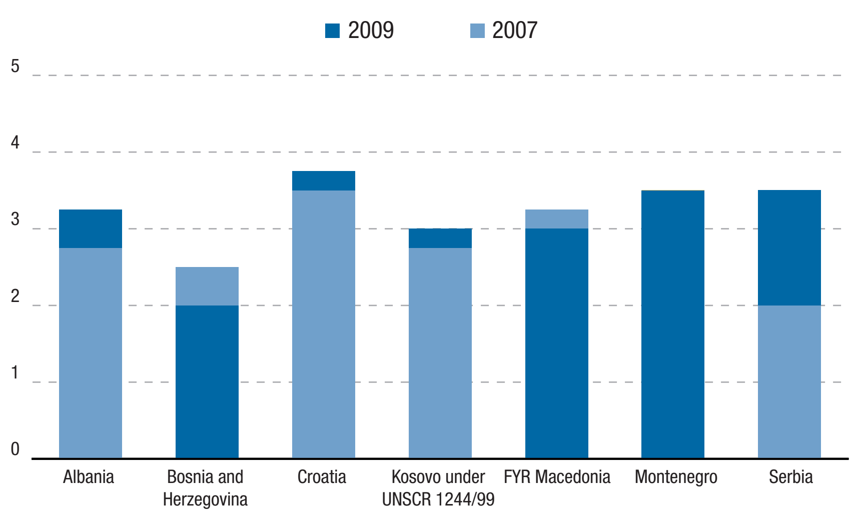


Figure 10.3 Overall scores for dimension 10



10.4 The way forward

This chapter has explored the effectiveness of SME representation and the involvement of the business community and the public administration in public-private dialogue. The overall situation improved in most of the countries in the region since the 2007 report.

However, both the public administration and the private sector have to work further to increase the scope of public-private dialogues and their quality. The main challenge for the government is to consult the business community systematically and early in the process, while for the business community it is to build up the necessary capacity to conduct consultations within the different business associations and to provide well-documented proposals and comments. Although there are numerous business associations, plus a system of chambers of commerce in each country, this capacity is still relatively limited.

Regarding the format of public-private dialogue, despite the fact that only Bosnia and Herzegovina is missing a body for this purpose of the national level, all the other countries have to improve their own systems in order to hold regular meetings and improve the transparency of the system.

Notes

1 *DG Enterprise, Consultation with Stakeholders in the Shaping of National and Regional Policies Affecting Small Business, 2005, http://ec.europa.eu/enterprise/entrepreneurship/support_measures/stakehold/doc/final_report_en.pdf*

2 *All SME Policy Index scores have been rounded up or down to the nearest 0.25*

PART II

Policy Measures to Support High-Growth SMEs in the Western Balkans

Background and Context

1.1 Introduction

As opposed to Part I and Part III of this publication, Part II was written by Professor Stephen Roper from Warwick Business School (University of Warwick), who worked in co-operation with the partner organisations (OECD, EC, ETF, and EBRD) to perform targeted research and reviews of a specific area within the European Charter for Small Enterprises, namely high-growth SMEs. The SME Policy Index 2007 Report identified the areas of innovation in SMEs and technological development as in particular need of improvement and development. Consequently, this part focuses on policy measures to support high-growth SMEs in the Western Balkans.

Numerous empirical studies have demonstrated the importance of high-growth SMEs (HGSMEs) in creating new jobs and introducing and commercialising radical innovations. This means that HGSMEs can act as catalysts for change, helping economies to restructure quickly in response to changing economic, social and market conditions. For the Western Balkan countries (WBCs) there is the potential for HGSMEs to create significant gains in both short-term prosperity and longer-term structural change.

Creating an enabling environment and effective support programmes for HGSMEs is not easy, particularly in the specific circumstances of the WBCs and the current economic recession. Moreover, as policy targeted at HGSMEs has developed rapidly in recent years, the evaluation evidence from existing policy programmes is relatively limited.[1] Central to many HGSME support programmes, however, are the provision of business information and knowledge transfer between firms, and between firms and universities/research institutes. Network contacts and relationships with larger firms both nationally and internationally are also seen as important as HGSMEs grow and develop. Beyond the start-up phase, managerial and marketing skills allied with

Table 1

Policy areas and programmes for HGSMEs

Policy area	**Policy programmes** (see annex 2)
Creating an enabling environment for HGSMEs	National SME promotion events (6.3)
	Range of business services (9.1.2)
	Quality of business services (9.1.3)
	Availability and accessibility of information (9.2.1)
	Business information centres (9.2.2)
Finance for HGSMEs	Credit guarantee schemes (7.2.1)
	Venture capital/equity funds (7.2.6)
Supporting innovative enterprises	Enhancing SME competitiveness (6.2)
	Support training on technology (8.1.1)
	Innovation and technology centres/ co-operation (8.2.1)
	Inter-firm clusters and networks (8.3.1)
	Business incubators (9.1.1)
	Intellectual property rights (8.2.2)
	Electronic signature (9.3.1)

adequate financing and effective protection for intellectual property rights is also vital to sustain innovation and growth.[2]

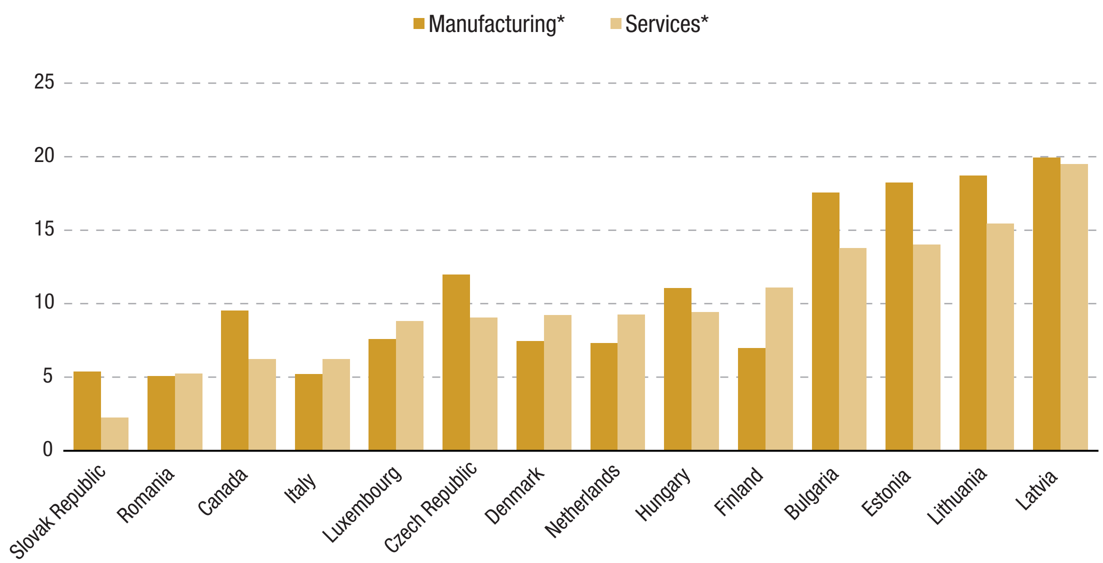
Governments – in partnership with other stakeholders – can play a crucial role in shaping the environment in which HGSMEs can flourish, providing appropriate business information, supporting networks and skills development, and ensuring the availability of suitable business finance. Here, we focus on three key policy areas: creating an enabling environment, finance and supporting innovative enterprises, each of which is represented by a series of specific indicators in the SME Policy Index (see Table 1).[3] In Section 2 of this report we focus on identifying international leading practice in each policy area, examining a range of specific policy programmes and exploring their applicability to the WBCs. This builds on a recent study by the OECD Working Party on SMEs and Entrepreneurship on HGSMEs and innovation which involved a review of literature and broad-ranging policy audit of OECD countries[4]. In Section 3 we focus more specifically on the situation in the former Yugoslav Republic of Macedonia, drawing on the information gathered in a mission conducted in March 2009. In Section 4 we consider the specific situation in Serbia, again drawing on a mission conducted in March 2009. Section 5 concludes with some summary remarks and some suggestions for future consideration, including the evaluation of policy programmes.

1.2 Defining HGSMEs

To enable statistical comparability, the OECD defines a high-growth enterprise as a firm with an "average annualised growth in employees (or in turnover) greater than 20% a year, over a three-year period, and with ten or more employees at the beginning of the observation period." The share of high-growth enterprises can then be calculated as the number of high-growth enterprises as a percentage of the population of enterprises with ten or more employees.[5] Using this definition between 5% and 20% of the stock of enterprises are high growth on the basis of their turnover growth. As Figure 1 illustrates, these proportions are typically higher in the Eastern European economies,[6] although no specific figures are available for the WBCs.

Other international studies use different definitions of high growth. The Global Entrepreneurship Monitor

Figure 1 Share of high-growth enterprises (turnover definition), 2005

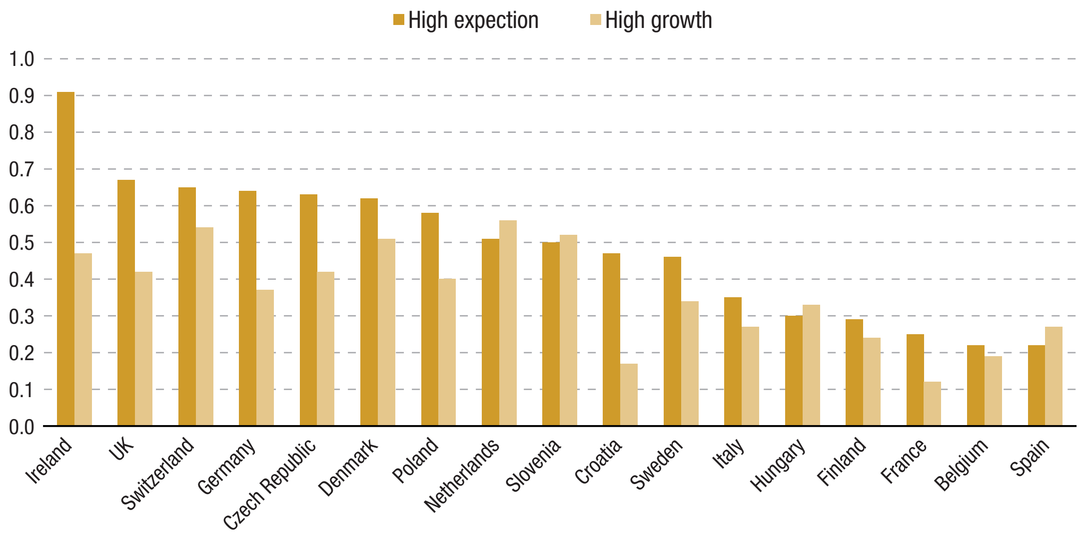


**Note:* Manufacturing includes mining and quarrying and electricity gas and water (ISIC Rev.3 10-41). Services includes: wholesale and retail trades, hotels and restaurants, transport storage and communications, financial intermediation, real estate, renting and business activities (ISIC Rev.3 50-74).

Source: OECD (2008), "Measuring Entrepreneurship – A digest of indicators", OECD-Eurostat EEIP Programme, p. 19.

(GEM), for example, focuses on individual entrepreneurs as the unit of analysis (rather than firms) and defines "high-expectation entrepreneurs" as those nascent and new entrepreneurs who expect to have more than 20 employees in 5 years. In GEM, "high-growth" entrepreneurs are established entrepreneurs who currently have 20 or more employees. Both can be expressed as a percentage of the adult population to give an indication of the general level of population engagement with "high-growth" enterprise.[7] In general terms across Europe, between 0.2% and 0.9% of the adult population report being engaged in high-expectation enterprise with a smaller – and more uniform – percentage engaged in high-growth firms (Figure 2).

Figure 2 GEM indicators of high-expectation and high-growth entrepreneurs as a percentage of the adult population



Source: GEM (2007), *Report on High Growth Entrepreneurship*, Table 3, p. 22.

Figures 1 and 2 suggest that HGSMEs are only a small minority within the broader population of SMEs (perhaps between 1:10 and 1:20) although having, of course, a disproportionate impact on job creation and market dynamism.[8] In terms of the policy programmes for HGSMEs discussed in the following sections, however, it is clear that definitions vary among countries and among individual policy programmes. The analysis therefore adopts an inclusive approach and does not put forward or adhere to any specific definition of an HGSME.[9]

1.3 Targeting Support for HGSMEs[10]

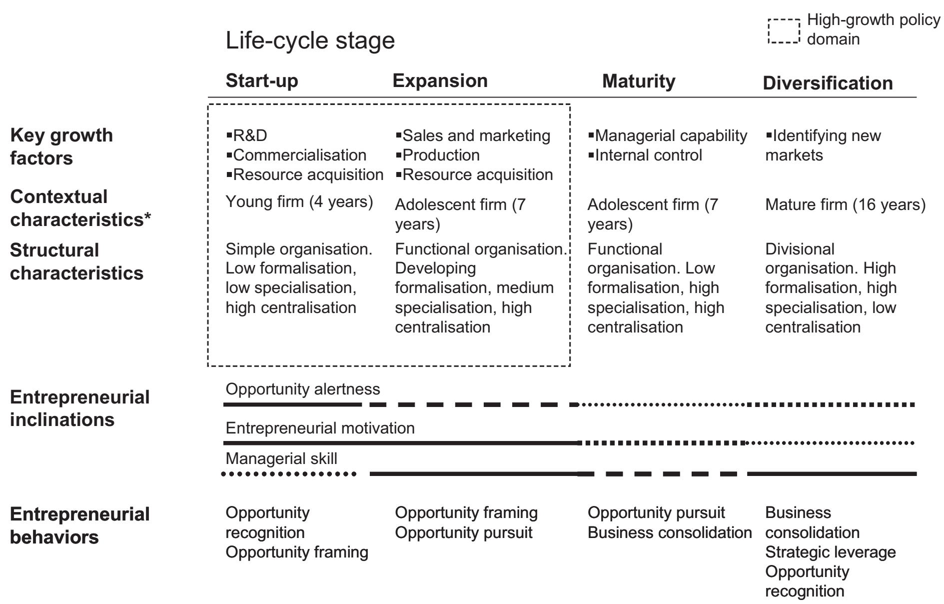
Several empirical studies confirm the importance of high-growth firms for job creation. In the United Kingdom, 4% of new start-up survivors were responsible for 50% of jobs created by all new firms ten years later. In the United States, 3% of the fastest growing firms, so-called "gazelles", generated over 70% of the new jobs created by new firms between 1992 and 1996. The aim of support programmes for HGSMEs is to enable recipient companies to achieve high growth which would not have been achieved without the programme. A key issue, however, is how to identify firms with the potential for high growth given that the potential for high growth is neither visible nor measurable. As a result eligibility conditions vary, widely, among countries and include:

- ***Newness***: The Australian Commercialising Emerging Technologies scheme requires firms to be less than five years old,[11] while the Spanish Support Programme for Innovative Young Firms has a cut-off at eight years old;

- ***Size and growth***: Some programmes insist that firms have already achieved a size (turnover) threshold, in some cases linked to an age limit. The Danish Gazelle Growth scheme requires more than EUR 268 520 turnover with potential for further growth to EUR 13.42 million;
- ***Estimated growth potential***: New Zealand's Growth Services Range requires potential growth of 20% a year sustained over five years;
- ***R&D intensity***: The Spanish Support Programme for Innovative Young Firms requires at least 35% of staff engaged in R&D activities and minimum R&D expenditure criteria;
- ***Defined growth strategy***: Turkish KOSGEB support is conditional on a firm developing a strategic road map or business plan.

Overall, however, eligibility criteria vary widely and often have a strong subjective element. It is also clear that the nature of HGSMEs means that their resource and support needs vary throughout the life-cycle of the business. One recent study, for example, identifies a four-stage life-cycle model and argues that the "high-growth policy domain" comprises the initial start-up and expansion phases when resource needs and business development are paramount. Underlying the start-up process, however, are entrepreneurial inclinations or motivations and entrepreneurial behaviours on the part of the wider population (Figure 3). The challenge this poses is not simply to identify HGSMEs but also to effectively match public support to firms' life-cycle stage.

Figure 3 Life-cycle stages of innovation-driven growth and the HGSME policy domain



Source: Autio, E., M. Kronlund and A. Kovalainen (2007), High-Growth SME Support Initiatives in Nine Countries: Analysis, Categorisation, and Recommendations", Report prepared for the Finnish Ministry of Trade and Industry.

The challenge of identifying potential HGSMEs is made all the more difficult due to their diversity both in terms of sector and origin. In the WBCs and other transition economies, for example, many rapidly growing businesses have emerged in traditional sectors – e.g. food, textiles – where new market opportunities have developed. Other high-growth SMEs may result from spin-outs, buy-outs or foreign direct investment. For HGSMEs in any sector issues around capital availability, partnerships, skills and export development are likely to be important. For technology-based HGSMEs there is the added complexity of intellectual property management, development and protection. Both are discussed in subsequent sections.

Policy Support for HGSMEs

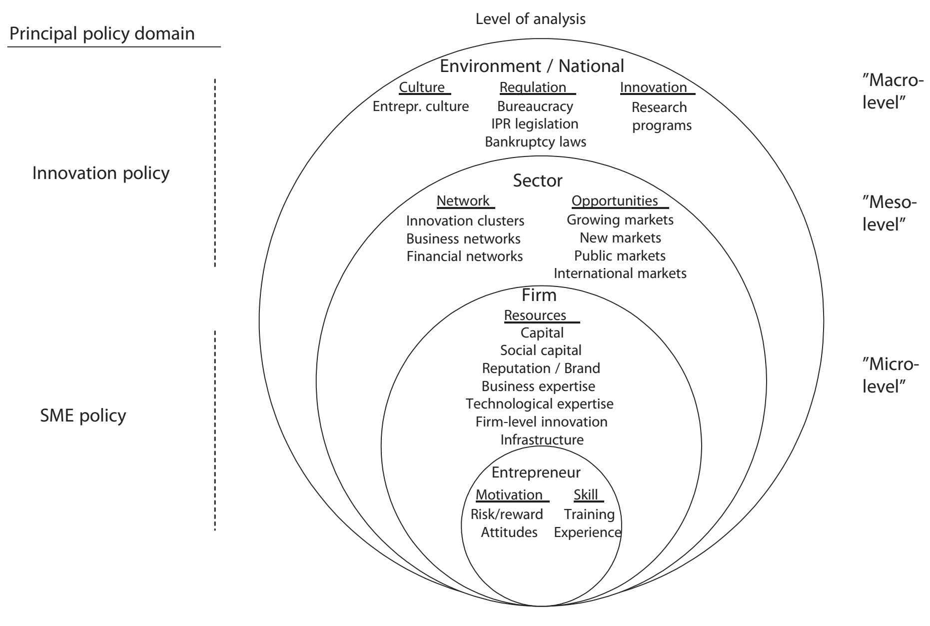
2.1 Levels of policy intervention

Recent research on creating advantage has emphasised the positive role of public policy initiatives in stimulating regional innovation and enterprise to boost economic development.[12] A broad range of initiatives may be important, however, in creating the framework conditions within which HGSMEs can start and prosper. Evidence from the United States suggests, for example, that regional new firm formation rates are linked to cultural creativity and social diversity.[13] Other studies have suggested that with appropriate policy support, it is possible to stimulate the combination of markets, technological and business services, and appropriate financial structures that will encourage HGSME and cluster growth.[14]

Alternative levels of intervention are therefore possible to support HGSMEs and different countries have adopted different approaches to shaping the business environment and, more broadly, to SME policy (Figure 4). In Denmark, for example, a systemic approach has been adopted focusing on establishing appropriate environmental conditions for enterprise rather than providing public support to individual SMEs. More generally, however, countries have adopted a balance of support to both shape environmental conditions which are conducive to HGSME start-up and to foster subsequent growth and development.[15]

The focus here is on three elements of the environment within which HGSMEs develop included in the SME Policy Index: measures to promote entrepreneurial and innovation inclinations and behaviours, or an enterprising and innovative culture (including the provision of training courses for prospective or nascent entrepreneurs, award schemes or competitions); availability of business services and information likely to be crucial during the start-up and expansion phases of HGSMEs; and availability and accessibility of business information.

Figure 4 Life-cycle stages of innovation-driven growth and the HGSME policy domain



Source: Autio, E., M. Kronlund and A. Kovalainen (2007), "High-Growth SME Support Initiatives in Nine Countries: Analysis, Categorisation, and Recommendations", Report prepared for the Finnish Ministry of Trade and Industry.

2.2 Enterprise promotion initiatives

The decision to start any business and, in particular, a HGSME requires a combination of opportunity, skills and self-belief. Business information can help potential entrepreneurs to identify and evaluate business opportunities and this is discussed below. Here, the focus is on measures intended to encourage entrepreneurial and innovative inclinations and capabilities.

Perhaps the key starting point in developing entrepreneurial inclinations is a business and entrepreneurship-friendly atmosphere in which business success is seen as positive and there are positive entrepreneurial role models. Creating this type of environment is, of course, a relatively long-term project requiring engagement from a wide range of different organisations including the education system. Assessing the situation across the WBCs in terms of measures to encourage an entrepreneurial and innovative culture suggests substantial progress in recent years. Enterprise and innovation events, competitions and fairs have become relatively common. At best, these initiatives have involved a network of actors at regional and national level and generated valuable co-ordination and partnering activity. This collaborative or systemic approach reflects examples of leading practice such as the Finnish Y4 entrepreneurship development process (Promote Entrepreneurship in Society by Co-operation) which has involved broad-based partnerships of organisations[16] working together to create an enterprise-friendly society.[17]

In general terms, however, while welcome, these initiatives in the WBCs have been rather piecemeal and uncoordinated. Future policy implementation in this area could take a more holistic perspective, adopting a multi-channel approach to increasing the awareness of opportunities for enterprise or innovation. This approach is well illustrated by the "Gruender-mv.de" campaign implemented in Mecklenburg-Western Pomerania. This aimed to increase the awareness of entrepreneurial opportunities by improving the image of entrepreneurship as well as creating a more positive environment for business start-up. The target audience for the initiative was those in the 18-50 age group and activities included a website providing information on start-ups and entrepreneurship, a telephone hotline radio and television spots, advertising and articles in newspapers and magazines, as well as raising awareness at schools. These media initiatives were also supported by business plan and e-commerce business competitions.

Such activities may play an important role in raising awareness of business activities; changing perceptions of entrepreneurial activity; stimulating business networks; and exposing firms to national, regional and international customers. To date, however, the key focus of these initiatives in the WBCs has been on mainstream SMEs rather than having any specific focus on HGSMEs which are likely to be either innovation-led or export-led firms. Interesting exceptions here are the awards for Best Technological Innovation offered in Bosnia and Herzegovina, and Serbia. Even these awards, however, focus on pre-start activities. It may be worth the WBCs considering the introduction of awards initiatives celebrating the innovation and export achievement of established firms. For example, in the United Kingdom, the Queen's Awards for Innovation and Export Achievement are awarded annually to companies with outstanding innovation and export performance. The awards are promoted widely and help to highlight the importance of both activities to the economy. They also act as a focus for celebrating excellence and inspirational role models to other firms in the United Kingdom.[18]

Alongside such general measures (which can be taken to promote a positive climate for enterprise), specific measures have been adopted in some countries to encourage start-up among different population groups. In Ireland, for example, the Enterprise Start programme has proved effective in encouraging those currently employed to move from employment to business start-up often with high-growth potential.[19] Other key measures have involved moves to increase the level of enterprise awareness and engagement at schools, universities and colleges. This reflects the implementation of the EU Oslo Agenda, designed to integrate enterprise learning into each stage of the educational process and where good efforts by a number of the Western Balkan countries have already been noted in Chapter 1.[20] A framework established by the Norwegian government, for example, provides a national policy agenda which sets out clear objectives and progression in enterprise education across all stages of education.[21]

For HGSMEs in particular, promoting enterprise activity in higher education is likely to be of key importance. Here, EU recommendations for across-campus entrepreneurship education are timely[22] while international experience provides some very positive examples of practice with general lessons on what makes this effective (see Box 1). Strong institutional support is central to the effectiveness of these college or university initiatives that can be supported by regional competitions

Box 1

Developing entrepreneurial graduates

A key driver of high-potential enterprise in the Western Balkans is likely to be the level of graduate enterprise. Developing this resource calls for the creation of opportunities for students to develop entrepreneurial skills and attributes as part of their higher education. This will require "entrepreneurial universities" where the focus is on developing graduates who have the knowledge, skills, motivation and entrepreneurial capacity to address economic and social needs.

Establishing the entrepreneurial university requires an enabling institutional environment, the engagement of key stakeholders inside and outside the institution, and the development of entrepreneurial approaches to teaching and learning. An enabling institutional environment is likely to require involvement from all members of the university community and strong leadership commitment. Stakeholder engagement may involve international linkages and dedicated resources such as a commercialisation office or technology transfer team. Developing entrepreneurial teaching requires a shift from learning "about" to learning "for", where students learn entrepreneurial techniques that can be applied to a broad range of entrepreneurial settings. Student placements and other forms of business engagement are likely to be part of such entrepreneurial teaching that will also need to involve faculty, entrepreneurship educators and entrepreneurs.[23]

The University of Waterloo situated at the heart of Canada's Technology Triangle provides an outstanding example of an entrepreneurial university. Strongly embedded within the regional community, dense co-operative networks on technology and enterprise between the university and local community are complemented by the university's co-operative education programme. "The rotation of students to industry and back to the classroom solidified already tight relations with local industry. The reflexive relationship has allowed the curriculum to keep up with the ever changing technological frontiers of industry."[24] Over 250 spin-outs from the university have resulted in part from the university policy of allowing ownership of intellectual property to rest with its creator (faculty or student), encouraging both creativity and enterprise.

or business plan competitions, such as that run by the Business Innovation Programme in Serbia. The outcomes of the Charter indicators for entrepreneurship in higher education being piloted in 2009-2010 in the Western Balkan and Southern Mediterranean regions being supported by the ETF will be important to determine if and how more strategic entrepreneurship promotion in third level education can be achieved.

2.3 Supporting business service provision and quality

High-quality business services provide a key input to HGSMEs particularly in the start-up and expansion phases. Such services may be accessed privately by firms or may provide the mechanism through which publicly funded support services are provided. In general, however, HGSMEs are likely to require more sophisticated services than most start-up businesses and are more likely to draw on private, and often internationalised, business services. In this sense, public support might best be focused on facilitating access to such services rather than direct service provision. The Australian COMET initiative, for example, subsidises firms' expenditure on a range of business development services such as marketing, commercialisation or IPR management. Key areas of importance to HGSMEs are likely to be broadly based business development services – dealing for example with legal or regulatory aspects of business start-up, technology-based services supporting R&D and innovation, and support for internationalisation. Issues around IP may also be important for technology-based HGSMEs and this is discussed below.

Business service provision suitable for the majority of start-ups has developed rapidly in the WBCs in recent years through, for example, business centre networks (the former Yugoslav Republic of Macedonia and Montenegro), regional development centres (Albania) and networks of public and private consultants. The more sophisticated services required by HGSMEs (to support equity investment or internationalisation for example) remain less developed. For most HGSMEs the difficulty lies in being able to identify and access the appropriate services quickly and effectively. Public sector agencies can play a key role here in brokering both public and private sector services to HGSMEs. The Finnish Growth Firm Service is one example of such a scheme, providing a one-stop shop service for HGSMEs and information on the services they might need. The Finnish service is, however, limited, to providing access to public support services while in other countries such public services also provide information on private sector providers (See Box 2).

Box 2

Growth Firm Service, Finland[25]

The Growth Firm Service was started in 2003 by the Finnish Ministry of Trade and

Industry. The programme identifies firms and entrepreneurs with a high-growth potential and act as a one-stop shop for public services relevant to growth firms. Consultants in all Finland's public agencies concerned with business support look for promising growth firms. When identified, the consultant offers a growth analysis session with the firm, and based on the growth analysis, specific needs for achieving growth are prioritised and appropriate services from the four participating institutions are enlisted. In total, there are approximately 100 different support services that can be offered

The target group is HGSMEs although most participating firms are technology companies. Participating firms have been very happy with the service; they appreciated being approached and provided with a single contact person instead of one for each institution.

Other key issues relating to business service provision in the WBCs emphasise the quality of business support services. Here, there is no clearly established international best practice, although schemes to professionalise support have become more common both at the level of the individual business advisor and the support organisation. A notable example is the Flagship Award scheme run by Prowess in the United Kingdom, establishing quality standards for the support offered to women to start and grow their businesses (see Box 3).

Box 3

The Prowess Flagship Award, United Kingdom[26]

The Prowess Flagship Award is a best practice quality standard for excellence in women's enterprise development. This nationally and internationally recognised quality mark has been achieved by organisations all over the UK Supported by UK government departments and regional agencies, the Flagship Award incorporates three quality mark standards for start-up support, support for established businesses and support for women's business networks.

Organisations working towards the Flagship Award are able to access national expertise to help develop their business support and advice services. This leads to completion of a self-assessment document and assessment visit before Flagship status is awarded. Periodic reviews of support procedures and personnel are then required for renewal of the award.

For government departments supporting business development, the Flagship Awards provide an effective quality standard in the business support supply chain. For business support organisations, the Flagship Awards provide a development framework to measure, benchmark and improve services, and an indicator of the provision of the quality of service.

Progress towards the quality certification of business services across the WBCs has, to date, been relatively limited, although a certification scheme for business consultants has been introduced in Croatia and more informal assessment schemes are operated by SME agencies in other WBCs.

2.4 Availability and accessibility of information

Larger companies often have significant in-house research capabilities. Smaller or newer firms are unlikely to have access to these resources, creating scope for valuable public provision. Business Information Centres (BICs) provide a mix of online and documentary resource material and research expertise; they are a key resource for SMEs businesses wanting to identify new markets or obtain information on legal or regulatory requirements. Typically regional development agencies across Europe maintain their own information centres focused on the needs of local firms.

Many of these BICs or European Information Centres (EICs) will be members of the Enterprise Europe Network. Launched in 2008 by the European Commission, the Enterprise Europe Network combines and builds on the former Innovation Relay Centres and European Information Centres (established in 1995 and 1987 respectively). Key services provided by the BICs/EICs include business partner search for technology and business co-operation, databases and rapid access to information on funding opportunities, and promotional and other material. Enterprise Europe Network offers easy access and proximity to local services for SMEs, thus creating regional business gateways. Regional consortia create a coherent support structure for local companies, boosting the region's profile and its competitiveness. To date the only WBCs with member centres are Croatia (with 11 centres) and the former Yugoslav Republic of Macedonia (with four member centres, including the Ss. Cyril and Methodius University, the Foundation for Management and Industrial Research, and the Agency for the Promotion of Entrepreneurship). Bosnia and Herzegovina, Montenegro, and Serbia are also part of the Enterprise Europe Network.

Other European networks and initiatives also have significant potential to be of benefit to firms in the WBCs in terms of internationalisation and innovation, and may in some cases reduce the need for country specific initiatives. The EurOffice network, for example, provides access to a network of business incubators and other support organisations internationally providing low cost in-country business support services for firms seeking to develop their international presence.[27] For innovative firms, the IMPROVE platform within CIP allows companies to benchmark their innovation management against Europe-wide sectoral benchmarks and draw on innovation management consultants for action plans to improve their innovation management.[28] Both networks provide potentially valuable upgrading opportunities for firms in the WBC.

More locally, business service provision through Business Information Centres has developed rapidly in the WBCs in recent years with perhaps the strongest profiles of business support services in Serbia, Montenegro and Croatia. In the former Yugoslav Republic of Macedonia and parts of Bosnia and Herzegovina, the development of business centre networks has also been positive although online information resources for SMEs remain under-developed. The recent launch in Bosnia and Herzegovina of 22 First Stop Shops and supporting web resources is particularly interesting. The initiative by the Serbian Chamber of Commerce to create a web portal for SMEs (along with CD-based support) is also likely to widen access to valuable business information.

In two other economies (Kosovo under UNSCR 1244/99 and the former Yugoslav Republic of Macedonia), voucher schemes have also been used to enable SMEs to access private sector support and consultancy services. Other countries (notably Serbia) have adopted more traditional subsidy supports of up to 50% to enable firms to access private support services. The value of both initiatives is underlined by international experience: state provision of business support services working through light-touch brokerage service combined with quality, validated private sector provision can be an effective model of business support.[29] Again, however, it is worth recalling that these services are intended to meet the needs of the general population of start-ups and SMEs rather than the more specific needs of HGSMEs regarding IP protection, finance (particularly equity) and internationalisation. Even in countries where such generalist business support services are well established, there has been a need to create a differentiated service for HGSMEs such as that in Finland (see Box 2).

A key issue here is how to identify those HGSMEs that are to receive support from this specialist service. Here, a recent review of international best practice conducted for the Finnish Ministry of Trade and Industry is useful as it tried to identify the key lessons from international experience.[30] The suggestion is that the unit dealing with HGSMEs should be highly selective, particularly when addressing later stages of venture development and that a key criterion for selection would be a strong growth motivation from the leaders of potential HGSMEs.

2.5 Finance for HGSMEs

While there is a general recognition that the availability of adequate financing is crucial for business growth and development, there is little international agreement on where finance gaps are felt most acutely.[31] What is clear, however, is that HGSMEs have greater need and make greater use of external sources of finance than other SMEs, with both debt and equity funding being important.[32] Collateral is a particular problem for HGSMEs, particularly those with no established track record, although some researchers have argued that rather than a constraint on lending, collateral should be seen as a way of strengthening long-term relationships between firms and their investors.[33]

We focus here on two areas featured in the SME Policy Index and of relevance to HGSMEs: credit guarantee schemes and venture capital/equity funding. Credit guarantee schemes have been seen as one mechanism for reducing collateral requirements and increasing the availability of external finance to HGSMEs. Equity finance creates the potential for initial investment in new market offerings and scope for rapidly scaling of HGSMEs. Ensuring adequate availability of equity funding can involve both supply- and demand-side issues.

Credit guarantee schemes

Credit guarantee agencies and funds are common across most EU Member States. Most tend to operate in similar ways, using public funding to guarantee private loans to SMEs for investment, export development or leasing. Examples such as the Estonian Kredex scheme suggest, however, that for HGSMEs with significant capital requirements early in their development, loan or leasing guarantee schemes may be quite valuable. The success of the Kredex initiative stands out due to similarities between the Estonian context and that in many of the WBCs, i.e. an established banking system but continued difficulties for higher risk start-ups in accessing capital due to insufficient collateral, limited equity or a limited credit history.

Kredex is also somewhat unusual in providing guarantees for a range of different types of loans and leasing arrangements. For early stage firms, Kredex guarantees investment and working capital loans; for more established businesses, Kredex will support equity investment schemes, leasing arrangements and provide export credit guarantees. In each case Kredex charges both a management and guarantee fee (typically 1.3-3.5%). These charges and a very low incidence of guarantees being exercised have enabled Kredex to become self-financing within a few years. This is clearly positive from a public finance standpoint but Kredex has also successfully established its credibility with the commercial banking sector, due in part to continued improvement in its product portfolio and an un-bureaucratic approach.

An initiative like Kredex may well be applicable in some of the WBCs supporting HGSMEs regardless of sector. In this sense a Kredex-type initiative might be seen as a complement to measures to support venture capital developments that are likely to focus primarily on technology-based businesses. Kredex has a number of other advantages that could strengthen firms in the WBCs: it tackles the issues of limited security and collateral that constrain investment; it helps to lever additional development-oriented capital into the business sector; and it directly involves the banks in working with client SMEs in a more supportive and advisory capacity. In addition, through its support for export development Kredex offers specific support for exporting companies, reducing dependence on local markets.

Substantial support has already been offered to national banks in the WBCs through the CIP to support the development of credit guarantee schemes along with venture capital and seed funds. To date, however, the WBCs have had varied experiences with operationalising credit guarantee schemes, of which the most comprehensive and effective is the Guarantee Fund of Republic of Serbia. Introduced in 2003, this provides loans for export development and other aspects of business development. The Serbian scheme and the Kredex initiative offer potential models for the other WBCs which generally have more limited guarantee fund arrangements. Croatia, for example, has an export credit guarantee scheme although this is relatively small scale, with similar regional funds in Albania, Bosnia and Herzegovina, and the former Yugoslav Republic of Macedonia. The experience of the former Yugoslav Republic of Macedonia in setting up guarantee funds is also of interest, as funds have been hampered by overly complex application procedures, low guarantee proportions and limited commitment of funding. The success of the Kredex initiative with its relatively simple administrative procedures is a marked contrast here.

It is important to realise too that there is strong complementarity between the development of business and market information services, and export guarantee schemes. Boosting export growth and internationalisation is likely to require both measures to be in place at the same time and to be providing consistent support for small companies. In Serbia, for example, the Serbian Chamber of Commerce and its regional agencies, and the offices of the Agency for SME promotion provide contacts and information on external market opportunities; export credit insurance is then available through AOFI.[34]

International experience also suggests the value of loan guarantee measures, which may be critical given the volatility of the current economic climate. Indeed, a number of EU countries have increased public provision of loan guarantees as a way of increasing the availability of credit to firms in the current crisis. For HGSMEs, alongside export guarantees, loan guarantee schemes may facilitate their potentially higher capital requirements and their need to invest in advanced technologies. Again, among the WBCs, only the Serbian guarantee scheme covers this type of lending although there is also a Croatian scheme to support new technology investments by firms in some areas of the country. Developing this type of more comprehensive loan guarantee provision is likely to be key in the other WBCs, both to help firms maintain liquidity during the current recession and undertake future investment.

Venture capital and private equity

Private equity investment is central to HGSMEs, particularly in sectors where rapid growth is anticipated and defensible (typically IP-based) such as in ICT and biotechnology. Experience has shown that both supply-side and demand-side measures can be effective. On the demand side, measures can be taken to strengthen firms' investment readiness, with a potential role for banks and agencies in helping businesses to assess and develop their business plans and propositions. On the supply side, the policy focus has been on equity gaps (or market failures) and trying to ensure adequate financing for HGSMEs at different stages of development. Here, there is a need to recognise the potential value for HGSMEs of both informal and formal private equity funding. Informal private equity funding (primarily through business angels) may be important for firms in the early stages of development; policy can play a role in encouraging angel investment and facilitating angel networks. There is also a need to recognise that facilitating angel investment may require specific legislative frameworks.[35]

The current lack of availability of risk capital through equity funding of SMEs and HGSMEs is perhaps one of the key differences between the operating environment for HGSMEs in the WBCs and more developed countries in the EU. Although all WBCs now have the basic legislation in place to underpin equity investment it remains under-developed across the region, although there are isolated examples of angel and donor-funded activity:

Box 4

The Access to Finance Programme, London

The Access to Finance Programme (2000-06) was designed to help companies located in London's Objective 2 areas to access finance for growth and to help address problems of social and economic exclusion. The programme grew out of specially commissioned research highlighting that small firms lack information about the types of finance available (and thus what would be suitable in a given circumstance), and an inability to present a good case to finance providers. Its success has led to attempts to extend its coverage to other parts of London.[36]

The programme helps firms to take advantage of existing sources of funds. A diagnostic tool is used to determine whether companies could benefit from the programme. Intermediaries (typically local accountants) funded by the local government agency provide intensive training and guidance to participating firms. Experience in London indicates that worthwhile leverage was obtained on the relatively low costs of running the programme, especially after its start-up costs had been met.

Box 5

Ready for Growth Programme, United Kingdom, Spain and Greece[37]

This programme, operating in London and the South East of England, Spain and Greece, was targeted at small businesses with high-growth potential operating in the e-content sector. It addressed a perceived lack of investment readiness and the overall lack of investment in this sector. Because the bulk of the participant firms were early stage and required relatively small amounts of investment in the equity gap, the emphasis on funding sources was to tap business angel networks. Funding for the programme (2002-2004) came from the EU.

The key features of the programme were intensive mentoring of each company, an intensive two-day workshop covering the components of planning and developing a funding bid, techniques of pitching for funding and access to support for business plan development. A key feature of the programme was its online support: the use of the website as a recruitment tool ensured a wider outreach and facilitated registration. A free diagnostic investment readiness tool enabled firms to assess their own investment readiness, and get feedback on their strengths, weaknesses and their ability to access equity finance.

During its two years of monitored operation, 502 companies participated: 60% - 70% rewrote their business plans, 30% - 40% successfully accessed equity or other forms of finance, 30% - 40% identified new markets and customers, and 60% developed new business partnerships.

- In Montenegro, there have been some examples of the returns from property sales being reinvested in the start-ups of family and friends;
- In Albania, both the EBRD and the Albanian American Fund provide equity funding for SMEs;
- In Serbia, isolated examples of individual SMEs securing equity investments have been observed although the number remains small.

In addition to the overall lack of equity funding, evidence has suggested that where equity funding has been attracted to the region it has tended to be part of larger co-investment projects (Croatia, the former Yugoslav Republic of Macedonia) rather than supporting the development of HGSMEs. One interesting initiative to address this gap is the EUR 15 million project VENCRO run by the Business Innovation Centre of Croatia. Based on a public call, this co-financed initiative aims to support innovative technology-based start-up companies.[38]

For each of the countries of the WBC there are potentially both demand-side and supply-side issues to be addressed to increase the supply of equity funding. On the demand side, international initiatives have improved the investment readiness of HGSMEs and helped them to develop approaches to relevant funding sources. A customised service is provided to each firm (essentially mentoring) supported by a range of networked resources on which mentors and the firms themselves can draw. These resources may be provided online. In the Access to Finance Programme, local accountants acted as intermediaries using a standard diagnostic toolkit (see Box 4). In the Ready for Growth Programme, similar mentoring was supported by online information resources (see Box 5). Both programmes had positive gains for their client companies and were readily scalable once the initial support infrastructure (online support materials) had been established.

On the supply side, policy initiatives are possible at two levels: encouraging the development of informal equity or angel funding, and supporting the development of more formal venture capital markets. Programmes such as the UK's Ready2Invest, for example, have used workshops, case studies and social networks to encourage high-worth individuals to consider becoming business angels and joining investor networks.[39] Face-to-face events were supported by online resources, allowing individuals to assess their suitability to become a business angel and at the same time providing an indication of the potential risks to capital. In the Ready2Invest programme, a key partnership was that between the regional development agency and an existing investor network. For the WBCs there is definite potential clearly to expand informal venture capital or angel investment through the development of regional (or sectoral) angel networks. This relatively low-cost measure can bring new finance into the business community and support HGSMEs. Such initiatives may work best when informal venture capital networks are aligned with specific incubators, as in the example of the Oxford Innovation Centre.

The public-private partnership underlying the success of the Ready2Invest programme has been a key element of most policy programmes to expand venture capital lending. As the history of the venture capital industry in Finland and Israel suggests, early public investment can provide useful pump-priming for a nascent venture capital industry geared to technology-based companies.[40] Admittedly, in both of these economies, the underlying level of technological advance and investments in R&D were significantly greater than those in the WBCs, but the initial success of the Croatian VENCRO programme does suggest that similar co-financed initiatives might also be valuable in other WBCs.

2.6 Supporting innovative enterprises

Promoting innovation among SMEs is crucial to their success. Recent years have seen a shift in focus, however, from a narrow emphasis on technological innovation to a broader focus on support for both technological and non-technical innovation. This reflects the growing importance of the service sector to wealth creation and increasingly R&D spending[41] as well as a growing appreciation of the importance of non-technical innovation even in manufacturing.[42] ICT is a key enabler of much technical and non-technical innovation, and is an area where significant progress has been made in the WBCs in recent years.

We focus here on a number of aspects of support for innovative companies that feature in the SME Policy Index:

- **Supporting training on technology (SME Policy Index item 8.1.1, see annex 2)**: The 2007 report pointed to limited progress in this area, although some pilot projects were in place. Development had progressed most rapidly in the former Yugoslav Republic of Macedonia where technical training programmes involving both public and private sector providers were operative.

- **Supporting R&D and innovation**: Although not included in the SME Policy Index explicitly this is a significant area of policy intervention with relatively high levels of publicly supported company R&D in a number of Eastern European economies (Slovakia, Czech Republic).

- **Innovation and technology centres/ co-operation (SME Policy Index item 8.2.1)**: This covers innovation and technology centres, technology transfer initiatives and collaborative university-industry R&D.

- **Inter-firm clusters and networks (SME Policy Index item 8.3.1)**: This covers programmes designed to stimulate industry or regional clusters.

- **Business incubators (SME Policy Index item 9.1.1)**: Business incubators provide a supportive environment for early stage businesses and may be either freestanding or linked to universities or research institutes.

- **Intellectual property rights (SME Policy Index item 8.2.2)**: IPR protection requires both an appropriate legal framework and effective enforcement.

- **Electronic signature (SME Policy Index item 9.3.1)**: Electronic signature systems enable direct interaction with government services and create legally enforceable contracts within countries' legal systems.

Supporting training on technology

Support for technology training is an established area of public policy support for SMEs in a number of countries with long-established programmes including South Korea (SME Training Institute, 1978), New Zealand (Industry Training, 1992) and Belgium (1994). SME support programmes generally focus on three specific types of skills:

- Managerial skills, including the development of managerial skills by those running technological spin-outs from universities;
- R&D related skills to improve firms' knowledge-generation capacity but also their ability to collaborate with universities or other organisations on R&D collaboration;
- Exporting and internationalisation skills for firms with an established local market presence and that are seeking to develop further.

Across the WBCs there is little consistent or large-scale provision of technological training of this sort. One issue highlighted by a number of countries is the low level of commercial R&D activity in the WBCs and therefore the lack of priority given by SMEs to technology management and innovation-related management issues (including IPR management, development and protection). In both the former Yugoslav Republic of Macedonia and Serbia, for example, business R&D accounts for a small proportion (5-10%) of total R&D spending, compared to an average of around 60-65% in the EU15.

In developing this area of policy it is worth noting that two delivery models predominate internationally: grants or subsidies that enable SMEs to take advantage of private training services; and the direct public provision of training courses through training centres and other support infrastructure such as incubators, business or innovation centres. The subsidy model can be effective where private sector services are available locally. In some areas of the WBCs where private sector service provision is weak, however, a centre-based model may be more appropriate. Often in these programmes training may be combined with other aspects of capability development. Turkey's Export Promotion Centre, for example, promotes exports through training alongside support for R&D, trade information, publicity and marketing support, and network building.[43] Other initiatives such as the competence centres and business incubators discussed below also generally have a training element.

Supporting R&D and innovation

Programmes to support R&D and innovation in firms have a relatively long history with the Canadian scientific research and experimental development programme, for example, introduced in 1944. There is also strong evidence from a large number of studies of the effectiveness of such public support on innovation activity and positive effects on business performance.[44] This positive effect can operate through a number of different organisational mechanisms, however. First, and most obviously, public support for private R&D may reduce the cost to firms of building up their knowledge stocks, enhancing business performance and firms' ability to conduct future research projects.[45] Second, public support for R&D activity may contribute to developments in firms' human resources and innovation activity.[46] Third, public support for R&D or innovation may improve firms' ability to absorb R&D results or knowledge from elsewhere. Fourth, reputational or "halo" effects may also stem from receipt of public R&D support. Fifth, public funding of R&D may also create the potential for R&D cost savings through collaborative R&D and the sharing of research results. As a result, policy in this area is often linked strongly to skills development and the development of new R&D and innovation co-operation.

Traditional support programmes for R&D and innovation have provided grant support. More recently other support mechanisms have been used including the widespread adoption of R&D tax credits, loans and guarantees (Austria, Spain) innovation vouchers (the Netherlands) and equity financing (Australia).[47] R&D tax credits have perhaps proved less effective in supporting R&D and innovation in SMEs due to low take-up. Equity financing, however, has advantages both for the enterprise and the public support agency. The enterprise does not have to worry about the payback as they will be asked for dividend only when they realise a profit. For the agency there is the prospect of some return if the innovation project is successful. Ownership dilution effects may, however, make equity support unattractive to some SME owners. Innovation vouchers have proved an effective way of both encouraging R&D and stimulating new collaborative relationships between SMEs and knowledge providers; these could be larger firms, public research institutes or universities (see Box 6). This type of initiative may be particularly valuable in the WBCs where levels of university-SME interaction are low.

Two other aspects of international programmes to support R&D and innovation are notable. First, policy developments have frequently linked R&D support with internationalisation either to facilitate internationally collaborative R&D (e.g. EU Framework Programmes) or link R&D performers to potential markets (e.g. the Israel-US Bi-National Industrial Research and Development Fund).[48] Second, and more recently, policy development has focused on supporting service sector innovation of which a particularly interesting example is the Tekes Serve scheme (see Box 7).

For the WBCs there is a widely recognised need to expand the level of R&D and innovative activity by firms, evident in recent steps in Serbia, for example, to introduce R&D and innovation grants. Such measures have the widest applicability where (like the Tekes Serve scheme) they cover both technical and non-technological innovation (see Box 7). Building stronger university-industry links is also important, however, and the example of the Dutch innovation voucher schemes might be interesting here (see Box 6). Both schemes will contribute to firms' R&D and innovation capacity and may also help

Box 6

The Dutch Innovation Voucher scheme

The Dutch Innovation Voucher scheme was originally introduced in 2004, building on a range of other regional pilot projects.[49] The context for the voucher programme was a widely held view that knowledge sharing between public research institutes and SMEs in the Netherlands was inadequate. Consequently, the main objective of the innovation voucher scheme was to introduce SMEs to public research institutions and so stimulate R&D and innovation in SMEs. The details of the scheme have changed in recent years but the key element is the issuing of an innovation voucher (worth typically EUR 7 500) to an SME to be redeemed for services at a public knowledge provider. The issuing of the voucher has two main impacts, both of which overcome major incentive barriers to engagement between SMEs and public knowledge providers. First, the voucher empowers the SME to approach knowledge providers with their problems, something that they might not have done in the absence of such an incentive. Secondly, the voucher provides an incentive for the public knowledge provider to work with SMEs when their tendency might either have been to work with larger firms or to have no industry engagement.

Eligibility criteria for the Innovation Voucher programme are broad with only a light touch administration. Impacts have been significant, with high levels of additionality, positive effects on new collaboration and some evidence of impact on SME innovation outputs.[50] Since 2004 the Innovation Voucher scheme has been extended and enlarged in the Netherlands and similar schemes have been adopted in the UK, Ireland and Belgium.

Box 7

The Tekes Serve – Innovative Services Technology Programme, Finland[51]

The Tekes Serve - Innovative Services Technology Programme (2006-2010) encourages the development of innovative service concepts and service business models in companies, strengthens and diversifies service-related innovation activities (especially in SMEs), improves productivity and quality of service activities in various industries, and boosts academic research in the area of service innovation and service business. With a budget of EUR 100 million over five years (around 50% publicly funded), the programme is geared to challenging projects, where the novelty value is at least of national level. The project proposals are evaluated based primarily on the novelty of the service innovation, not necessarily on the novelty of the applied technology.

Particularly interesting here are the broadly based definitions of service innovation and business models adopted in the programme and for which support is available:

Service innovation is a new or significantly improved service concept that is taken into practice. It can be for example a new customer interaction channel, a distribution system, a technological concept, or a combination thereof. A service innovation always includes replicable elements that can be identified and systematically reproduced in other cases or environments. The replicable element can be the service outcome or the service process as such or a part of them. A service innovation benefits both the service producer and customers and it improves its developers' competitive edge.

Service business models: A service innovation is a service product or service process that is based on some technology or systematic method. In services however, the innovation does not necessarily relate to the novelty of the technology itself but the innovation often lies in the non-technological areas. Service innovations can for instance be new solutions in the customer interface, new distribution methods, novel application of technology in the service process, new forms of operation with the supply chain, or new ways to organise and manage services.

to strengthen absorptive capacity, which is seen as crucial to effective open innovation.[52] Other placement-based measures may also be helpful in this respect. One study highlighted an example of the UK Teaching Company Scheme, in which a graduate placement from a university was based with a company to undertake a specific project. In the case reviewed, a graduate placed with a manufacturing company instituted ten new innovation routines of which seven were related to new information gathering or absorption[53] (see Box 9).

Innovation and technology centres, university-business co-operation

University-SME linkages across the WBCs are not well developed and a range of policy initiatives are underway to strengthen this co-operation. Typically these involve the establishment of technology centres within universities with a mission for engaging in technology transfer with SMEs. These centres and linkages remain underdeveloped in all WBCs, however, with the universities and SME communities continuing in largely "separate worlds". Many university academics in the region continue to work in a traditional open science model, equating public funding of their work with a need to publish their results openly. Little awareness of IP development and protection on the part of many reinforces this orientation. More recent international developments have stressed the importance of the innovation model of university orientation (see Box 8).

Internationally, measures to promote collaborative R&D have a relatively long history, although measures specifically targeted at SMEs are of more recent origin. A number of different policy models have developed, however, including:

- ***Project-based*** collaboration programmes are generally focused and short term. The Tekes Serve scheme discussed earlier (see Box 7) illustrates

Box 8

Changing models of university business engagements[54]

The historical norm has been the open science model, where new knowledge is viewed as a public good, and universities place little priority on IP ownership. The EU (2004) argues that this open science model is most effective in stimulating commercialisation where "the technology has far reaching implications and where the risks of mis-appropriation by private interests are detrimental to the public interest" (p.11). The incentive structure in the open science model suggests that universities are likely to adopt an essentially passive approach to IP development and exploitation, instead investing any available resources in additional research activity. Commercialisation then depends on the absorptive capacity of firms.

More recently, however, and most notably in United States since the Bayh-Dole Act, universities and public research organisations have placed increasing emphasis on their *private* ownership of IP, and consequently have had the incentive to adopt a more proactive role in IP development and exploitation. This gives rise to the licensing model (EU, 2004). Here, universities engage in basic research, but are proactive. They devote resources to the identification, development and subsequent exploitation of IP, generally through patents and licensing. The EU believes that this approach can generate substantial benefits. "It is estimated that at least half the new products based on university patents would not have been developed if the results had been put in the public domain without patent protection" (p.11).

Mowery *et al.* (2004) argue that the increased focus on the commercialisation of university research has, however, at least in the United States gone beyond the licensing model, influencing the nature of university research itself. This has "changed the research culture of US universities, leading to increased secrecy, less sharing of research results, and a shift in the focus of academic research away from fundamental towards more applied topics" (p.1). In this innovation model, universities both adopt a proactive approach to IP development and exploitation *and* re-orient the type of R&D they are undertaking to bridge the gap between fundamental university research and its commercialisation. The EU contends that the social benefits resulting from the adoption of this innovation model may be larger, and more regionally focused, than those from the licensing model.

this type of measure. Key implementation issues here relate to eligibility criteria and, where funding is rationed, the process for project selection.

- ***Physical infrastructure*** projects such as research centres provide an upgrade to capacity and a focus for long-term collaboration and training.

- ***Competence Research Centres*** (CRCs) bring together enterprises and research centres in a long-term collaborative relationship aimed at a particular technology under independent governance arrangements. CRCs have proven to be a valuable initiative, providing a focus for university-industry research collaboration. The best established of these programmes (in Sweden) has provided overwhelming evidence of the value of this type of initiative, a result echoed in early evaluation results from Hungary and Estonia (see Box 9). In recent years, CRCs have also been seen as playing a more significant role in internationalisation and SME development. CRCs often act as a focal point or gateway for international R&D collaboration, and their relatively high profile can provide an attraction for SME participation. COMPERA, one of the ERA-Net networks, has an established role in sharing best practice in the implementation of CRC programmes (www.comp-era.net).

- ***Clusters*** are looser constellations of university and corporate partners in a specific sector and generally have a geographical focus.

- ***R&D and innovation networks*** may be regional, national or international. San Diego's CONNECT programme, for example, has both cluster (i.e. regional) and innovation network characteristics, sponsoring a range of activities (workshops, seminars, networking events and awards programmes) designed to bring together knowledge creators from universities and research institutes with entrepreneurs and investors (www.connect.org).

Other forms of collaborative R&D scheme that have proven highly effective are based on personnel transfer. These recognise the importance of individuals as "carriers of knowledge" and have helped bridge the gap between universities and small companies. One of the most established of these is the UK's Knowledge Transfer Partnership programme (see Box 10) that has been operating in almost unchanged format for over 25 years. Evidence suggests it substantially benefits both participating companies and broader economic growth. A similar approach (also supported by strong evaluation evidence) is the Innovation Assistants programme in Brandenburg in which a wage subsidy is offered to SMEs

Box 9

Competence Research Centres: Linking research and innovation

Modelled on the Engineering Research Centres set up in the United States in the mid-1980s, CRCs have been successfully established in a number of European countries since 1995. Among the most recently established networks of CRCs have been the KKK Competence Centres established in 2000 in Hungary and Competence Centres established in Estonia in 2003.

According to the COMPERA ERA-Net network a CRC is a "structured, long-term R&D collaboration in a strategically important area between academia, industry and the public sector. The aim is to bridge the gap between scientific and economic innovation by providing a collective environment."[55] Typically CRCs concentrate on a specific technological area and have some long-term (ten- year) public funding. In general CRCs comprise a university-based research facility undertaking collaborative research with a network of partner firms.

The longest established European CRCs are the Swedish Competence Centres which were established in 1995 and evaluated in detail in 2003.[56] The evaluation concluded "the Swedish competence centres programme is a relevant and effective instrument that builds the people and networks needed for industrial competitiveness, tunes universities towards socio-economic needs… and produces significant social and economic value… In sum: the argument for competence centres is overwhelming."[57] Key impacts were identified in knowledge creation, upgrading research skills, extended networks, innovation and attracting inward investment.

in the region to encourage innovation and effective commercialisation.[58]

Starting from a very low base, some efforts have been made in all of the WBCs to strengthen university-SME links in recent years. This is not an easy policy problem, however, and presents continued challenges for more developed economies. Best practice dictates the importance of enterprising universities oriented around the innovation model, alternative technology transfer mechanisms based on collaborative projects, vouchers and placements, and well developed intermediary and focal institutions that can provide the focus for university-business collaboration. Intermediary organisations work between the more basic research units within universities and smaller companies, providing technology transfer services or a combination of technology transfer and applied research services. Perhaps the most prominent example of this type of institution is the German Fruanhofer Institutes.[60] A different approach, that has proved practical and positive in a range of different economic contexts, is the notion of Competence Research Centres (see Box 9). Although these vary somewhat in their structure and organisation, they have a number of very positive aspects that might be of value in the context of the WBCs:

- They act as a focus for university-business and business-to-business collaboration around a particular technology and usually involve an extended network of firms;
- They act as a focus for international partnerships, helpful in thinking about applications for international research funding (e.g. framework programmes);
- They can act as a focus for training and development in a particular technology and in particular developing an academic culture that is business-oriented;
- They serve as a national focus for development in a particular technology and can be promoted as a flagship development.

Finally, it is worth noting that in the WBCs the governance of the R&D/innovation/commercialisation value chain is often divided between ministries. This can create the potential for policy co-ordination difficulties (e.g. the former Yugoslav Republic of Macedonia, Kosovo under UNSCR 1244/99 and Serbia). In some advanced economies this has been addressed by creating state bodies with the responsibility for monitoring and developing the innovation system. The key example here is Vinnova, the Swedish agency (see Box 14).

Inter-firm clusters and networks

Promoting inter-firm clusters and networks can play a significant role in sharing technological and market

Box 10

UK Knowledge Transfer Partnerships

The UK Knowledge Transfer Partnership (KTP) programme was originally established in 1975 as the Teaching Company Scheme. The scheme is one of the UK's flagship technology transfer mechanisms with over 1 000 projects currently running.[59] Each business involved in KTP identifies a strategically important project and develops a collaborative project plan with a partner university. A suitably qualified graduate will then work in the company for between one and three years to implement the project. The graduate is closely supervised by staff from the business and from the partner university. For SMEs, two-thirds of the cost of the project is paid by the UK government. KTP has proved popular with companies as a profitable investment and popular with graduates (three-quarters of whom find jobs in their partner companies). Regular evaluations for the UK government have also established that KTP provides value for money from a public finance standpoint.

The KTP scheme is supported by a network of regional advisors across the UK, with each university also having a designated staff member or members who liaise with partner companies. Advisors and KTP project partners are supported by a web portal (www.ktponline.org.uk), providing best practice case studies and information.

knowledge, and boosting business performance. The earlier discussion of competence centres, for example, illustrates the potential power of inter-organisational networks in R&D and technology commercialisation. More generally the example of Silicon Valley and its imitators across the globe suggest the potential for the emergence of clusters of high-growth, technology-based businesses. Business networks also play an established role, however, in improving market access[61] and enhancing capabilities for innovation and development.[62]

There has been some support for cluster development across the WBCs. In most countries these clusters are focused on traditional resource-based industries linked to metals, wood processing, food and textiles, although in Serbia and Croatia there are also some more high-tech clusters operating. Serbia has the clearest cluster strategy, one of the five pillars of its 2008 SME Strategy, although the Croatian National Centre for Clusters at the Croatian Employers Association (part of the Pro Inno Europe Network) also provides some co-ordination and support services to Croatian industry clusters. In the former Yugoslav Republic of Macedonia cluster development – with an emphasis on regional as well as industrial clusters – has also been a significant element of policy through 2007 and 2008. In most of the other WBCs, cluster development and support has been less systematic and often donor-led with USAID active in this area in Bosnia and Herzegovina, and Kosovo under UNSCR 1244/99.

Given their stage of development these cluster initiatives (and the implicit focus on developing areas of international specialisation) are probably relevant to the WBCs. In more developed economies, however, it is important to recognise that policy has moved somewhat away from cluster development, while still acknowledging that industry networks and focused collaboration are of considerable value. Instead of generalised industry clusters therefore policy initiatives have tended to be more focused on building thematic networks for research, marketing or skills development.

Business incubators

Business incubation first emerged in the US in the mid-1980s to support start-up development and tackle problems associated with lack of capital, poor management and insufficient market understanding. In general terms, business incubators provide support for new ventures to grow and survive during their early years when they are most vulnerable. Typically "the role of business incubators is to provide a supportive environment, where new entrepreneurs receive training and assistance in business management and marketing, various other business services, and access to seed capital."[63] It has been suggested that incubators add value to their tenants in four areas: diagnosing business needs, selecting and monitoring their tenants, providing access to business networks and providing of access to capital. It has also been suggested that incubators may enhance the entrepreneurial culture of an area and act as a magnet for highly skilled individuals looking to benefit from the services provided by the incubator. Analyses of the Israeli incubator network suggest that this attractor effect of incubators may work even in rural and peripheral areas. This effect may be deceptive, however, as the same study also suggests that the subsequent success rate of firms attracted may then be relatively low.

Box 11

Oxford Innovation, United Kingdom

Oxford Innovation (OI) provides a leading practice example of the effective combination of incubation services, business support services and angel investment. Originally based solely in Oxford, the group now has 15 incubation facilities in Southern England used by over 400 technology and knowledge-based businesses. In addition, OI offer a virtual office service (Oxiflex) for micro-businesses in search of business support and meeting room space.

The company also runs three business angel investor networks used by entrepreneurs from across the UK Perhaps the best known is the Oxfordshire Investment Opportunity Network which holds monthly investment presentation meetings in Oxford. Typical meetings attract around 90 potential investors with up to six businesses seeking finance from EUR 282 000 toEUR 2.26 million.[64] Over the last five years, it has raised more than EUR 21.5 million of business angel and venture capital investment for 92 companies.[65]

Two key success factors emerge from the incubator literature. First, the context in which the incubator is located is a very significant influence on its success. In the Israeli case, for example, research has shown that incubator success rates increase sharply where they are closely related to venture capital provision.[66] The example of Oxford Innovation highlights a similar point emphasising the importance of business incubation and support alongside the provision of appropriate capital (see Box 11). The implication is that incubators can form a valuable part of a systematic approach to supporting the growth and development of HGSMEs but are unlikely to succeed in isolation. Second, the evidence suggests that the management and operation of the incubator itself can also be a significant determinant of its success with different forms of incubation service of value to different types of company.[67] In Jyväskylä Science Park in Finland, for example, the regional development company has developed parallel incubator and light-touch mentoring (company-clinic) approaches for HGSMEs with different needs (see Box 12).

Business incubation services remain patchy and under-resourced across most of the WBCs although most WBCs have some strong examples (often the result of strong local support and donor finance). Croatia has a national incubator strategy and a national programme to support their operation and establishment. Here, where the incubator system has been operating for longer there is also some evidence of effective graduation. In the majority of the other WBCs, incubators which began their operations 2007-2008 have yet to produce their first graduates. The state of knowledge around business incubation across much of the region is strong, with leading incubators providing effective in-house support to their client companies. International links from the incubators are also strong. Two key issues remain. First across much of the region the incubator networks are

Box 12

Incubation and light-touch mentoring, Jyväskylä Science Park, Finland[68]

A systemic approach to business incubation has been developed in Jyväskylä Science Park, Finland since the first incubation facilities were offered in 1992. This involves a combination of formal incubator and light-touch provision.

The formal incubation process includes both pre-incubator and post-incubator phases where assistance and counseling are offered to firms. The pre-incubator phase represents the planning phase for business operations. Together with expert personnel from the business incubator, the future entrepreneur prepares a business plan for the company. It takes two to six months before a business plan (including a cash flow estimate for one year and budget planning for three years) is ready. During this period the future entrepreneur has access to well developed and tested budget and production planning tools of the business incubator.

Companies that successfully pass the pre-incubation period are allowed up to two years in the incubator. As a principle, premises and facilities are negotiated individually with each company, and the agreement also foresees business consulting services and individual counseling for the incubation period.

The post-incubation phase consists of a mentoring service that is offered for the company. The mentor advises the company and helps find business-related solutions. The mentor can serve as advisor to the company, outside advisor to the board, or a member of the board.

In addition to the physical incubator space, the Jyväskylä Regional Development Company Jykes Ltd., has developed a "light touch" company clinic service targeted at companies working in the field of knowledge-intensive business services. This does not provide physical incubator space but delivers consulting advice to help firms identify specific barriers to the survival and growth of participant companies. The services are also aimed at helping companies to better plan and manage their growth, which is of great relevance for growth-oriented companies. On a needs basis, tools to enhance the company's capacities and capabilities are developed.

poorly resourced and are therefore able to provide support for only a limited number of potential start-ups. Donor funding would be useful here to provide both capital and revenue-based inputs to extend successful incubators. Second, the lack of equity funding across the region is a clear issue limiting the potential for growth, once firms mature and leave the incubators.

Intellectual property rights

It is clear that in the global economy SMEs are disadvantaged in terms of their protection of intellectual property, both their ability to finance effective protection for intellectual assets and their ability to defend IP rights where these are infringed.[69] Substantial progress has been made in the WBCs in recent years in establishing the legal basis for the protection of intellectual property rights although in some WBCs issues still exist around the enforcement of IP legislation. Internationally, policy development in this area has been rapid in recent years with a focus on IP protection rather than the broader management and development of firms' intellectual assets.[70]

Perhaps the key learning point from the international experience is the value of this broader perspective, in which firms are encouraged to focus on intellectual property as a central information resource and commercial asset to be nurtured. Leading-edge support programmes have therefore been targeted to help firms appreciate the potential value of intellectual property systems as a source of business information and to manage, develop and protect their intellectual assets or more broadly their intellectual capital.[71] This type of broader IP management and development among HGSMEs has been supported by a variety of different programmes. The Finnish programme "INTO road show", for example, aims to help SMEs to use the intellectual property system as a source of business information. By tracking patents and citations for example, SMEs can identify useful new technologies or partners and perhaps identify areas in which development could be concentrated. More business specific support is offered by the Japanese Intellectual Asset-Based Management programme introduced in 2005. It developed a manual for SMEs called *Intellectual asset–based management manual for SMEs*, and provided a range forums and seminars. Even more specific to the individual firm is a Korean measure introduced in 2006 called Consulting for Managing Intellectual Assets for SMEs. It offers customised consulting services to help firms with IP management, development and protection. Essentially similar support is provided by the successful Hungarian VIVACE programme initiated by the Hungarian Patent Office (Box 13).

Crucial to the success of the Japanese, Korean and Hungarian schemes is the availability of suitably qualified and skilled IP professionals within the public or private sectors. As indicated earlier, private service development in some WBCs is still limited, especially in more rural areas. There may be a need therefore for public investment in training IP professionals, perhaps by higher education.

The legal basis for the protection of intellectual property in line with the Trade-Related Aspects of International Property Rights agreement is now in place across the WBCs. This is a very significant achievement.

Box 13

VIVACE Programme of the Hungary Patent Office[72]

Established in 2004 by the Hungary Patent Office and funded by the Hungarian government, this programme offers mentoring and advice on patenting and intellectual property to SMEs. The goal of the VIVACE programme is to heighten the awareness of the intellectual property system among SMEs and develop an IP culture among firms in any life cycle stage.

Advisory services can include information on patents, supplementary protection certificates, plant varieties, utility models, trademarks, geographical indicators, designs and copyrights. The programme also runs a telephone help line on IP protection, education schemes in intellectual property for attorneys and other courses, an e-learning package, as well as promotion activities for patenting. The scheme has illustrated the potential for direct intervention to increase the patenting rate and has been successful in increasing firms' awareness of their intellectual property rights.

Enforcement of IP regulations is more patchy, however, with remaining issues of widespread piracy and counterfeiting. Improving enforcement therefore remains one of the key challenges in this area. Levels of awareness of IP rights and protection remain low, limiting the willingness of firms (and those in academia) to seek patent protection. There is therefore a clear need for more training in the area of IP development, management and protection. Chambers of commerce across the region are working in this area and the state agencies responsible for IP protection are increasingly being more proactive in their training provision. Both are welcome steps taking the WBCs some way towards the more comprehensive VIVACE programme (see Box 13).

Electronic signatures and digital security

Digital security and the legal recognition of electronic signatures provide the basis for effective e-business and e-government. In particular, electronic signatures can be important in enabling electronic contracting and procurement. In the EU uniform and relatively effective legal provisions for electronic signatures have been in place for some years, although the extent of their use remains uncertain.[73] Legislative progress in this area in some of the WBCs has also been rapid moving rapidly towards matching EU frameworks. A recent review of the situation in Croatia for example, highlights Croatia's Electronic Signature Act (2002), the Electronic Commerce Act (2003) and the Electronic Document Act (2005). Together these provide the basis for all forms of e-signatures, the regulation of certification authorities, the liability of Internet service providers, and the basic rules and regulation of e-commerce.[74] The same review, however, highlights a number of areas in which the Electronic Commerce Act could usefully be extended including developing e-contract attribution and acknowledgement-of-receipt rules, strengthening consumer protection for e-commerce buyers and establishing specialist jurisdictions to resolve e-commerce disputes.

This type of effective legislative framework is clearly a central factor in enabling the development of e-business. Equally important, however, is the e-readiness of SMEs, or "the ability to successfully adopt, use, and benefit from information technologies such as e-commerce."[75] Governments have adopted a wide range of measures to promote e-readiness, and the European e-Business Support Network highlights some useful examples of national best practice.[76] For example, a number of countries have developed benchmarking tools to enable SMEs to compare their e-readiness to other firms (e.g. the Danish ICT index, Ireland's Self-Test of IT eBusiness Knowledge). Other countries have developed workbooks or web portals which offer advice on going digital (e.g. Netherlands), while some have developed case studies of firms that have successfully implemented e-business strategies (e.g. Ireland, Greece, UK).

Ensuring the availability of e-business support has also been a major focus of action. Lithuania produced a database of consulting companies and freelance consultants offering e-business support. In Austria a key initiative was on training the trainers by providing workshops for independent e-business trainers (undertaken jointly by the Salzburg Research Forschungsgesellschaft and the Austrian Computer Society). In the UK, the National B2B Centre organises network events, educational events and supports individual firms with e-business projects.[77]

Basic legal provision for the recognition of e-signatures is in place across the WBCs but to date there has been very limited use of this technology. Croatia and the former Yugoslav Republic of Macedonia report some limited implementation of e-signature systems in public contracting. Notably in Serbia, although the law on electronic signatures was passed in 2002, it was only in 2008 that the qualified certificate body was actually determined allowing the use of this technology. The main task for the WBCs now therefore is to promote the wider usage and applicability of these technologies.

Policy Support for HGSMEs: The Former Yugoslav Republic of Macedonia

3.1 Introduction

Policy support for SMEs has developed rapidly in the former Yugoslav Republic of Macedonia over recent years although it remains relatively low in terms of government priorities. The emphasis of current SME policy is on promoting business start-up as a means of combating high unemployment, with limited support for firms' subsequent growth. No specific support measures are currently targeted specifically at HGSMEs, although a number of specific initiatives do have the potential to support firms with potential high growth. These include business start-up centres, incubators and some financing measures.

There are strong arguments, however, for suggesting that from a national competitiveness perspective, investment in support of innovation and HGSMEs should be given higher priority. Research from other countries suggests it is the high-growth firms that generate the majority of new jobs and pioneer structural change, generating new products and markets and increasing export earnings. In the longer term, particularly as the former Yugoslav Republic of Macedonia seeks closer integration into European markets, innovation in products and services will be important if its firms are to compete successfully in EU markets. Both innovation and support for SMEs (in general and those with potential for rapid growth) feature only peripherally in the government's current four-year programme, annual working programme and the ten measures that the former Yugoslav Republic of Macedonia government has outlined to tackle the current recession. So in the longer term, effective support for HGSMEs will be important for the former Yugoslav Republic of Macedonia. In the short term of course the current economic crisis is creating other immediate pressures on policy. In this sense many of the pressures shaping policy in the former Yugoslav Republic of Macedonia are also common to other WBCs.[78]

Evidence from other countries suggests that high-growth firms, above all, those which are technology or IP-based and have an aspiration to trade internationally, have different and more complex support needs than those of slower-growing companies that aspire to trade locally. Moreover, HGSMEs have different resource requirements, in general needing much larger access to capital than those of more domestically oriented SMEs. Both specialised support services and a conducive environment for HGSMEs are missing in the former Yugoslav Republic of Macedonia at present. This section assesses the current situation in terms of some areas of the SME Index and provides some recommendations for policy development and upgrading. Some of these measures could be adopted with minimal public investment, such as improving the integration of SME support from different government departments and supporting business angel networks. Others – such as the setting up of public-private venture capital funds or technology transfer support initiatives - will require more public investment and may therefore be more problematic given the current pressure on public finance.

3.2 Creating an enabling environment for HGSMEs

The former Yugoslav Republic of Macedonia has made strides in creating a positive environment for business start-up with a notable simplification in the process of starting a business and tax reform. This was recognised in the *Doing Business 2008* report, published by the World Bank and International Finance Corporation, which placed the former Yugoslav Republic of Macedonia fourth among ten reformers in terms of economic development.[79] Other measures have been adopted to support ICT development, including simplifications to the tax system and the introduction of new educational initiatives. These include the adoption of ICT as a compulsory element of the secondary school curriculum.

Other more specific aspects of SME policy have progressed rapidly in recent years with the creation of the Agency for the Promotion of Entrepreneurship. The mandate of the Agency has been social rather than economic, with a focus on the promotion of enterprise as an alternative to unemployment. The Agency has developed a network of 23 business centres following the model developed in Slovenia. This is a relatively new accomplishment, however, with 12 of these centres only beginning their operations in 2008. By and large these provide face-to-face advice for developing business plans, with the provision of online information still relatively weak. The key focus of the business centres is the promotion of self-employment or enterprise as an alternative to unemployment, although even here their impact is restricted by few internal resources, limited access to schemes such as the national vouchers programme and the difficulty of obtaining appropriate bank finance.

In addition the Agency for the Promotion of Entrepreneurship has also engaged in other enterprise development activities, notably compiling a database of general and specialist business consultants, and organising training sessions for consultants in areas such as business process re-engineering. The Agency has also taken a lead in the compilation of national statistics on enterprise and enterprise development. It recently conducted a national training needs survey and compiled the *Annual Report 2007 for the SME Sector*.

Other elements of business environment to support growth and development in existing firms are relatively well established in the former Yugoslav Republic of Macedonia. Three chambers of commerce deliver a wide range of training and support services to their members on a commercial basis, and provide international links. The chambers also have effective industry sections and regional groupings which might provide the framework within which more intensive efforts to support high-growth firms might be undertaken. The Economic Chamber of the former Republic of Macedonia, for example, has 50 industry groups and 15 regional chambers within the former Yugoslav Republic of Macedonia.

Donor-led initiatives have also made a positive contribution to the development of business support and support services for SMEs in the former Yugoslav Republic of Macedonia. Organisations such as the Dutch-supported *Macedonian Enterprise Development Foundation*, for example, have made progress in providing micro-credit loans to farmers and micro-businesses through intermediaries and undertaking other enterprise development activities (including pioneering voucher schemes, loan guarantee schemes and enterprise competitions).[80] These activities, however, remain geared to social objectives (poverty and unemployment reduction) rather than maximising the economic benefits of intervention by investment in high-growth firms.[81]

The Regional Business Centres, the European Information Centre and the various donor-led business support activities in the former Yugoslav Republic of Macedonia are only weakly co-ordinated at present. They look at the social benefits of enterprise promotion, and have little individual capability to provide the more concentrated support necessary for firms with high-growth potential. This difficulty of co-ordination of multiple agencies is a common problem in different countries and has generally been solved by developing institutions for system governance and specialist systems of support for HGSMEs.

In terms of system governance, there is a need to better co-ordinate the initiatives of those concerned with different aspects of SME support and development. Particularly important perhaps is the interface between the ministries of education and economy which can influence the relationship between enterprise education and promotion in secondary schools and university-business collaboration. This suggests a need to adopt a more systemic approach to enterprise support systems both for SMEs in general and HGSMEs in particular. Facing similar issues of co-ordination, other countries have increasingly moved to link universities and responsibility for innovation in a single ministry or organisation (e.g. DIUS in the UK, Tekes in Finland) and establish organisations which can effectively champion the cause of innovation and enterprise development in the economy. One valuable model here might be Vinnova, the Swedish agency which, while having a more specific focus on innovation, combines research, advocacy and policy intervention to support Sweden's innovation system (see Box 14). Ideally, this organisation might undertake an initial mapping of existing initiatives (and possibilities), help to identify system weaknesses and gaps, and help to co-ordinate donor and inter-departmental responses.

In terms of specific support for HGSMEs perhaps the most interesting policy model here is the Finnish growth firm service, in which consultants in all Finland's public agencies concerned with business support search for promising growth firms. When identified, the consultant offers a growth analysis session with the firm, and based on the growth analysis, specific needs for achieving growth are prioritised and appropriate services are offered (see Box 2).

3.3 Finance for HGSMEs

The availability of business finance is an obstacle for most SMEs in the former Yugoslav Republic of Macedonia and particularly HGSMEs that are likely to

Box 14

Vinnova: Stimulating linkages, focusing international innovation[82]

Vinnova, the Swedish Governmental Agency for Innovation Systems, is an arm's-length government body promoting growth and prosperity in Sweden by researching and then investing to develop the nation's research and innovation capabilities. Vinnova's approach is systemic and evidence-based. Vinnova has a watching brief on the development of the innovation system in Sweden and its potential for creating advantage. Vinnova is also a direct funder of R&D and innovation programmes designed to address innovation system failures.

Since 2001, Vinnova has developed a detailed understanding of the capabilities of the Swedish innovation system, identifying system failures and then investing to support collaborative innovation projects on a network, sectoral or geographical basis. Increasingly, Vinnova is a focal point for international collaboration among Swedish researchers and innovators and international partners.

Much of Vinnova's direct support for collaborative R&D and innovation is co-funded, with support accounting for around 6% of Swedish R&D investment. Achievements over recent years have involved collaborative competence centre initiatives and support for regional innovation milieus, involving long-term network agreements between diverse but regionally co-located partners.

require higher levels of start-up capital and face higher risks. The recent history of the *Macedonian Bank for Reconstruction and Development* has been difficult, with over-complex procedures and high rates of default necessitating on-going reforms which should be completed in mid-2009. In the medium term this should make it easier for SMEs to obtain debt finance although this is unlikely to make any difference to the availability of equity finance (often important for HGSMEs).

Other commercial lenders are of course operating in the former Yugoslav Republic of Macedonia and the commercial market has developed relatively rapidly in recent years. Pro-Credit Bank for example, entered the former Yugoslav Republic of Macedonia market in 2004 and has expanded to 40 branches across the country providing consumer banking services and small business loans. This and similar developments have contributed to greater availability of loan finance for start-up businesses in the former Yugoslav Republic of Macedonia but these often remain conditional on the supply of collateral and an established business profile.

A clear weakness in business finance system in the former Yugoslav Republic of Macedonia is the lack of equity or risk capital. To date there is no on-going business angel activity, no business angel networks and very limited venture capital investment. This is not simply a supply-side issue, however, reflecting both the limited investment readiness of the former Yugoslav Republic of Macedonia companies with the potential for high-growth as well as the availability of equity finance. Action is necessary on both the demand and supply sides. On the demand side there is a need to promote the potential value to businesses of equity investment (both in terms of the potential capital injection and accompanying expertise) and to increase investment readiness. Here the UK Access to Finance Programme (Box 4) and the Ready for Growth Programme implemented in the United Kingdom, Spain and Greece[83] (Box 5) provide useful policy models. On the supply side, there is the potential for public support or facilitation of business angel networks that could inject additional private capital into the enterprise support system. Supporting angel networks alongside business incubators and the Business Start-up Centre might be a useful first step, for example. Programmes such as the UK's Ready2Invest have used workshops, case studies and social networks to encourage high-worth individuals to consider becoming business angels and joining investor networks.[84] Initially, at least, such initiatives may need to be underpinned by some form of equity guarantee scheme such as the Estonian Kredex scheme (see Section 2.5.1).

3.4 Supporting innovative enterprises

Generally, university-business links in the former Yugoslav Republic of Macedonia are under-developed with few spin-out companies and little emphasis on undertaking collaborative R&D projects. The former Yugoslav Republic of Macedonia faces an obstacle: the preponderance of small companies in the economy and the relatively small number of larger firms which generally partner with universities. The problem is compounded by low national levels of R&D spending and a particularly low proportion of the R&D undertaken in the corporate sector. In 2004, for example, only 0.25% GDP was invested in R&D in the former Yugoslav Republic of Macedonia compared to an EU average of 1.95%. More significant, however, only 5.7% of this R&D was in the corporate sector compared to 65.3% in the EU15.[85]

This has two key implications. First, knowledge creation is being given a low priority by all system actors in the former Yugoslav Republic of Macedonia, and second, the corporate sector in the former Yugoslav Republic of Macedonia is significantly underestimating new knowledge and new technology. It is also clear that low levels of R&D spending in the corporate sector are likely to be reducing firms' absorptive capacity, or their ability to assess, assimilate and exploit external knowledge. This is turn will reduce firms' ability and willingness to work with universities in partnerships or collaboration.[86] There are also issues around the knowledge which firms in the former Yugoslav Republic of Macedonia have about the potential services or support which universities can offer.

Low levels of investment in R&D by domestic firms in the former Yugoslav Republic of Macedonia are reflected in relatively low levels of R&D employment in industry, and also in an improving but limited level of domestic patenting activity. Over the period 2002-05, for example, around 80-85% of patents registered in the former Yugoslav Republic of Macedonia were registered by foreign companies with foreign firms accounting for a similar proportion of trademark and design registrations. The Office for Industrial Property has taken some steps to improve this situation but, unless these are supported by higher and more widespread private investments in R&D, these are unlikely to succeed. Moreover, efforts have been focused largely on encouraging IP awareness and protection. There is a need to extend policy to encourage firms (particularly in high-tech sectors) to also use the international IP system as a source of business information. Issues arise here, however, about the availability of services for such technology analysis in the former Yugoslav Republic of Macedonia and firms' willingness to pay for such services.

The low level of domestic business R&D in the former Yugoslav Republic of Macedonia underscores the importance of accessing external knowledge as a source of competitive advantage. In terms of international linkages, potentially important here is the European Information Centre discussed above. It provides information on potential partners across Europe as well as links to other EICs elsewhere. In terms of more local, university-business links, perhaps the best developed example in the former Yugoslav Republic of Macedonia is the Business Start-up Centre at the Ss. Cyril and Methodius University (supported by the Austrian Development Agency). This has provided valuable support for the development of enterprise education for students and training for enterprise educators, and has contributed to an important increase in the proportion of students receiving enterprise education as part of their degree courses. The Business Start-up Centre has also supported student business plan competitions and facilitated the establishment of 20 start-up companies, the majority of which are in ICT or related business services. None of these enterprises is a "spin-out" in the sense of having codified or defensible IP which might provide the basis for attracting equity investment. More surprising, perhaps, is that there is also little evidence of the effective commercialisation of R&D being undertaken within the mechanical engineering faculty. In the medium term, a new initiative (supported by the Japan International Co-operation Agency) designed to upgrade the commercialisation capabilities of Business Start-Up Centres will help with this and will also help to strengthen the centres' knowledge of business needs.

Some progress has also been made in the development of business incubators; there are now nine operative in the country, including five in Skopje. Of these perhaps the most notable is the Youth Entrepreneurial Service incubator. The incubator opened in 2007 with support of the Ministry of the Economy and now houses 16 companies and has two graduate companies. Like the Business Start-up Centre, the goal is supporting student enterprise focusing particularly on the ICT sector. The YES incubator provides a standard range of training and support services to firms with limited staff and financial resources. It recognises the weakness of its support services available to firms, particularly in areas of IP management and development. The key difference between the YES incubator and those in other areas is the lack of any focus on moving companies to the point of investment-readiness where they might attract equity investment. In part this reflects lack of availability of such funding in the former Yugoslav Republic of Macedonia, something which clearly limits the growth potential of companies. The importance of the YES incubator is twofold. First, it certainly provides an important and supportive environment for its client companies. Secondly, it provides a transferrable model of business incubations which, with additional resources, could readily be extended to other university campuses across the former Yugoslav Republic of Macedonia.

There is a clear need to strengthen university-business linkages and commercialisation activities in the former Yugoslav Republic of Macedonia. One international model that has proved successful here is the idea of the Competence Research Centre. It brings together enterprises and research centres in a long-term collaborative relationship targeted at a particular technology. CRCs have been a valuable initiative, providing a focus for university-industry research collaboration (see Box 9). In recent years, CRCs have also played a more significant role in internationalisation and SME development, likely to be crucial to HGSMEs in the former Yugoslav Republic of Macedonia. CRCs often act as a gateway for international R&D collaboration, and their relatively high profile can attract SME participation.

3.5 Final remarks

Significant steps have been taken in recent years to develop the support frameworks for SMEs in the former Yugoslav Republic of Macedonia. Future growth and development will be influenced significantly by the nation's ability to support high-growth, internationally trading companies. Supporting these companies will require something of a re-orientation of SME policy from solving the social problems of the past (primarily unemployment) to creating opportunities for future growth.

Given the scale of the current crisis, resource constraints are clearly an issue within the former Yugoslav Republic of Macedonia. The proposals here to support business angel networks, develop firms' investment readiness and establish a specialist support group for high-growth firms are all relatively low-cost options. More expensive, and perhaps calling for donor support, would be the establishment of Competence Research Centres, possibly built around existing initiatives at Ss. Cyril and Methodius University.

Policy Support for HGSMEs: Serbia

4.1 Introduction

Although current economic conditions have changed the situation dramatically, the Serbian economy has grown rapidly over recent years, achieving real annual GDP growth rates of 5.7- 8.4% over 2004-2007. Primarily due to the growth in telecommunications, wholesale and retail trade, construction and finance, this economic growth was accompanied by rapid structural change, with significant inward investment in banking, finance and other consumer-related services. Fundamental macro-economic problems remain, however, including a significant trade deficit, relatively high unemployment and a continuing dependence on exports of agricultural, textile and basic metal products.[87] These issues have, of course, been exacerbated by the current international economic recession.

Processes of privatisation and transition continue in Serbia and have contributed to an economy with few medium-sized firms. While some larger firms have made a successful transition from the public to private sectors their medium-sized suppliers have often fared less well. This has led to an industrial structure dominated by small (often micro) firms with relatively few medium and larger companies. In 2007, for example, there were only 598 large firms in Serbia, 2 752 medium-sized enterprises and 283 640 micro firms (including sole proprietors).[88] This structure underscores the need to promote small business growth and development, and in particular those SMEs with high-growth potential.

To date there have been no specific policy initiatives targeted at HGSMEs in Serbia although HGSMEs has been a theme for discussion at the new inter-ministerial National Competitiveness Council. There have, however, been significant developments in the institutional infrastructure which could support such a strategy, and there are specific and very positive initiatives to support innovation-led SMEs (e.g. incubators, innovation centres, technological innovation competitions). Serious issues remain, however, around the lack of co-ordination of such initiatives, under-developed university-industry links and the availability of risk capital that might support the development of HGSMEs. Some of these issues are common to other WBCs, however, for Serbia the under-developed state of university-industry links is particularly disappointing given the strength of some aspects of the research base. Addressing this issue might help to boost the number of innovation-led HGSMEs and attract new investment into the university system.

4.2 Creating an enabling environment for HGSMEs

In terms of the general environment within which businesses operate, the World Bank *Doing Business 2008* report places Serbia 86 out of 178 countries, significantly behind Hungary (45) and Romania (48) but in a similar position to the former Yugoslav Republic of Macedonia (75), Montenegro (81) and Croatia (97). Notably, one area in which the position of Serbia has improved significantly is the availability of credit (loan finance). The necessity for further change in the business environment in Serbia is widely recognised, however, and is a key agenda item for the inter-ministerial National Competitiveness Council. Changes in the general environment for small businesses in Serbia are recognised in the 2008 Strategy for Developing Competitive and Innovative SMEs and 2009 Action Plan, identifying five key pillars where policy development is necessary: incubators as an aid to business start-up, skills and human resources, finance and taxation including the development of equity financing, clusters and business networks, and the regulatory environment.

Promotion of a culture of enterprise and innovation is a key element of current policy, and significant progress has been made here. One high-profile step in this direction was the establishment of the Competition for the Best Technological Innovation (2005) by the Faculty of Technical Sciences in Novi Sad in partnership with the Ministry of Science and Chamber of Commerce Republic of Serbia. It attracted 188 entries from a wide range of student groups, university faculty and other individuals, and has led ultimately to the formation of 35 new start-up companies.[89] Other more broadly based enterprise promotion events are organised by the Serbian Agency for the Development of SMEs and Entrepreneurship, including the annual International Trade Fair of Entrepreneurship "Business Base",[90] regional and local enterprise events, and the regular publication of the widely distributed "SME News".[91] Other donor organisations also organise enterprise promotion activities among high-school and university students.[92]

Gains have been made in recent years in the support to potential entrepreneurs or business founders through the network of regional offices of the Serbian Agency for the Development of SMEs and Entrepreneurship and its partners. These services are targeted at SMEs in general, however, and provide guidance on company registration procedures, legal issues and support in business planning and obtaining micro-finance. It is not clear that the more specific support requirements of innovation-led HGSMEs (regarding IP protection, finance and internationalisation) are being met, and it may therefore be worth considering the development of a specialist (national) unit to provide this integrated support. This need is perhaps particularly significant in Serbia where the availability of private consulting services providing advisory support on IP protection, innovation and internationalisation strategy remains limited.[93] This type of structure has been useful even in countries where generalist business centres are well established such as in Finland (see Box 3). One possibility is that the current innovation unit within the Serbian Agency for the Development of SMEs and Entrepreneurship might be developed to provide a more holistic service targeted at HGSMEs. (Currently, potential HGSMEs are carefully identified and referred to a specialist advice centre.) International experience on this point suggests that any unit dealing with HGSMEs should be highly selective, particularly when addressing later stages of venture development and that a key criterion for selection would be a strong growth motivation from the leaders of potential HGSMEs.[94]

4.3 Finance for HGSMEs

Since 2001, private and business banking services have developed rapidly in Serbia, a factor recognised in the country's improving position in the World Bank *Doing Business* report. Although the National Bank of Serbia has imposed relatively rigorous asset requirements on lenders in order to reduce inflationary risks, this has meant that loan finance (from micro-finance to multi-million Euro loan packages) and leasing finance have become available locally. Interest rates remain high though, particularly for smaller firms. Specialist SME lenders such Pro-credit Bank have established profitable operations in Serbia and created nation-wide branch networks.

In addition to private sector provision, the availability of business finance in Serbia has also been enhanced through a number of state- and donor-funded finance initiatives supporting particular aspects of business development.[95] The most significant of these, the Republic of Serbia Development Fund, is administered by the National Bank and operated through commercial banks. It provides subsidised loans (approximately EUR 6 104to EUR 24 417) to meet the investment needs of business start-up and development. Help is also available through the Republic of Serbia Guarantee Fund and other agencies such as AOFI[96] that offers a range of export and financial supports, primarily to larger firms. Key areas of AOFI's financial activity include financing working capital for export contracts, insurance for export contracts and a recently (2006) introduced factoring service.

For the vast majority of small firms, the type of loan or debt finance currently available in Serbia (in addition to internally generated funds) is generally adequate for working capital, investment etc. For the 4-6% of small firms in the high-growth category, however, the availability of equity or risk capital may also provide a valuable stimulus to growth. And, in more developed EU economies, perhaps half of all HGSMEs (primarily those with some defensible intellectual property or unique asset) attract some equity investment finance, i.e. 2-3% of all start-ups. Currently in Serbia, little or no equity or risk capital is available and this is a recognised gap in the business environment for HGSMEs. The lack of availability of equity funding in Serbia is not unique of course among the WBCs. It closely reflects, for example, the situation discussed earlier for the former Yugoslav Republic of Macedonia, although debt financing there is also more restrictive than in Serbia.

Addressing the lack of equity funding in Serbia is not simple; it will probably require intervention on both the demand and supply side. On the demand side, there is a need to promote the potential value to start-up businesses of equity investment (in terms of the potential capital injection and accompanying expertise) and to increase investment readiness. Here the UK Access to Finance Programme (see Box 5) and the Ready for Growth Programme implemented in the United Kingdom, Spain and Greece[99] (see Box 6) provide useful policy models. On the supply side, there is the potential for public support or facilitation of business angel networks which might bring additional private capital into Serbia's enterprise support system. Programmes such as the UK's Ready2Invest have used workshops, case studies and social networks to encourage high-worth individuals to consider becoming business angels and joining investor networks.[98] Initially, at least, such initiatives may need to be underpinned by some form of equity guarantee scheme such as the Estonian Kredex scheme (see Section 2.5.1). In addition, it might be useful to consider relating such schemes to other specific initiatives, such as business incubators or technology centres, as in the case of the Oxford innovation centre (see Box 11).

Intervention to encourage formal venture capital funding into the Serbian market is probably a more medium-term policy; action here might usefully be delayed until financial conditions ease somewhat. International experience has illustrated, however, the potentially positive role of co-funding of venture capital funds with the Finland and Israeli cases often cited.[99] Admittedly, in both of these economies, the underlying level of technological advance and investment in R&D were significantly greater than those in the WBCs, but the initial success of the Croatian VENCRO programme does suggest that similar, smaller scale, co-financed initiatives might also be valuable in Serbia and the other WBCs.

4.4 Supporting innovative enterprises

A number of government-supported and donor-funded organisations are involved in facilitating capability upgrading in Serbia, although the majority of these focus on established businesses. The Serbian Chamber of Commerce, for example, provides a range of information and training services to member firms in addition to more specialist consultancy services, while the Serbian Agency for the Development of SMEs and Entrepreneurship also provides a variety of general and specialist training courses for SME owners and potential entrepreneurs. For established firms, the EBRD's TurnAround Management (TAM)/Business Advisory Services (BAS) programme provides consultancy advice to Serbian enterprises to help boost exporting, profitability and growth. To date around 153 TAM projects have been conducted in Serbia with the vast majority funded by the European Agency for Reconstruction.[100] Other organisations such as Serbia's business incubators also provide some business training services geared to help start-up among students and academic faculty.

In terms of innovation or technology-led HGSMEs, the key issue therefore in Serbia is not so much the availability of services to support business upgrading and development but the under-developed linkages between knowledge generators (i.e. universities and research institutes) and SMEs. This is, of course, not a uniquely Serbian problem, and even in more advanced economies relationships between SMEs and the higher education sector often remain limited.[101] For Serbia, however, this linkage is particularly important for two reasons. First, Serbia has number of internationally recognised research departments and institutes capable of generating significant IP with commercial potential and subsequent income streams. Second, the level of business in R&D in Serbia (as in the rest of WBCs) remains very low by international standards. This means that the dominant source of new technologies originating within Serbia is likely to be the academic research community. Successfully exploiting these technologies is therefore of significant national importance.

Three key issues need to be addressed if stronger links between the research and business communities are to be created in Serbia. These relate to the rather traditional orientation of the academic research community in Serbia, the paucity of enterprise education within the Serbian university sector and the absorptive capacity of many Serbian SMEs. It is important to note that, notwithstanding these issues, there are in Serbia some outstanding examples of effective commercialisation and university-industry collaboration. Most impressive perhaps is the group of firms associated with Novi Sad Technical University, some of which have established an international market presence and generated significant high-level employment.[102]

Serbia has a strong academic history in which the key priority has been the publication of scientific results rather than their commercialisation. This open science model, however, contrasts strongly with changes in the United States and Western Europe, which have increasingly put forth the innovation model of university-business interaction (see Box 8). Moving towards the innovation model will require the building of a stronger IP culture within higher education institutions and research institutes in Serbia, and potentially changing promotion criteria and incentive mechanisms for scientists. Increasingly, for example, in European universities promotion criteria include the standard research, teaching and administrative criteria alongside criteria related to wider societal impact (e.g. patents, commercialisation and social engagement). Despite some gains in changing mindsets in Serbia, the traditional mentality continues to dominate with the majority of university scientists and industry inhabiting largely separate worlds. Linking these worlds without compromising on research quality is a key challenge for the future.

Another aspect of this issue is the lack of enterprise education or teaching on entrepreneurship in Serbian universities and research institutes. Increasingly, providing students with an introduction to enterprise is seen as critical, and a key part of the activities of the entrepreneurial university (see Box 1). In Serbia, some preliminary practical steps in this direction have been taken through the Agency for the Promotion of SMEs and the various university-based business incubators that have run uncertified business start-up courses. The Business Technology Incubator of Technical Faculties, Belgrade, for example, has hosted training programmes for over 200 students. (This is only a small proportion, however, of the 900 students who graduate from the Technical Faculties each year). Although proposals have been submitted to the Ministry of Education to expand enterprise education in Serbia, to date they have made little progress.

Under-developed university-industry links in Serbia are not simply an academic problem. Change is also necessary in SMEs' ability and willingness to establish partnerships with universities, something which is made particularly difficult due to the limited absorptive capacity of Serbian firms. As in a number of other WBCs, aggregate levels of R&D in Serbia are low by international standards and overall R&D spending is dominated by higher education. Only around 10% of R&D spending in Serbia is in the corporate sector, compared to an average of around 60-65% in the EU15. This has two main implications. First, the level of discovery in Serbian firms is very limited, meaning innovation has to come from outside the firm. And, second, the pool of research-trained employees within Serbian companies is small, limiting their absorptive capacity (i.e. their ability to evaluate and absorb external knowledge). Measures such as the recent Innovation Act, and support from the Ministry of Economy to provide grant support to help companies fund R&D and innovation projects may go some way towards reducing this problem. Other approaches are also possible, however, including student placement schemes (used successfully in a number of EU countries). Perhaps the most successful and longstanding of these measures is the UK's Knowledge Transfer Partnership scheme, in support of two-year placements for science students with SMEs to stimulate collaborative innovation and technology transfer (see Box 10).

Finally, it is worth noting that progress in developing more systemic linkages between the academic community and industry in Serbia is hampered to some extent by different elements of the commercialisation process being covered by different ministries. As indicated earlier, the Ministry of Education is responsible for enterprise education, the Ministry of Science is responsible for supporting scientific research, and the Ministry of Economy and Regional Development has responsibility for the economic exploitation of innovations. This division in the governance of the value chain from investment to research results to commercialisation inevitably makes policy co-ordination difficult. In those countries where innovation is most successful, and university-business collaboration is most intense, responsibility for the R&D and commercialisation value chain (at least) has been brought together in a single decision-making unit. Perhaps the best example, here is the Finnish government agency Tekes, which has responsibility for competitively awarded applied research funding in both universities and companies in Finland, one result of which is a high level of university-industry collaboration.

4.5 Final remarks

Since taking its first steps in SME policy in 2002 Serbia has demonstrated a significant capacity for policy innovation and development. This bodes well for the future. General elements of the business support infrastructure are now in place, with SMEs generally able to access advisory support and loan capital. Major steps have also been taken in promoting an enterprise and innovation culture, both of which will be more important in the future. These achievements could be supported by the development of more specialist advisory services for HGSMEs, most probably on a national level.

Crucial short-term issues for Serbia (as for other economies) revolve around maintaining business liquidity and viability. In the longer term, however, important structural and cultural issues remain, and are reducing the effectiveness of firms' innovation and the commercialisation process. Key concerns include the availability of equity or risk capital, creating a more innovation-oriented culture within Serbia's research institutes and universities, encouraging firms' investments in R&D and innovation, and extending the coverage of enterprise education. It is important to realise also that addressing these issues *together* will generate positive synergies, with private equity (or angel funding) working most effectively when linked to a business incubator or particular cluster, faculty or institute. Similarly, changing faculty incentives for promotion to encourage an innovation culture is likely to be most powerful in combination with incubation, IP services and/or enterprise education.

Upgrading the SME Policy Process

The previous sections have outlined some specific policy options for the development of policy support for HGSMEs in the WBCs. These policy options reflect the specific development and resource needs of HGSMEs in terms of IP development, capital requirements and internationalisation. A recent review of international practice in terms of HGSME policy, conducted for the Finnish Ministry of Trade and Industry, tried to identify the principles which should govern policy for HGSMEs.[103] It suggested policy should:

- Be highly selective, particularly when addressing later stages of venture development;
- Require strong growth motivation from participants;
- Be proactive in trying to identify prospective growth firms;
- Consistently address managerial motivation and skills;
- Involve close collaboration with private-sector service providers;
- Nurture an image of professionalism, competence, and a certain degree of exclusivity;
- Implement sustained and focused development efforts;
- Involve highly tailored management development activities that involve experience sharing and apply an interactive approach;
- Link grants and participation to growth aspiration and achievement of milestones;
- Be prepared to accept casualties;
- Involve seasoned managers who have experience in rapid growth.

There is, of course, the danger of generating an overly complex set of SME and HGSME policy initiatives, and a number of countries (Japan, Mexico and the UK) are moving towards simplified frameworks for business support.[104] More generally there is a move towards the one-stop-shop approach where a single agency or contact point can provide access to the full range of public (or public and private) support services.

It is also worth noting the very significant benefits of increased WBC engagement with EU wide networks. At the level of the individual firm networks or initiatives such as the EurOffices Network or IMPROVE may assist with internationalisation or innovation. At a more official level engagement with ERA-NET type initiatives such as COMPERA may help to both identify and implement new policy initiatives which might benefit HGSMEs.

Finally, it is clear that to date few publicly funded SME programmes in the WBCs have been subject to any very systematic evaluation of their effectiveness. (The situation with donor-funded programmes is somewhat different as evidence of effectiveness is usually a criterion for continued support). In part, the lack of any evaluation of publicly funded SME programmes in the WBCs reflects their rapid development over recent years. In many cases these programmes represent significant public investments and good public policy practice therefore suggests the need for monitoring and *ex post* evaluation. In general evaluation costs are generally 2-5% of programme budget although might be as little as 1% where programmes are large.[105] Previous OECD reports including the OECD Framework for the Evaluation of SME and Entrepreneurship Policies and Programmes provide a useful guide to possible evaluation approaches. Adopting some form of policy evaluation and upgrading process is likely to be important for the WBCs as they seek to develop the effectiveness of SME and HGSME policy, and the policy-making process itself.

Notes

1 *OECD (2008), Working Party on SMEs and Entrepreneurship (WPSMEE) Review of HGSMEs, Innovation and Intellectual Property, OECD, Paris, p. 23.*

2 *Llisterri, J. and J. Garcia-Alba (2008) "HGSMEs in Latin American Emerging Economies", paper prepared for the OECD Kansas City Workshop.*

3 *OECD/European Commission (2007), SME Policy Index 2007 – Report on the Implementation of the European Charter for Small Enterprises in the Western Balkans, OECD, Paris.*

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5 *OECD (2008), "Measuring Entrepreneurship – A digest of indicators", OECD-Eurostat EEIP Programme, p. 18.*

6 *Using an employment-based definition of high-growth enterprises suggests a slightly lower proportion of high-growth firms (1-9%) although the pattern of international relativities is much the same as that suggested by Figure 1. Source: op. cit. p. 19.*

7 *Global Entrepreneurship Monitor (2007), 2007 Global Report on High Growth Entrepreneurship, Directed by Erik Autio, with Babson College, London Business School and Global Entrepreneurship Research Consortium (GERA). Available at: http://www.gemconsortium.org*

8 *An essentially similar picture emerges from a recent review of academic studies of high-growth firms. See Henrekson, M. and D. Johansson (2008), "Gazelles as Job Creators – A Survey and Interpretation of the Evidence", IFN Working Paper No. 733, IFN, Stockholm.*

9 *This inclusive approach reflects that adopted by the OECD Working Party on SMEs and Entrepreneurship (WPSMEE) in their 2008 review of HGSMEs, innovation and intellectual property. See p. 3.*

10 *This section draws on material in OECD (2009), HGSMEs and Innovation, Working Party on SMEs and Entrepreneurship (WPSMEE), forthcoming.*

11 *See http://www.ausindustry.gov.au/index.cfm and also Autio, E., M. Kronlund and A. Kovalainen (2007), "High-Growth SME Support Initiatives in Nine Countries: Analysis, Categorisation, and Recommendations", Report prepared for the Finnish Ministry of Trade and Industry, pp. 34-35.*

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16 *Including local companies, business associations, the Chamber of Commerce, local governments, elected officials, civil servants, schools, vocational and professional training institutions, public and private employment services, trade unions and employer organisations.*

17 *OECD (2006), "Entrepreneurship in the Districts Mittweida and Altenburger Land", OECD LEED Local Entrepreneurship Series, October 2006.*

18 *For details see: http://www.queensawards.org.uk/.*

19 *See www.enterprise-ireland.com and discussion of the programme at http://www.oecd.org/secure/pdfDocument/0,2834,en_21571361_38013663_39137502_1_1_1_1,00.pdf*

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85 *Polenakovik, R. and T.R. Pinto (2009), "The National Innovation System and its relation to small enterprises – the Case of the Republic of Macedonia", World Review of Science Technology and Sustainable Development, forthcoming.*

86 *For countries such as the former Yugoslav Republic of Macedonia and other small countries which generally do not produce the technology they exploit this is particularly important. Effective international technology transfer, however, requires both absorptive capacity and relevant external linkages. See: Polenakovik, R. and T. R. Pinto (2009), "The National Innovation System and its relation to small enterprises – the Case of the Republic of Macedonia", World Review of Science Technology and Sustainable Development, forthcoming.*

87 *Serbian Agency for the Development of Small and Medium-Sized Enterprises and Entrepreneurship (2007), Annual Report 2007, pp.5-13.*

88 *Ministry of Economy and Regional Development (2007), Report on Small and Medium-Sized Enterprises 2007, Belgrade, Table 19, p. 24.*

89 *The 2009 competition has recently been announced (February 2009) with a prize fund in excess of approximately EUR 9 million and five different awards: realised innovations, energy efficiency, innovative ideas, potentials and innovative municipalities.*

90 *The "Business Base" trade fair has been organised annually in Belgrade since 2002 by the Serbian Agency for the Development of SMEs and Entrepreneurship.*

91 *See, for example, the discussion of various enterprise and business plan competitions in the Serbian Agency for the Development of SMEs and Entrepreneurship, Annual Report 2007.*

92 *See for example the activities of the Business Innovation Programs (BIP) in Serbia. Available at: http://www.bips.no/serbia.html.*

93 *Serbian Agency for the Development of SMEs and Entrepreneurship (2007), Annual Report 2007, p. 62.*

94 *Autio, E., M. Kronlund and A. Kovalainen (2007), "High-Growth SME Support Initiatives in Nine Countries: Analysis, Categorisation, and Recommendations", Report prepared for the Finnish Ministry of Trade and Industry, p.76.*

95 *See for example, http://compete.rs/files/Access_Finance_SerbianSMEs_Aug15.pdf.*

96 *Export Credit and Insurance Agency of the Republic of Serbia. See www.aofi.rs.*

97 *OECD (2007), "Entrepreneurship Environment and Policies: Exploiting the Science and Technology Base in the Region of Halle", OECD LEED Local Entrepreneurship Series, January 2007.*

98 *OECD (2006), "Entrepreneurship in the Districts Uckermark (Brandenburg) and Parchim (Mecklenburg-Western Pomerania)", OECD LEED Local Entrepreneurship Series, October 2006.*

99 *On the Israeli example see: www.insme.org/documenti/Yozma_presentation.pdf.*

100 *See TAM/BAS Programme Team (2008), "Boosting Serbian SME Exports to Europe", May 2008, Belgrade.*

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PART III

Profiles of the Western Balkan Countries and Kosovo under UNSCR 1244/99

Introduction

Part II of this report is divided into chapters specifically on each Western Balkan country and Kosovo under UNSCR 1244/99 ("country chapters"), providing additional insight on the implementation of the Charter. Each country chapter has been divided into six sections:

1. Country overview (including a sub-section on the effects of the global financial and economic crisis)
2. SME policy and public-private consultation
3. Operational environment
4. Services for enterprises
5. Human capital
6. The way forward

Section 1 provides an overview of the SME sector in each country, tracking key reforms that have influenced the design of policy in the country. It also contains a sub-section on the effects of the global financial and economic crisis on each country. This section relies on data from government sources and international organisations.

Section 2 covers dimension 3 (*Better legislation and regulation*) and dimension 10 (*Developing stronger and more effective representation of small enterprises' interests*) of the Charter. These two Charter areas are complementary and thus are grouped together to examine the comprehensiveness of the SME policy framework in the respective country. This includes examining the context in which enterprise policy is designed and the nature of public–private consultations in the design of enterprise policy.

Section 3 provides an overview of the operational environment for enterprises, covering dimension 2 (*Cheaper and faster start-up*), dimension 6 (*Getting more out of the Single Market*), dimension 7 (*Taxation and financial matters*), and dimension 8 (*Strengthening the technological capacity of SMEs*) of the Charter. These four Charter dimensions study the policy tools, facilities, legislation and regulatory framework in place which facilitate operations for an enterprise.

Section 4 covers two Charter dimensions on services for enterprises: dimension 5 (*Improving online access*) and dimension 9 (*Successful e-business models and top-class business support*). As these areas of the Charter reinforce one another, they have been considered together.

Section 5 considers the human capital dimensions of the Charter by examining the following: dimension 1 (*Education and training for entrepreneurship*) and dimension 4 (*Availability of skills*).

Finally, each country chapter concludes with a section on the way forward, examining the individual areas of improvement for each country and Kosovo under UNSCR 1244/99.

Albania

1. Overview

Micro, small and medium-sized enterprises (SMEs) dominate Albania's economy, representing 99.6% of all registered businesses. The share of the SME sector in GDP is 72.9% of GDP, and the sector employs 71.4% of all workers. SMEs in Albania concentrate on the local market and lack export competitiveness. Less than 1.3% of the small and less than 5.3% of the medium companies in Albania have undertaken joint ventures with foreign partners over the last three years.

SME development in Albania is below regional average. The main challenge remains the relatively poor investment climate. Poor law enforcement, very weak corporate governance (both at the macro and at the enterprise levels), lack of management skills and poor infrastructure constitute the major impediments to SME development.

SMEs in Albania are classified according to the number of their employees and turnover and/or balance sheet in compliance with the law nr. 1042 (22/12/2008) on small and medium-sized enterprises:

Albania's SME classification	
Micro	Up to 9 persons
Small	10-49 persons
Medium	50-249 persons

The EU definition of small and medium-sized enterprises consists of firms that employ fewer than 250 people, and have an annual turnover not exceeding EUR 50 million and/or a balance sheet total not exceeding EUR 43 million. The Albanian definition is not perfectly consistent with the EU one.

Micro companies dominate the Albanian SME sector in number, turnover and total value added, but in proportion to their number, small and medium-sized enterprises make the largest contribution. Accordingly, economic efficiency increases with enterprise size in the SME sector. Growth in turnover by micro enterprises lags behind that of both small and medium-sized enterprises. Medium-sized enterprises concentrate more on endogenous growth with an investment structure closer to that of large enterprises.

From a sectoral perspective, SMEs are concentrated in the trade sector. The sectors of services and trade are dominated by micro and small enterprises whereas the sectors of industry and construction are dominated by medium-sized businesses. The highest value added is provided by micro enterprises in the trade sector, closely followed by medium-sized enterprises in the construction sector. Micro enterprises have significantly increased added value in construction, whereas little progress has been made in sectors with already high value added rates such as services Small enterprises are performing best in trade and construction, but display relatively low or negative year-on-year growth in value added. Medium enterprises increased value added in transport and communication, but have a negative year-on-year growth performance in the sectors of trade and services.

The highest concentration of SMEs is in the Albanian capital Tirana, central Albania and in the coastal areas. More than half of SMEs are operating on the Tirana-Durres corridor, which is emerging as a potentially powerful economic pool. Other regions with strong SME presence are the cities of Korce, Fier and Vlora. There is a very weak business activity particularly in the northern part of the country. Donor programmes, which until now have focused their activities on the capital, are increasingly targeting the regions. Programmes need to be adapted as firms in the regions face less competition, a less-developed business environment and a lack of qualified workforce.

Impact of the global economic crisis

The global financial crisis has not yet had a significant direct impact on the Albanian financial sector and economy. In all likelihood the impact of the crisis is still to come, mainly from the lower level of exports to EU countries and lower remittances (on which the economy is heavily reliant). Local garment companies – the major exporting industry in the country – have already started to experience financial difficulties, forcing a number of manufacturers to shut down, while others are being forced to cut prices or dismiss employees. For example, there was a temporary halt to production on 16 February 2008 at the ferrochromium plant in Elbasan of Albanian Chrome ACR, the largest chrome mining and production company in Albania, due to shrinking international markets. ACR had recently announced plans for a EUR 2.5 million investment aiming to upgrade the Elbasan plant, where some 140 workers are currently employed.

As far as the financial sector is concerned, the main impact has been the loss of confidence in commercial banks. With deposits accounting for almost all of commercial banks' funding, a reduction (or at least slower growth) in deposits is beginning to have a negative effect on domestic credit growth. While local banks seem well positioned to overcome the current crisis due to strong capitalisation, limited reliance on wholesale funding and still low loan-to-deposit ratios, they are adopting more conservative procedures for new loans (including shorter tenors and higher margins), increasing their on-sight cash reserves. However, non-performing loans have risen. Foreign-owned banks, following directions from their parent bank, have adopted extremely prudent behaviour.

2. SME policy and public-private consultation

Institutional policy framework

The institutional structure for the SME policy in Albania remained unchanged from the previous report on the Charter's implementation. The institution in charge of the SME policy elaboration is the Ministry of Economy, Trade and Energy (METE) through the Department for Business Development. However, specific issues of the SME policy are under the Departments for Regulatory Reform and for Industrial Zones Planning.

The policy is implemented by AlbInvest, the government's Agency for Business and Investment. The SME policy is only one part of AlbInvest's activities as in 2006 this agency was established by merging the Foreign Investment Agency, the Export Promotion Agency and the Agency for SMEs. AlbInvest is working with central and local authorities, business communities and international partners.

AlbInvest collaborated with METE in the preparation of strategic documents for the SME sector. Also, there are pieces of evidence of inter-government co-ordination in the case of new legislation, as METE should be consulted by the line ministries before proposing any primary or secondary legislation affecting the business environment for adoption to the Council of Ministers. Furthermore, within the Business Advisory Committee, both government institutions and business representatives work together on new legislation (for further information see the section on public-private consultation).

Albania created its strategic framework for SME development in 2007, when a long-term strategy, the Business and Investment Development Strategy for the period 2007-2013, was adopted, as well as a medium-term programme for the SME development, (the SME Development Strategic Programme for the period 2007-2009). There is a strong consistency between the two documents in terms of objectives and measures to be taken, and Albania has made significant progress in implementing it. The estimated cost related to the implementation of the strategic programme over the 2007-2009 period is estimated at approximately EUR 150 million.

In order to achieve its objectives and considering the government's low financing capacity, Albania is counting on donor help. In this context, establishing a donors' forum was a good measure.

In October 2007 the Memorandum establishing the SME Donors Forum was signed, creating a national platform for monitoring and assessing the implementation of the SME Strategic Programme, with AlbInvest as the central point. The forum should meet twice a year.

Public-private consultation framework

The representation of the business community improved in Albania since the last report. The Business Advisory Council was established in 2006 in order to institutionalise the public-private dialogue; it is a consultative body both for the government and the Parliament. It is chaired by the Minister of Economy, Trade and Energy, and consists of 18 members, 11 of whom are representatives of the business community. There should be at least four meetings per year. In 2007, 19 draft laws were discussed and 4 recommendations of legislation were put forward to the Council of Ministers. However, participation of business associations in legislative process could be enhanced.

Within the 2006-2008 period, there were two revisions of the legislative framework for the chambers of commerce. The first one reduced their number from 36 to 12, according to the number of regions in Albania, and the second one eliminated compulsory membership of the chambers of commerce. Apart from the lobby activity they are also developing different services for their members, but their capacity is still limited.

A group of business associations was developed, blanketing the entire territory and including SMEs. They operate mainly as lobby bodies, and are involved in the consultations on the SME policy.

Simplifying existing legislation and reducing the administrative burden

Regulatory reform is a priority for Albania, and a strategy on this topic was adopted in 2006. A Task Force for the Reduction of Administrative Barriers, chaired by the Prime Minister, was established in the framework of regulatory reform. Together with several technical working groups, it will operate in the following fields: business registration, licensing, customs, taxation, land construction, inspections and administrative appeal.

The work progressed well in the first two fields, where business registration can be currently completed in one day. Many licenses were abolished and some converted in self-declarations. The new licensing philosophy is going to be based on the following principles: self-declaration and post control, proportionality and silence-is-consent.

In the first half of 2009, Albania intends to introduce a one-stop-shop for licenses at the national level in order to reduce procedures and standardise the process. The National Business Licensing Centre will be established with the help of the USAID Millennium Challenge Account Threshold Programme and it should reduce the average licence approval time from 331 days to fewer than 120 days, and also to reduce the steps from 24 to fewer than 10. It is expected to be in place in May 2009.

The silence-is-consent principle is already applied for business registration and the government intends to expand its application also to permits and licenses.

Regulatory impact analysis

Albania is currently in an initial phase of developing a regulatory impact analysis framework. The RIA guidelines were to be completed by the end of 2008, with the help of the World Bank BERIS project. The resulting law on RIA is planned to be adopted before September 2009.

3. Operational environment

Company registration

Over the last two years, Albania has radically reformed the company registration process, with the financial and technical support of the US-sponsored Millennium Challenge Corporation, and co-ordinated by the Ministry of Energy, Economy and Trade. The reform is remarkable for its scope, its speedy implementation and the quality of the results. Under the previous system, company registration could only be performed at the Tirana court. The system was cumbersome, particularly for entrepreneurs based outside the capital, and data in the company register was not easily accessible. The starting point of the reform process was the passing in May 2007 of the Law on National Registration Centre (NRC) that transferred competence over the company registration from the Tirana court to a new dedicated public agency. The new agency was in charge of implementing a one-stop business registration system, performing all the notification functions and maintaining the national electronic company register. The NRC became operational in early September 2007. At end of October 2008, a network of 18 company registration centres across the country was established, with the goal of a total of 30 local centres by the end of 2008. In the year after the establishment of the NRC, there has been a significant surge of new company registrations, surpassing the threshold of 15 000 new applications, in 2008 there was an increase in company registrations by 29% compared to 2007. The centre is also updating the records of existing companies, including those records in the new electronic register. It is processing the large backlog of company record modifications accumulated under the previous system.

As a result of the reform, Albania has been able to build a modern and efficient company register that could be a very valuable source of information for the public administration and for INSTAT (the Albanian Institute of Statistics).

The reform has successfully cut the processing time and costs associated with company registration. However, some stakeholders noted that the impact of the reform has not affected equally all class of enterprises. For instance incorporation procedures for limited liability companies remain relatively complex, in addition concerns have been expressed that the reduction of number of procedures does not take into account their relevance and quality (such as regulations concerning social and environmental aspects). Licensing and post-licensing process requires further simplification and removal of licenses needs to be accompanied by a strengthening of the supervisory capacities of public agencies in order to guarantee standards that safeguard consumer rights.

Enhancing SME competitiveness and strengthening the technological capacity of SMEs

Albania had a traditionally weak policy in supporting export-oriented and innovative companies. The government has focused on horizontal measures for improving the general operational environment more than targeted support to specific categories of enterprises. However, over the last two years the government has started to introduce measures targeted at the most dynamic enterprises. In 2007 the government established the Albanian Competitiveness Fund with an initial budget of approximately EUR 200 000. The Fund is intended to cover both export promotion and technical standards adoption and it is expected to be supplemented by the launching of a new competitiveness-enhancing programme under the new IPA programme. AlbInvest is in charge of managing the fund; it has approved 63 projects with a value of EUR 391 200 approximately.

Albania does have not yet a structured export support system, integrating export promotion activities, market intelligence, export financing and export credit insurance. Government support has been limited to the introduction of cost-sharing schemes supporting the participation of Albanian companies in trade exhibitions, trade missions and other marketing activities. Albania does not have trade offices in the main export markets. However AlbInvest provides personalised assistance to foreign companies in sourcing for Albanian suppliers and the Export Credit Guarantee Fund is operational since the beginning of 2008.

Support to technological innovation in SMEs, through skills development, technology exchange centres and business incubators, is still extremely limited. Nevertheless, the government has taken the first steps in laying the foundation for a more active innovation policy. In 2008 Albania joined the first pillar of Competitiveness and Innovation. In the meantime the Albanian government has formulated a comprehensive innovation support programme, covering both technological and non-technological innovation, to be co-financed with the European Commission. The multi-year programme includes the establishment of a Business Innovation and Relay Centre in Albania, the completion of training needs analysis for the SME sector, and the elaboration of an Innovation and Technology Strategy. The programme is not yet active, due to delays in the completion of the EC procurement process.

Intellectual property rights

The legislative framework on IPRs has been further upgraded with the introduction of a new Law on Industrial Property, in line with the *acquis communautaire*. The government has also amended the provisions on the application of the Customs Code, in order to improve the country IPR enforcement capacity. However enforcement remains problematic, due to the limited resources of the Albanian Copyright Office. Inspection activity has been stepped up, but relatively few cases IPR violation have been pursued in court.

Access to finance

Albania's banking sector generally remains solvent, liquid and profitable, although the development of the sector is still at an early stage, with no sophisticated financial products in place. Over 70% of credits to the non-government sector are denominated in foreign currency (mainly Euros), exposing banks to potential currency risk. New legislation from the Albanian Central Bank, however, encourages borrowing in local currency. A merger in January 2008 reduced the number of commercial banks operating in Albania from 17 to 16, of which 14 are fully or partly foreign-owned. The commercial banking sector is dominated by a few large banks (such as Raiffeisen International, Intesa Sanpaolo and Société Générale) but there is room for additional mergers to increase competition. The implementation of the banking law has led to improvements in surveillance and supervision, licensing, foreign branch regulations as well as risk and prudential management. Further improvement in the transparency of the banking system resulted from the establishment of a new Credit Registry at the Bank of Albania, which came into operation on 1 January 2008.

There are some banks offering credit to the SMEs sector. Procredit provides micro lending even to the informal sector but obliges companies in the grey economy to register before further loan tranches are extended.

Commercial banks are requested by the Central Bank to upload data on new loans daily, and on loan repayment status monthly. The Register contains information on borrowers (loan amount, repayments, amount of arrears, collateral used, data on credit lines where the borrower is a connected person, and loan status history over last two years); it is retained for five years and made available to financial institutions, but not to the general public.

The non-bank financial sector is still in its infancy. However, the securities markets legislation has been strengthened and there was progress is implementing measures to enhance the supervisory capacity of the Financial Supervisory Authority. Legislation regulating the leasing industry was approved on 29 October 2007.

There is no active equities market in Albania. The Tirana Stock Exchange has been functioning only as a money market for trading in Albanian treasury bills. No stock trading is expected in the near future. Making the stock exchange functional requires substantial progress in basic legislation on disclosure obligations of issuers, accounting and auditing standards, and the development of a sound regulatory framework for securities trading on secondary markets.

	2005	2006	2007	2008
Real growth in credit to the private sector	71.7%	54.8%	45.1%	29.9%
Domestic credit to private sector to GDP, official data	14.9%	21.8%	29.6%	36%
Bank lending to enterprises, share in GDP	9.9%	14.2%	18.6%	22.7%
Bank lending to households, share in GDP	4.9%	7.6%	11%	13.2%
Share of total non-performing loans of banks in total loans	2.3%	3.1%	3.4%	6.6%
Average capital ratio of all banks (capital/ total assets)	5.6%	6.2%	6.2%	N/A
Asset share of foreign-owned banks	92.3%	90.5%	94.2%	N/A

Source: Bank of Albania

The private equity market in Albania is essentially non-existent. There is currently only one (government-subsidised) private equity fund in the country, the Albanian American Enterprise Fund (AAEF). AAEF is an equity fund established by USAID, however it has only been engaged in very few large investments over the last ten years. The market has recently attracted more attention as the Southeast Europe Equity Fund 2 and the Balkan Accession Fund have invested in local companies, telecoms and other services. A number of international funds have been scouting the property sector. The Albania Reconstruction Equity Fund invested approximately EUR 3.6 million in 11 investments (10 of which were for around EUR 3.4 million from mid-2001 to mid-2003). Low utilisation was mainly related to local and regional political conditions. The EBRD started operating the Western Balkans Local Enterprise Facility (an in-house equity-driven investment facility) in 2007, to facilitate smaller direct investments, and has thus far signed five equity investments (in financial institutions, construction materials, agribusiness, packaging and natural resources) for about EUR 16 million.

Albania in *Doing Business 2009* ranks 181 (last) in the closing of a business. In order to speed up implementation, the authorities revised the relevant legislation in May 2008. The revised law foresees that businesses which have a negative balance sheet for two years (against three years foreseen in the previous law) shall be automatically declared bankrupt. The International Monetary Fund is pressing for rapid adoption of bankruptcy and collateral execution legislation. During 2008 almost 3 600 businesses were taken out of the register and declared as closed.

4. Service for SMEs

Improving online access

Since 2007, Albania has made significant progress in implementing e-government measures that encourage small enterprises to adopt electronic forms of communication by linking them with an increasing number of government support services. Since July 2008 the taxpayers registered in the Tirana tax office and in Durres; since October 2008 the taxpayers in Vlore, Lezhe, Elbasan, and Shkoder; and since November 2008 in Korce and Fier can pay value added tax, income tax and profit tax online. They can also file social security returns and procurement procedure online. In the case of paying tax, the relevant forms can be downloaded directly from the website, which includes a guide published by the General Directorate of Tax on how to proceed with the tax payment online. These developments in e-government are part of the US-funded Millennium Challenge Account Support. The key problem, nevertheless, remains the e-signature system which lacks a functioning accreditation body and the electronically available forms therefore still have to be signed and handed to the relevant public body in person.

The Albanian Investment Agency also deals with SME development. It has established a professional and well-designed website in Albanian and English. Its focus, however, is almost entirely on servicing foreign investors, with few information and links for SMEs specifically.

E-business and SME support

Apart from the recently approved law on electronic signature (February 2008), Albania has achieved limited progress in the field of e-business and SME support systems. Furthermore, the actual use of the electronic signature is constrained by the lack of a functioning accreditation body.

Business incubators are still sparse, as is the range of publicly funded business services available to SMEs, although AlbInvest has been developing a database of consultants and trainers which can be found on its website. Nevertheless, Albania does not yet have a network of business information centres across the country.

5. Human capital

Turning to the human capital dimensions of the Charter, the assessment focused on Albania's efforts to promote lifelong entrepreneurship education and training (dimension 1) as well as enterprise training activities (dimension 4), both considered key to the promotion of a more entrepreneurial and skills-effective enterprise environment.

Good efforts are underway by a range of stakeholders on more direct policy dialogue and perspective setting for entrepreneurial learning. In the interest of ensuring a more systematic lifelong entrepreneurial learning sequence, a more developed engagement and ownership of the process by the education authorities is still required. This would additionally make way for a less project-driven environment.

A national education strategy is being implemented through the Education for Excellence and Equity Programme, using a sector-wide approach to education reform. It presents a good opportunity for the authorities to determine how curriculum, teacher training and more flexible teaching/learning processes could address the entrepreneurship key competence within reform plans. The policy dialogue related to the implementation of the strategy could also allow for a national entrepreneurial learning strategy (all formal education levels, including non-formal learning) with a monitoring system, perhaps by way of a more structured and recognised cross-stakeholder entrepreneurial learning partnership. Full engagement of the higher education sector will be important. This could build on the tripartite ministerial dialogue (education, labour, economy) which the Charter process has initiated.

Good efforts are being made by a range of entrepreneurial learning stakeholders to share information and good practice. A more proactive engagement particularly by the education and training practitioners in the knowledge-sharing process is recommended.

Turning to improved skills for enterprises, performance on this dimension, as in the 2007 report, is generally hampered due to lack of systematic data on training for the enterprise environment. In particular, while data on training for start-up and growth enterprises can be gleaned from *ad hoc* surveys, SME programmes and donor-supported initiatives, this data does not provide the more comprehensive intelligence important for policy purposes, and particularly the better targeting of public finance for training and general business support services.

On a more positive note, a 2008 study on training needs analysis at national level highlights the limitations of *ad hoc* arrangements in determining how human capital within the Albanian enterprise sector is addressed. It also points to the need for a more structured and systematic intelligence framework to bring forward enterprise training. If this issue could be addressed as a priority and integrated into the enterprise policy improvement dialogue, to include clearly articulated options to ensure its realisation, a significant milestone on the Charter's dimension 4 developments would be accomplished.

Finally, the assessment finds a number of initiatives to determine how quality of training services can be improved with a proposal for a national accreditation system for training providers. This proposal should be taken further in the interests of increasing confidence of the enterprise community in a developing training market.

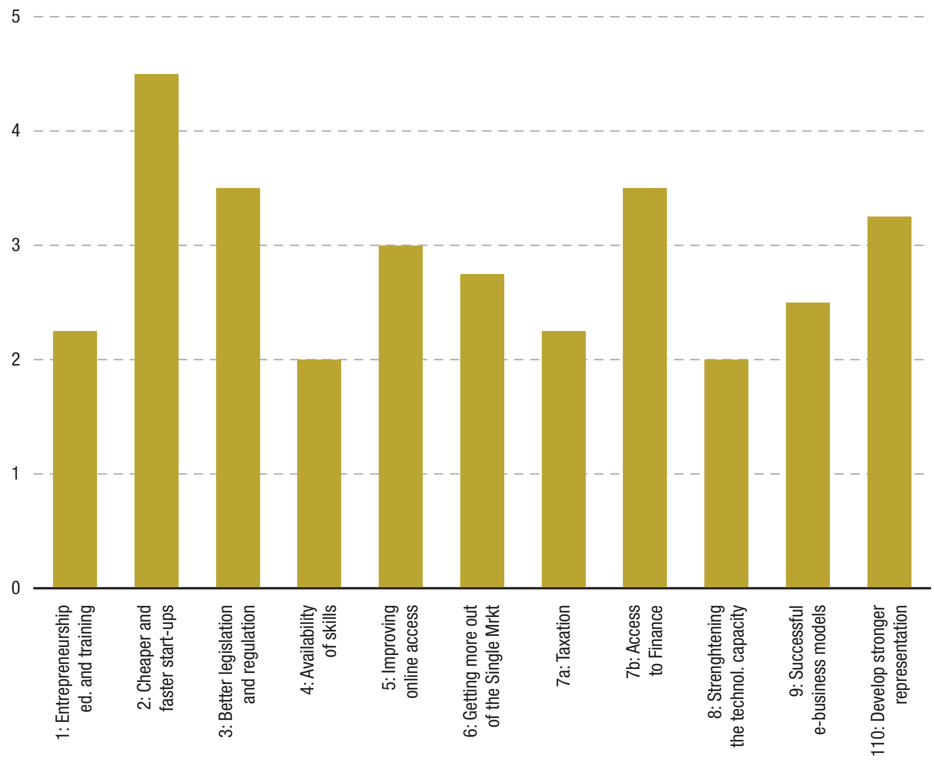
6. The way forward

E-business and SME support: There is an urgent need to complete the regulatory framework for introducing the electronic signature and establish a functioning and legitimate accreditation body. This is a precondition to developing electronic commerce and more advanced online business-to-business functions, as well as for making the most of online government services.

Improving online access: In order to make the search for online information and services for SMEs less cumbersome, SME-relevant information and links should be bundled on a single SME-specific online portal, which is regularly updated and allows for interaction between SMEs and the administration.

Human capital: With a view to lifelong entrepreneurial learning system building, a more developed engagement by the education authorities and the university system in entrepreneurial learning developments will be important. Meanwhile, improved data on human capital within enterprises will be needed, with further efforts to establish a quality assurance framework for the training market.

SME Policy Index scores for Albania per Charter dimension (2009)[1]



Notes

1 *Although this report is published in 2009, data collection took place in 2008. For the SME Policy Index Report 2007, data were collected in 2006. All SME Policy Index scores have been rounded up or down to the nearest 0.25*

Bosnia and Herzegovina

1. Overview

The economy has exhibited robust growth in the last years. GDP growth was 6.8% in 2007 and continued at a similar pace in 2008 with 6%. However, imbalances have emerged: the widening current account deficit and increasing inflation as well as pro-cyclical fiscal policy have led to macroeconomic imbalances. Moreover, large public sector wage increases threaten to spill over to private sector settlements, thus exacerbating inflation pressures and weighting on competitiveness. SME in particular find it hard to attract and retain qualified personnel under such strong wage pressure. The financial crisis is having an increasingly adverse impact on macroeconomic stability in Bosnia and Herzegovina. Overall growth in 2009 is expected to be significantly lower, albeit still positive. Credit growth has started to slow down and tightened credit conditions have resulted in a fall in bank profitability and conservative lending policies.

Data collection is very scarce in Bosnia and Herzegovina. However, thanks to a pilot project on statistical data collection, data on SMEs is available for the sectors of hotels and restaurants, transport and communications. The findings below thus do not reflect the complete SME sector but just a small part of it. Bosnia and Herzegovina does not have an official definition of SMEs.

On the whole, 87 332 enterprises operate in Bosnia and Herzegovina[1] (26 674 enterprises and 60 658 entrepreneurs). The hotels and restaurants, transport and communication sectors are dominated by micro enterprises (82.2% of total SMEs), followed by small (9.3% of total SMEs) and medium-sized enterprises (8.5% of total SMEs).

Micro companies dominate the sector in number, but small and medium-sized enterprises make the largest contribution to employment, turnover and value added. Accordingly, economic efficiency increases with enterprise size in the SME sector. Medium enterprises concentrate more on endogenous growth with an investment structure closer to that of large enterprises.

Impact of the global economic crisis

Economic performance remained relatively favourable in the first part of 2008, but the global crisis began to adversely affect the economy towards the end of the year. No official GDP figures are available for 2008 but data on industrial production suggest that real GDP grew by around 5-6%. Foreign direct investment in 2008 was well down on the previous year's record level, but still was respectable at about EUR 700 million, and there have been no high-profile cancellations or pull-outs of major investors. However, in late January the Czech energy company CEZ announced it would pull out of a major investment (up to EUR 1.4 billion) in the Republika Srpska RS energy sector, because of an alleged breach of contract by the local partner. Also, production in the Arcelor Mittal Prijedor Mine, one of the biggest companies in RS, was 20% lower in 2008 than planned (1.2 million tons compared to the envisaged 1.5 million tons). The sale of Aluminium Mostar remains deadlocked because the bank guarantee deposited by potential buyers expired. Previously Glencore offered EUR 130 million for an 88% stake with the promise of further investments of EUR 170 million. The company employs 930 people and is the country's leading exporter, with 123 000 tonnes of metals produced last year worth EUR 349 million.

So far the financial sector has been directly hit by the global financial crisis through the increase in external long-term interest rates. The banks and the non-bank financial institutions have been slowly adjusting their lending policies and interest rates in order to reflect the changes in the global financial system. As a result, their clients are starting to face higher interest rates for new loans and a general lack of funding for SMEs and corporate clients. Credit growth has slowed down significantly and some deposit withdrawal (around EUR 400 million) occurred between October and December 2008, but the main banks appear to be weathering the crisis so far.

Bosnia and Herzegovina has a well capitalised banking system able to withstand this crisis. All of the banks had plenty of liquidity to withstand withdrawals of deposits that occurred in late 2008. It is estimated that retail clients have withdrawn about 5-10% of their deposits from the main commercial banks. Subsequently, on 14 October 2008 the central bank decreased the mandatory reserve requirement by 4 percentage points, from 18% to 14%. This injected around EUR 371.7 million into the system to allow banks to deal with further withdrawal requests and to allow for further lending to clients. The government has increased the amount of guaranteed deposits of citizens, entrepreneurs and small and medium-sized enterprises to EUR 10 000 from EUR 4 000. A further increase to EUR 20 000 is being discussed.

Microfinance organisations are less likely than banks to be affected by the crisis for the following reasons: a substantial part of their funding is from donors/ international financial institutions (both expected to continue their support during the crisis), they will not be threatened by deposit withdrawals as they do not hold deposits, and their clients are less vulnerable to the crisis than larger companies which borrow traditionally from banks.

The stock market started its decline along with the global stock markets last year. Initially, the catalyst for the decline was the exit of speculative foreign investors and funds in late 2007. This was followed in 2008 by a general decline of trading by local investors as the banks tightened credit for retail clients who used to borrow to buy shares. As a result, the liquidity on the stock market has mostly dried up, reflected in a significant drop in daily trading volumes.

2. SME policy and public-private consultation

Institutional policy framework

No progress was made since the last report in this field when analysing the developments at the central level.

The SME policy at the state level and the co-ordination with the other entities and Brcko District come under the responsibility of the Department for Economic Development and Entrepreneurship of the Ministry for Foreign Trade and Economic Relations. According to the Law on Ministries and Other Bodies of Administration of Bosnia and Herzegovina, the ministry has competencies in the following fields: business environment, single economic space, and development and promotion of entrepreneurship.

A new strategy for the development of the SME sector was developed in 2008 by a working group formed of representatives of the national institutions, the two entities and Brcko District with the support of the EC Delegations, after the one elaborated in 2005 failed to be adopted. The adoption of the new SME Development Strategy in Bosnia and Herzegovina for the period 2009-2011 would provide for the creation of a SME agency at the national level aiming at co-ordinating the strategic framework and the establishment of the Development and Entrepreneurship Fund and of an SME Council, the situation of Bosnia and Herzegovina would improve significantly. The Strategy is a comprehensive document, with clear measures to be taken and time frame, but for the moment its adoption seems to be blocked. The Republika Srpska and Brcko District adopted their own strategic framework for the development of SMEs and the Federation of Bosnia and Herzegovina is developing one.

Also in terms of institutional framework for SME policy, the three entities have their own structures in place. The most advanced is the Republika Srpska, which has in place both an SME Department in the Ministry of Economy, Energy and Development elaborating the SME policy and an Agency for the Development of SME, with 14 employees, 2 regional centres and 17 local agencies. Republika Srpska also plans to create an Advisory Body to co-ordinate the SME policy at the entity level. Both the Federation of Bosnia and Herzegovina and Brcko District have bodies for the elaboration and co-ordination of the SME policy within the Ministry of Development, Entrepreneurship and Craft, and the Department for Economic Development, Sport and Culture, respectively. The Federation of Bosnia and Herzegovina is also planning to establish an agency.

Public-private consultation framework

It seems that SMEs' interests are not well represented in Bosnia and Herzegovina. There are two main bodies at the national level: the Association of Employers in Bosnia and Herzegovina and the Foreign Trade Chamber, but they are focused mainly on medium and large enterprises. Also membership in the Chamber is mandatory. Apart from these, there are various associations at national/entity/regional level but with limited representation capacity for SMEs. This system is complemented by the chambers of commerce at the entity level. The Chamber of Commerce in Republika Srpska has undergone a reform process restoring the mandatory membership. The cantonal chambers of the Federation of Bosnia and Herzegovina have limited advocacy capacity.

There are different experiences regarding the public-private dialogue at the different entities/district levels. The strongest public-private consultation takes place in Brcko District which has in place an Economic and Social Council. At the national level there is no formal consultation system in place and consultations take place on *ad hoc* basis, while at the entity level Social and Economic Councils are present. With the adoption and implementation of the draft Strategy for SME Development at the national level, the establishment of the Council for the SME Development should occur, improving the situation in Bosnia and Herzegovina in this area.

Simplifying existing legislation and reducing the administrative burden

In 2006, Bosnia and Herzegovina adopted the Public Administration Reform Strategy, which intends to improve the policy-making framework both at the state level as well as at the entities level and reduce the administrative burden. Due to the constitution of the country, a better regulation process is very important; the legislative environment of Bosnia and Herzegovina is very complicated. Due to lack of harmonisation of policies, SMEs cannot operate under the same conditions at various locations across the country.

According to the survey conducted by USAID Streamlining Permits and Inspection Regimes Activity project in 2007, entrepreneurs complained that the complicated and excessive number of regulations and the length of the registration process are the greatest challenges faced by small businesses in Bosnia and Herzegovina. Therefore, the entrepreneurs believe that the focus of reform efforts should be on the reduction of excessive regulations and reduction of delays for obtaining permits.[2]

However, this cannot be achieved without a concentrated effort both at national and entity levels. Furthermore, the co-operation between the entities/district and the national administration is essential in order to create an internal market in Bosnia and Herzegovina.

Republika Srpska is again the most advanced in terms of the process of review and simplification of the current legislation, as it has completed the review of the legislation in 2007. The Federation intends to introduce this process with the help of the World Bank.

Regulatory impact analysis

RIA has not yet been introduced in Bosnia and Herzegovina or in a systematic way in the entities/district, but there are plans to introduce it at the national level as it is one of the commitments in the European Partnership Agreement.[3] In December 2007 a pilot project was carried out with the help of the World Bank Foreign Investment Advisory Service project as the basis for changing the Law on Foreign Direct Investment.

Republika Srpska also carried out a pilot project on two draft laws with the help of USAID and the World Bank. The systematic introduction of RIA in Republika Srpska is slated for the end of 2009.

The silence-is-consent principle is not at all applied either in Bosnia and Herzegovina or at entities/district level. No information on the introduction plans is available.

3. Operational environment

Company registration

Bosnia and Herzegovina is the only Western Balkan country that has not implemented a systematic reform of the company registration process. As noted in the 2007 Charter report, in 2004 Bosnia and Herzegovina had approved a major reform of the company registration process at state level. The reform included the harmonisation of the procedures at entity level and the establishment of an electronic database allowing the sharing of information collected by the different company registers. However, the reform has been only partially implemented. Some procedures have been harmonised, such as the notarisation and standardisation of the founding act, but the electronic database is not operational and there is no system of data sharing in place among the different company registers.

Today there are 16 courts in Bosnia and Herzegovina which act as company register. The entire business start-up process is cumbersome, costly and lengthy in each of the three phases (registration, notification and compliance) when compared to that of the other Western Balkan countries. Several performance indicators, based on data collected for the Charter assessment process as well as based on the *Doing Business* survey, point to a deterioration of the situation. It takes 5 to 15 days and 5 to 7 steps, according to entity regulations, to obtain a company certificate in Bosnia and Herzegovina. Registration fees range between EUR 150 and EUR 750, as court and administrative fees are nor harmonised at entity level. Notification includes registration with three different authorities, in addition to the registry court (tax, customs and statistical office) and the issue of three different identification numbers. Compliance includes application for license and permits at municipal and canton level. The system is more complex in the Federation of Bosnia and Herzegovina, that operates on multi-layers administrative system (56 days to complete the overall start-up process according a recent survey[4]), and relatively more efficient in the Republika Srpska (33 days) and the Bcrko District. The RS is also conducting pilot projects in two municipalities, as part of the SPIRA initiative, sponsored by USAID, to complete the company registration phase in one day. The recent performance data highlight the need to resume the implementation of the 2004 reform, moving towards a full harmonisation of the system on best practices experimented at entity level.

Enhancing SME competitiveness and strengthening the technological capacity of SMEs

Under the current administrative framework, policy elaboration and implementation in the areas of the SME competitiveness and technological capacity is placed mainly at entity level, while trade policy is conducted at state level. In addition, the five regional development agencies (RDAs) set up in 2003 are conducting projects in both areas and a number of other projects have been launched by donors, often in co-operation with the entities and the RDAs. The result is a plurality of initiatives structured on sector and regional bases, responding to specific needs and demands, but operating on a limited scale. There is therefore no strategic view at state level, no mechanisms of co-ordination, or even structure to facilitate the exchange of experiences among implementation agencies and private sector associations from different entities. In this respect there have been no significant changes over the last two years, although a number of projects have moved from the pilot to the implementation phase.

In the export promotion area, the two most active institutions are the Bosnia and Herzegovina Chamber of Foreign Trade and the Bosnia and Herzegovina Export Council. Membership in the Chamber is compulsory for exporting and importing companies. The Chamber has 14 000 members and provides a range of standard services to its members through the Bosnia and Herzegovina Export Promotion Agency, including information on trade regulation, standards and market information. The Export Council, set up in 2006, includes members from the public and the private sector and it is designed to operate as a co-ordination and policy advice body. There are several projects to promote SME competitiveness, mostly conducted with donor support and targeted to specific sectors (IT, agro-business, metal processing, woodworking and car components). A number of these projects take a comprehensive approach, addressing the main barriers to company growth, from the regulatory framework to access to finance, standard adoption, export promotions and skill development. They often include actions to foster the technological absorption capacity of SMEs. The RDAs are also active in this area, working on the links between enterprises and universities. For instance, the Northeast Regional Development Association is co-operating with the Welding Institute in Tuzla and the local university, as part of a programme supporting the metal working sector. The REZ Association has established a partnership between the University of Zenica and the Center for Excellence in Wood Processing. At entity level, in the Republika Srpska, the Banja Luka University has established a co-operation agreement with the Agency for SME Development to help SMEs launch technological-oriented projects.

The same dynamic applies to cluster development. State support has been negligible, while the role of the regional development agencies, donors (in particular GTZ, USAID and the European Commission), and entities and cantons has been more significant. Their actions have led to the establishment of active clusters in wood processing, automotive components, plastic components and tourism.

Intellectual property rights

In Bosnia and Herzegovina, the legal and institutional framework remains at an early stage of development, although basic legislation has been put in place and the Institute of Intellectual Property is operational, with headquarters in Sarajevo, a branch in Mostar and a second branch in Banja Luka (not yet operational). One of the main outstanding issues concerns the area of industrial property rights, due to deficiency in legislation and in the procedures for handling new applications, resulting in long delays. The second main area of concern is related to law enforcement. The inspectorate bodies in charge of IPR enforcements operate under the two entities and the Brcko district. The state is in charge of enforcing criminal law in relation to IPR violations. The Indirect Tax Authority is in charge of IPR enforcement at borders. The result of this fragmentation of competencies and mandate is that there is no unified track record of enforcement and, as noted in the EC *2008 Progress Report*, in Bosnia and Herzegovina a "high level of counterfeiting and piracy persist and the country remains a point of distribution to the rest of Europe."[5]

	2005	2006	2007	2008
Real growth in credit to the private sector	25.7%	20.9%	17.1%	-3.0%
Domestic credit to private sector to GDP, official data	20.9%	23.4%	25.4%	27.3%
Bank lending to enterprises, share in GDP	19.0%	21.2%	24.5%	N/A
Bank lending to households, share in GDP	17.6%	19.6%	20.6%	N/A
Share of total non-performing loans of banks in total loans	5.4%	4.1%	3.0%	N/A
Average capital ratio of all banks (capital/ total assets)	11.0%	10.9%	10.0%	N/A
Asset share of foreign-owned banks	90.9%	94.0%	93.8%	N/A

Source: EBRD.

Access to finance

The banking sector continued to strengthen in Bosnia and Herzegovina during the first half of 2007. Assets and capital grew significantly in 2007 and several new banks were established (although the total number of banks at the end of 2007 remained at 32, the same as the previous year). Overall bank profitability fell in the first quarter of 2008 and the cost of funding has increased. The entity banking agencies still operate independently of each other but they have both signed a Memorandum of Understanding on co-ordinating with the central bank. In addition, they have begun to supervise micro credit and leasing companies, which have significantly expanded their activities in recent years. A law regulating the leasing industry was expected to be approved by Parliament by end 2008.

The new Microfinance Law was approved in August 2006 and implemented in 2007. As of the first half of 2008 there were 57 non-bank microfinance institutions (NBMFIs) in Bosnia and Herzegovina, of which 35 were registered in the Federation and the remaining 22 were registered in Republika Srpska. NBMFIs have been mostly founded by international non-governmental organisations established in Bosnia and Herzegovina from 1995 onwards to provide support to the local entrepreneurs/individuals and ensure their sustainable return to their pre-war homes and activities. Consolidated information on the overall volume of micro finance operations in the country does not exist. However, the Association of Microfinance Institutions collects information from its member organisations. In accordance with the new Microfinance Law, both NBMFIs and auditors are obliged to adhere to the provisioning policy as defined by the Banking Agency (i.e. 2% general loan loss provision on standard loans).

The definition of collateral is flexible and micro-loans can be extended in the absence of collateral. USAID sponsored a project to set up a registry for movable assets, which became operational three years ago, on a state-wide basis and regulated by a state-level law. In this registry anyone who is in Bosnia and Herzegovina can enter information about pledged movable assets. A credit registry exists and is well functioning, although individuals' access to their own credit data is not guaranteed by law.

Access of the private sector to capital markets is very limited. Major international financial institutions have committed over EUR 500 million to the Bosnian banking sector since 1997. Capital markets are regulated at the entity level. There are two stock exchanges, one for each entity. Regulation is very similar in both entities, however, there is still very little cross-entity investment flow, in spite of the fact that there are currently no limitations in making cross-entity investments. In general, both markets are shallow and trading is on a small scale.

Average daily trading is usually less than EUR 2 million and recently has been even less than EUR 500 000. The entity governments are slowly testing the sale of smaller enterprises through the stock exchange. Recently the government in the Federation of Bosnia and Herzegovina sold a small stake of a local logistics company through the stock exchange. The success prompted it to consider plans to sell other smaller stakes the same way.

The first fund to enter the market was a closed private equity fund Horizonte Venture Management. Horizonte was closely followed by Palace Investment Group (specialising in real estate investments) and the Slovenian-owned Poteza Fund Management (actively investing in the banking sector through Nova Banka and Postanska Banka). In addition, a number of Slovenian funds (such as KD and Triglav) have been major holders of the Privatisation Investment Funds in Bosnia and Herzegovina. Recently British-based Salford entered the market by investing in the Banja Luka brewery. A second type of funds, such as Gustavson, East Capital, Danske Capital and Porr, has been active recently by taking small stakes of up to 10% in several publicly traded companies including Privatisation Investment Funds. A law on investments funds is now in place and the Privatisation Investment Funds have been transformed into investment funds. In addition, the first two closed-end mutual funds have been established with the Bosnian and regional market investment mandate. They are expected to add to market liquidity over the long term.

4. Services for SMEs

Improving online access

The area of e-government is one of Bosnia and Herzegovina's weakest areas within the Charter and only marginal improvements have been made since 2007. The Council of Ministers adopted the Strategy for Development of the Information Society of Bosnia and Herzegovina in November 2004, which includes an e-government strategy. The strategy and the Action Plan for the Public Administration Reform now include this e-government strategy, foreseeing eight online public services for businesses:

- Social insurance contributions for employees;
- Taxes paid by businesses (filing, informing);
- VAT (filing, informing)
- Registration of new companies;
- Data delivery to bureaus of statistics;
- Declaring merchandise for customs clearance;
- Permits pursuant to the law on living environment (including reporting);
- Public procurement.

In terms of implementation, however, only the Republika Srpska has progressed somewhat and requirements for tax returns can be sent online.

Regarding online information for SMEs, there is variety of portals/websites, containing some relevant (but rarely updated) information for SMEs. There no single SME portal, and SMEs have described their difficulties in obtaining relevant information quickly. Only RDA REDAH has established an entrepreneurs-dedicated web portal of the regional information centre.

E-business and SME support

In Bosnia and Herzegovina, all three entities have made independent progress in establishing business incubators, each entity holding a number of operational incubators. A national strategy was adopted at the National Incubators Meeting on 16 and 17 November 2006, defining common activities to foster new incubators.

Regarding business services, the overall choice and quality is relatively limited, but regional and local agencies have received assistance from a range of donors and local public sector support. There is a network of public-funded business service providers, but the co-operation among them is lacking. There is no public system of certification, and only some fragmented initiatives exist. The CBI Project (Centre for the Promotion of Imports from developing countries) has certified local consultants for export promotion and RDAs provide services, such as the REDAH Voucher System for training and counselling for SMEs to create a network of business service providers. In particular, the Republika Srpska has taken steps towards service providers' certification and establishment of a register. REDAH, for instance, adopted procedures for quality and furthermore, a Committee for accreditation of consultants was formed.

Information for SMEs is sparse in Bosnia and Herzegovina. Business information centres have been established sporadically at local and regional level. Chambers of commerce exist at all three entity levels providing enterprises with patches of information. Bosnia and Herzegovina also has a Euro Info Correspondence Centre, but SMEs have reported a limited use of it.

The law for the use of electronic signature was adopted in Bosnia and Herzegovina in 2006. Implementation regulations are currently being prepared, as the Ministry of Communication is waiting on the opinion from the Ministry of Finance and Treasure before the regulations will be sent for adoption in the Parliament.

5. Human capital

This section focuses on the human capital dimensions of the Charter: entrepreneurship education and training, and availability of skills for enterprises.

With respect to partnership building for lifelong entrepreneurial learning, the authorities of Bosnia and Herzegovina have taken first, concrete steps to establish policy linkages between education and economy at state level, through discussions between the Ministry of Civil Affairs (education) and the Ministry of Foreign Trade and Economic Relations. Further, all ministries of education (state, entities and cantons) participate in a working group with the aim to bring forward discussions on entrepreneurial learning strategy building. These essential institutional foundations provide for direction, coherence and good potential for lifelong entrepreneurial learning across the country. Further, EU support in 2009 is timely. This foresees investment in the partnership building process, including strategy development with initial inputs into primary and secondary level entrepreneurial learning. The strategy process, which should include non-formal entrepreneurial learning (e.g. student clubs, mini-enterprises) and third level education, could create more defined policy orientations and a programme of measures with monitoring and evaluation built in, and determine the resources to meet the priority actions.

Turning to entrepreneurship promotion in lower and upper secondary education, progress has been slow since the 2007 report, although there are good examples of entrepreneurship promotion particularly within vocational education. Still missing in the reform process is entrepreneurship as a key competence. More specific entrepreneurship knowledge and skills by way of elective subjects have been given good attention. For example, some 75% of vocational schools in Republika Srpska have already included entrepreneurship as a module within the curriculum, with a similar figure for schools within the Federation (71%).

Evidence for teacher training on entrepreneurship is confined to vocational education. With EU support earmarked for development of entrepreneurship education at primary and secondary levels, the relevant authorities should consider how the entrepreneurship key competence curriculum, including pre-service and in-service training of teachers, should be addressed. One outcome of the EU-supported teacher training measures should ideally include perspectives for a roll-out of training on key competence developments for all teachers to be supported by the relevant authorities.

With respect to the enterprise skills dimension of the Charter, the assessment finds that data available on enterprise training, including start-ups and growing enterprises, is confined to projects, primarily supported by international donors. The Charter specifically recommends that more systematic data on enterprise training be developed (e.g. by public authorities in partnership with employer organisations) to ensure a more concerted contribution of the human capital dimension to economic development. However, EU support in 2009 for entrepreneurial learning foresees a multi-stakeholder discussion process for data development. Assuming this can result in concrete follow-up actions, Bosnia and Herzegovina should be able to move forward on those indicators with quantitative criteria.

Regarding quality assurance in the training market, a certification framework for SME training and advisory services (EUTAC), including certified service providers and training offer, provides an excellent reference point for enterprises to access information on the training market. A risk, however, is that EUTAC is project-based and not sustainable. Assuming that the EUTAC accreditation developments could be integrated within more mainstream quality assurance developments, it has good potential to be extended to cover the wider training provider market.

Finally, should the proposed Entrepreneurship and Development Council, foreseen within a national SME strategy, involve a specific task force on human capital, this would create a further opportunity to advance the human capital dimensions of Charter.

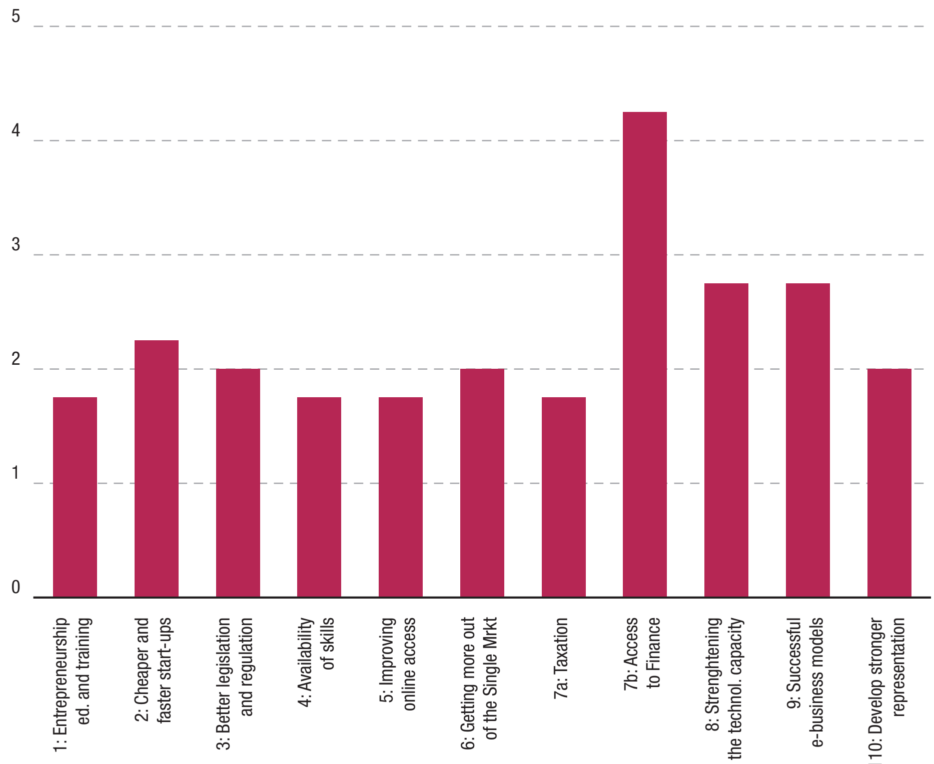
6. The way forward

Institutional framework: The adoption of the SME Development Strategy and the establishment of the SME Development authority would help Bosnia and Herzegovina to progress in the implementation of the Charter. The implementation of the strategy should lead to a common basic framework which would bring together the stakeholders for the SME policy from the entities/district in order to co-operate in ensuring a coherent approach towards implementing the SME policy as a homogeneous process

Company registration: Bosnia and Herzegovina is the country with the poorest performance in company registration from the region, were the situation further deteriorated over the assessed period. Therefore, Bosnia and Herzegovina should fully implement the reform adopted in 2004, harmonising all the procedures, putting the electronic database in place and allowing the sharing information between different company registered, and most importantly reducing the duration and the cost of registration.

Human capital: Planned EU support for lifelong entrepreneurial learning strategy building should give particular emphasis to entrepreneurship key competence developments (curriculum and teacher training implications) and include provisions for systematic monitoring and evaluation of the entrepreneurial learning effort. Development of more structured data on enterprise training will be important.

SME Policy Index scores for Bosnia and Herzegovina per Charter dimension (2009)[6]



Notes

1 *Source of the SME data: agency for Statistics of Bosnia and Herzegovina.*

2 *Source : "An SME Perspective of Public Services",at http://www.usaidspira.ba/UserFiles/File/SME%20Perspective%20of%20Public%20Services%20-%20Survey%20Report.pdf*

3 *Source: Sigma.*

4 *USAID (2008), SME Perspective of public services.*

5 *Commission Staff Working Document, "Bosnia and Herzegovina 2008 Progress Report", (COM(2008)674), p. 40.*

6 *Although this report is published in 2009, data collection took place in 2008. For the SME Policy Index Report 2007, data were collected in 2006. All SME Policy Index scores have been rounded up or down to the nearest 0.25*

Croatia

1. Overview

Although real GDP grew by 5.6% in 2007, the highest rate since 2002, Croatia has significant vulnerabilities: a large current account deficit and high external debt, alongside balance-sheet exposure to currency risk, and higher inflation due to surging food and utility prices. The financial crisis is having an increasingly adverse impact on Croatia. Tourism, foreign direct investment inflows and exports are likely to decline sharply in 2009. Real GDP growth was significantly lower in 2008 with 2.1% and is forecasted to be negative in 2009.

The importance of the SME sector[1] in Croatia has increased in recent years, in terms of the sector's contribution to GDP and employment. In 2006, the SME sector accounted for 99.4% of all registered business entities, generated about 44% of the country's GDP, and accounted for 60% of total exports and 65% of total employment. Within the European Union, SMEs represent 60% of total EU GDP. The large administrative burden constitutes a major impediment to SME development.

SMEs in Croatia are classified according to the number of their employees:

Croatia's SME classification	
Micro	Up to 9 persons
Small	10-49 persons
Medium	50-249 persons

The EU definition of small and medium-sized enterprises consists of firms that employ fewer than 250 people, and have an annual turnover not exceeding EUR 50 million and/or a balance sheet total not exceeding EUR 43 million. The definition of SMEs in Croatia is consistent with the EU definition in terms of employees. The number of employees is the main criteria employed in both definitions, seconded by turnover and balance sheet figures.

The 2005 Business Environment and Enterprise Performance Survey provides evidence on the performance of the SME sector over the 2002-2005 period. Sales figures only rose by about 5% for small and by about 8% for medium-sized companies, while export figures remained virtually unchanged with an increase of 3% for small and a decline of 2% for medium-sized enterprises. More substantial changes could be observed with respect to employment where both small and medium-sized enterprises experienced surges of about 17%. With respect to technological and innovation activity, about 40% of small and more than 50% of medium-sized companies adopted a new technology in the surveyed period. Furthermore, more than 80% of both small and medium-sized enterprises upgraded an existing product line or service, while 37% of small and 54% of medium-sized companies successfully developed a major new product line or service. But only less than 14% of all surveyed SMEs obtained a new product licensing agreement.

Within the SME sector, small companies dominate the Croatian SME sector in number, while medium-sized enterprises dominate in terms of value added. Accordingly, economic efficiency increases with enterprise size in the SME sector.

From a sectoral perspective, SMEs are concentrated in the wholesale and retail trade and repair (34.9%), real estate, renting and business activities (16.9%), and manufacturing (13.28%). The sectors of services, trade and real estate are dominated by micro enterprises whereas the sectors of manufacturing, construction and education are dominated by small and medium-sized businesses.

Croatia still exhibits large regional discrepancies. The government has identified some "Areas of Special State Concern," mostly the war-affected areas in the East and the South of the country and some other economically depressed regions. Donor programmes, which until now have focused their activities on the capital, are increasingly targeting these regions. Programmes need to be adapted as firms in the regions face less competition, a less developed business environment and a lack of qualified workforce.

Impact of the global economic crisis

Croatia has been negatively affected by the growing global risk aversion. Its main vulnerabilities are its high external debt (estimated at 88% of GDP in 2008) and current account deficit (estimated at 9-10% of GDP in

2008). Croatia is seeing a significant fall in industrial output with an over 14% year-on-year drop in December 2008. Foreign direct investment is likely to drop sharply this year and further delays in major investments (notably in the power sector) are expected as investors find it difficult to raise the required funding. No privatisation tender has been announced yet for the shipyards, as Croatia is still negotiating with the European Commission on the terms of the tenders. Due to an upper limit of 12% on credit growth which has been in place since 2007, year-on-year credit growth dropped only slightly from 12.9 to 12.6% as of December 2008.

The crisis has had a major impact on the chemical and power industry. In November 2008, HEP introduced major delays for projects envisaged in the 2006-2013 energy investment plan. Nexe Grupa, for example, reduced production to around 60% and only in one shift. Figures available up to November 2008 suggest a significant moderation in employment growth. Total employment has declined since July 2008 (for usual seasonal reasons) and the number of jobseekers is up, but employment still recorded positive year-on-year growth rates of 0.3% in November 2008.

Commercial banks increased interest rates on deposits and have stopped lending to new clients. The Zagreb Stock Exchange index, CROBEX, has fallen from 4 500 points in spring 2008, to 1 734 points with low liquidity and small turnover of stocks. The interbank market is highly illiquid given the high overnight rate of 20%.The banking sector is well capitalised with average Capital Adequacy Ratio (CAR) [2] of 15.4%. Although mostly foreign-owned (90.8 %), it is not dependent on parent bank funding to a large extent, given the restrictions of the Croatian National Bank, which in the past two years have resulted in its increased focus on attracting domestic deposits. However, in response to the global financial crisis, the central bank also has recently increased the CAR threshold from 10% to 12% in January 2009. From 9 October 2008, cash held by banks in the vault will no longer be included in liquid HRK claims that can be used to maintain the HRK part of the mandatory reserves. This change was another step in harmonising the mandatory reserves system with the practice of European central banks. It also reflected the need to sterilise surplus liquidity, so as not to create additional inflationary pressures. The Marginal Reserve Requirement Decision was revoked in October 2008, thereby giving commercial banks back approximately EUR 355 million and EUR 97 million in order to ensure additional foreign liquidity and undisturbed meeting of commitments to all clients. On 10 December 2008, the minimum reserve requirement was lowered from 17% to 14%.

2. SME policy and public-private consultation

Institutional policy framework

The two main institutions in charge of the SME policy in Croatia are the Ministry of Economy, Labour and Entrepreneurship (MELE), through the Direction for SMEs; and the Croatian Agency for Small Business (HAMAG). The former is the institution elaborating the policy and the latter is the implementing body. This structure has remained unchanged since the previous report.

The Directorate for SME at MELE also has the role of co-ordinating the SME policy with the other ministries and stakeholders, the process taking place on an *ad hoc* basis. No information was available on the frequency of consultation or the structure. There are two bodies in place for consultations between the government and the private community. Those are:

- National Competitiveness Council, founded in 2002, as a forum for policy dialogue among government, trade unions, business representatives and academia, on issues affecting the competitiveness of the Croat economy;
- Business Advisory Council, founded in order to bring into the regulatory reform the input of the business community.

HAMAG was established in 2002 by the Small Business Encouragement Act and based on the amendments of this Act of 2007, it overtook most operational projects of MELE, in accordance with the Annual Operational SME Programme. The main roles of the agency are to manage the financial incentives schemes and to provide expert assistance to SMEs through business advisory services. Although, according to its establishment act it should be independent, the agency is actually operating as a subordinated unit of MELE, without clear objectives. The agency employs 40 persons and does not have a network of local offices.

However, the division of activities and responsibilities, in practice, is not yet very clear. Furthermore, there are tensions between the two institutions and the agency was not very active, or even present, in the different meetings held on the business environment. Work on the restructuring and refocusing of HAMAG is underway.

The strategic document for the SME policy is the Programme of Incentives to SMEs for 2008-2012, adopted in April 2008. The programme is accompanied by annual operational plans containing the specific measures for the respective year. Although the strategic document is comprehensive, further attention should be paid to its implementation, especially considering the division of tasks between the two bodies involved in the SME policy. An alert sign was drawn for the previous SME Programme by the respondents of the GEM Survey. In 2007, according to the GEM Survey[3] of entrepreneurs, Croatia was 26 out of 31 countries for the quality of policy instruments and 17 for the quality of government programmes focused on SMEs.

Public-private consultation framework

The representation of the business community in Croatia was among the best in the Western Balkans according to the 2007 Report. However, although there are numerous business associations with voluntary and mandatory membership, the capacity of most of them to make their voices heard by the government is relatively low. There are several large organisations and with wide regional coverage such as the Chamber of Economy, the Chamber of Crafts and the Croatian Employers Association. Furthermore, in October 2008, the Public-Private Partnership Act was adopted creating the legal basis for a stronger public-private dialogue.

The system of chamber of commerce in Croatia is based on mandatory membership, and although the Chamber of Economy argues in favour of this system in order to provide high-quality services to as many businesses as possible, there are discussions with the business community on changing the system.

Although the Chamber of Economy underwent a reform process, its advocacy role for SMEs is still not fully recognised by this community. Services should be more tailored towards this type of businesses.

A result of the 2005 PHARE project, SME Policy Enhancement and Delivery (SMEPED), was the establishment of the Forum for public-private dialogue on SME policies in June 2008. This Forum is focused on the SME policy and strategy, and legal and regulatory aspects relevant for SMEs. This body should have quarterly meetings, and in 2008 it already met four times.

Simplifying existing legislation and reducing the administrative burden

Croatia was the pioneer in implementing regulatory reform in the Western Balkan region. With the help of the pre-accession instruments financing two projects, BiZimpact and SMEPED, Croatia started to work both on regulatory guillotine and the regulatory impact analysis.

In 2006 the government of Croatia launched the regulatory reform programme, HITROREZ, and established a special unit to co-ordinate the process and to mobilise both the regulatory bodies and the business community. The review of the current legislation under the guillotine project was completed in 2007. As a result of this process 1 451 pieces of legislation were reviewed, out of which 799 were to be simplified (374) or abolished (425). An implementation plan was adopted in 2008 across different sectors. Out of the proposal, the government retained only 522 pieces of legislation for simplification (237) and elimination (295). The main reasons invocated by the government for removing 277 pieces of legislation from the list were the risk of distorting the regulatory framework, the lack of human resources to be involved in the simplification process and the fact that this law would be eliminated in the future as a result of harmonisation with the EU *acquis*. Furthermore, there are doubts about the actual implementation of the regulatory guillotine for those pieces of legislation remaining in the list.

The silence-is-consent principle is not applied in Croatia. Although it seems to be a priority of the reform process, no clear suggestions were registered yet.

Regulatory impact analysis

The first pilot project for RIA in Croatia was initiated in 2004. In 2005, through the amendments to the Rules of Procedure of the Government, RIA became mandatory. Since then, in 2007, the government amended again the Rules of Procedure and established the RIA Co-ordination Office in order to provide co-ordination of economic, social and environmental impact assessments. As a result, RIA should be systematically applied to all new pieces of legislation and should assess the impact of the legislation on the following aspects:

- Financial impact (Ministry of Finance);
- Social impact (Ministry of Health and Social Welfare);
- Environmental impact (Ministry of Environmental Protection, Physical Planning and Construction);

- Impact on competition and grants (Ministry of Economy, Labour and Entrepreneurship).

Due to the complexity of RIA, the Ministry for Economy, Labour and Entrepreneurship established a Department for the Evaluation of Regulatory Impact, set up to train the staff in the concerned ministries on RIA. However, for the moment, the department itself is lacking staff.

However, it seems that RIA is not yet systematically applied in Croatia and out of the four mandatory components only the financial impact is estimated for each piece of legislation. Also, there are some overlaps in the system, where more precise tasks and benchmarks are required. The main reason for that is the low level of resources at the ministries' level and the reduced power that the RIA Office has in order to push for RIA.

3. Operational environment

Company registration

Croatia has a dual registration system, one for craft and one for companies. Craft registration is based on a streamlined process within the HITRO.HR programme,[4] hosted by FINA, the Croatian Financial Agency. HITRO.HR operates here as a one-stop shop. Craft registration is completed within five days for an average fee of around EUR 70. Company registration is also handled by HITRO.HR and FINA, but it is a more complex and costly process, as Croatia has maintained a number of pre-incorporation control procedures and a requirement of the incorporation act for limited liability companies is registration with the Commercial Court. However, over the last two years, the government has initiated a programme to transform HITRO.HR into a one-stop shop here, reducing the need for the new entrepreneur to interact with other branches of the public administration without dropping the standards of the control procedures. Over the last two years there has been a marginal reduction of the processing time and company registration fees. Companies still need to obtain two registration numbers (same requirement for crafts): the company identification number and tax registration number. In addition companies conducting import-export operation need to register separately with the customs administration. However the government is planning to introduce a single registration number by the end of 2009. Croatia is the only country in the Western Balkans that has implemented pilot projects for online registration. At the moment the facility is available for two counties: Varazdin and Medjimurje, but the government has plans to extend it nation-wide.

Enhancing SME competitiveness and strengthening the technological capacity of SMEs

Croatia has taken a leading position, among the Western Balkan countries, in elaborating and implementing programmes to enhance SME competitiveness and promote innovations among the SMEs. At the end of 2006 it had already advanced on policy elaboration; it established a number of specialised institutions and launched a multi-year support programme. Over the last two years Croatia did not significantly change its policy approach, but moved more decisively into policy implementation.

In the area of export promotion, Croatia made progress in the implementation of the country export promotion strategy for 2007-2010, implemented by APIU, the Croatian export and investment promotion agency, with the support of the Croatian Chamber of Economy, the Craft Chamber, the Croatian Employer Association and Export Association, and the Croatian Bank for Reconstruction and Development. The strategy aims to expand the export base and increase the share of high value added products and services on total exports.

Croatia has been one of the first Western Balkan countries to look at competitiveness issues. The National Competitiveness Council (NCC) was set up 2002, representing all the key private and public stakeholders. Between 2004 and 2006 it identified a set of 55 measures directed at enhancing the country's medium-term competitiveness, covering areas such as education for growth and development, compliance with EU standards, cost and price competitiveness, development of innovativeness and technology, strengthening small and medium-sized enterprises, regional development and cluster development, and the creation of positive mindset and leadership. It also introduced a monitoring process, through the publication of an annual National Competitiveness Reports. A critical issue for Croatia is how to fully develop synergies between various programmes (export promotion, innovation, financing of innovative enterprises and skill development), and in particular how to ensure a good level of communication and co-operation between the Ministry of Economy, Labour and Entrepreneurship, and the Ministry of Education and Science.

BICRO, the Business Innovation Centre of Croatia, plays a central role in supporting innovative SMEs. The centre runs a number of programmes, ranging from R&D support to equity financing. The Koncro programme strengthens the technical and managerial skills of innovative SMEs, through the co-funding of consultancy services. The programme has been recently expanded, however training activities are conducted mainly using BICRO network of technology centres, not involving directly universities and research institutes.

Access to finance

Croatia has the highest level of financial intermediation within the group of Western Balkan countries. Apart from that, a number of government-funded subsidised loan schemes and guarantee funds for SMEs have resulted in a significant number of loans being extended to SMEs in recent years. This was supported by the improvement of Croatia's collateral regulations and the availability of credit information, which in May 2007 provided data on 72% of physical persons. The reform and digitalisation of Croatia's cadastre system has been supported by the World Bank from 2004-2008. Online access to the cadastre is possible for most cities. A functioning online registration system for movable assets has been in place since 2006. New guarantee schemes were introduced in order to support new technologies, entrepreneurs and export-oriented sectors. Several recent reports[5] highlight, though, that Croatian SMEs still face some constraints with respect to long-term banking finance. The government provides generous interest-rate subsidies for loans extended by the Croatian Bank for Reconstruction and Development to SMEs. However, small companies which do not qualify for these loans face relatively high rates of interest and inflexible collateral requirements from commercial banks (with an average of 150% and mortgage as the most commonly accepted collateral). In July 2006, the Law on Bankruptcy was modified, thus significantly reducing the duration of the proceedings. Educational and professional requirements were introduced for bankruptcy trustees, However, some improvements of the judicial system's implementation capacity would still be beneficial.

Next to bank loans, leasing is the second major source of finance for SMEs in Croatia. The leasing law will be fully implemented once some regulatory issues have been resolved between the Croatia National Bank and the Financial Supervisory Authority HANFA. The loans syndication market in Croatia is becoming increasingly mature, with many borrowers signing loans with a number of international banks in the last few years. However, the syndicated loans market has been reserved for prime borrowers, mostly banks and large state companies. In the last two years, international financial institutions have mostly been financing banks and road construction in Croatia with very few private corporate deals signed.

The Zagreb Stock Exchange is the main stock exchange established in 1991. It is the central place for trade in various securities, shares and bonds. At the end of September 2008, only 15 companies were listed on the official market segment. Many other liquid companies are traded on other market segments, and are either

	2005	2006	2007	2008
Real growth in credit to the private sector	13.1%	20.5%	8.7%	7.4%
Domestic credit to private sector to GDP, official data	56.4%	64.0%	67.1%	68.5%
Bank lending to enterprises, share in GDP	48.1%	60.8%	63.4%	N/A
Bank lending to households, share in GDP	34.0%	38.2%	41.1%	N/A
Share of total non-performing loans of banks in total loans	6.2%	5.2%	4.8%	N/A
Average capital ratio of all banks (capital/ total assets)	9.0%	10.3%	12.5%	N/A
Asset share of foreign-owned banks	91.3%	90.8%	90.4%	N/A

Source: EBRD.

ineligible or uninterested to be listed on the official market segment. Market capitalisation of the stock exchange dropped by 45% compared to end 2007. Since the financial crisis started in summer 2008, the share of Croatian equities held by foreign investors has dropped from 39% (June 2007) to 32% (Sept 2008), due to surging risk aversion.

The investment fund industry has been growing at extremely high rates (over 30%) in the past few years and it has become one of the main growth drivers of the Croatian equity market. There are several private equity funds in Croatia: Croatia Capital Partnership LP (where EBRD is also a shareholder) with around EUR 18.8 million equity fully invested, SEAF, Vienna Capital Partners LP, Quaestus Private Equity Partners Ltd., Jupiter Investment Management Ltd. and Nexus Private Equity Partners. There are few regional funds active in Croatia: Advent Central and Eastern Europe (I and II) fund finance and management assistance to companies in the private sector with an investment range of approximately EUR 3.7 to EUR 15 million, AIG New Europe Fund with direct and indirect investments in various companies to finance capital programmes or working capital needs with investment size between around EUR 7.5 to 22.5 million, and Jupiter (which has placed a joint venture bid in tourism).

4. Services for SMEs

Improving online access

Croatia has developed the leading e-government system in the Western Balkans. It covers various key services (tax returns, social security returns, pensions and cadastres) and works successfully due in part to the effective implementation of the electronic signature.

Extensive online information for SMEs is available. The presentation of the information, however, has several shortcomings, including a lack of translation into English, information distributed over several websites, and limited promotion of these websites across SMEs in Croatia.

E-business and SME support

Croatia has established numerous incubators, many funded by national and sub-national programmes. Currently there are 27 incubators operating across the country and several, such as BIOS Osijek and Prima Split, have proven to be particularly innovative.

There is a well-developed market for business services, including a high presence of international consulting firms. HAMAG has implemented a project promoting the accreditation of business consultants, based upon regular participation by Croatian consultants in tailored training programmes for business service providers. In 2007, 58 certified consultants resulted from this project.

A national directory of business service providers is available on the MELE website, through its Poslovni navigator, although it is not always perfectly functional. Furthermore, a broad web of 51 reliable Business Information Centres exists across the country.

5. Human capital

This section addresses the human capital dimensions: entrepreneurship education and training, and availability of skills for enterprises.

Overall, Croatia had demonstrated steady progress on all areas of entrepreneurship education and training since the 2007 report. With respect to institutional partnership for lifelong entrepreneurial learning, a comprehensive cross-stakeholder partnership (Education for Entrepreneurship) involving economy, labour and education authorities as well as the Chamber of Economy, provides an institutional and policy framework for entrepreneurship education. While the existing partnership arrangements are reinforced by a number of financing instruments (e.g. a grant scheme for promoting awareness of entrepreneurship in primary and secondary education, and financing for student firms), a more concerted engagement by the public education authorities will be necessary if the objective of a lifelong entrepreneurial learning framework is to be achieved. Further, the assessment finds that more attention will be required to engage the higher education establishment (relevant ministerial departments as well as rectors' conference) in entrepreneurship learning developments. Meanwhile, Croatia demonstrates very good promotion of entrepreneurship through non-formal education with a range of high-profile events and excellent examples of public-private partnership.

Regarding entrepreneurship in lower and upper secondary education, the Council for National Curriculum and the Ministry of Science, Education and Sports have taken steps in integrating entrepreneurship as a key competence within school curriculum. This is an important foundation to develop learning outcomes and to define teacher training implications. To move forward on school-based entrepreneurial learning, a monitoring system will be needed that tracks the extent to which entrepreneurship is being promoted across the school network.

An initiative by Croatia to bring forward developments in entrepreneurial learning with countries from the pre-accession region (including Turkey) highlights a commitment and recognition by the country to cross-regional co-operation. A regional resource centre (South East European Centre for Entrepreneurial Learning) financed by the Croatian government and the European Union will support practitioners in developing entrepreneurial learning with specific reference to the objectives and targets of the Charter policy index. Specific emphasis on entrepreneurship in higher education provides an opportunity for more strategic reflection on how more commercial value can generated through the region's university network, an area requiring more serious policy attention.

Turning to enterprise skills, the assessment finds a solid range of training provision, including structured information and sign-posting services for enterprises, allowing for improved access to training services (e.g. HITPOP portal). Co-operation between the Ministry of Economy and Chamber of Economy on strategic TNA developments is paying off, thanks to good efforts to establish a regular tracking of human capital development within the small enterprise sector. Public finance allocated for more strategic development of TNA in the period 2009-2011 should provide for more systematic build-up of data on enterprise management and trade skills. This should allow for better identification of training needs and future skill requirements.

With respect to training for start-ups and growing businesses, the assessment is compromised by lack of data required by the respective indicators which involve quantitative evidence. Assuming the enterprise training tracking system agreed between the Ministry of Economy, Labour and Entrepreneurship and the Chamber of Economy is operationalised, data on training for new ventures and growth enterprises should be more readily available and satisfy the data requirements of the indicators.

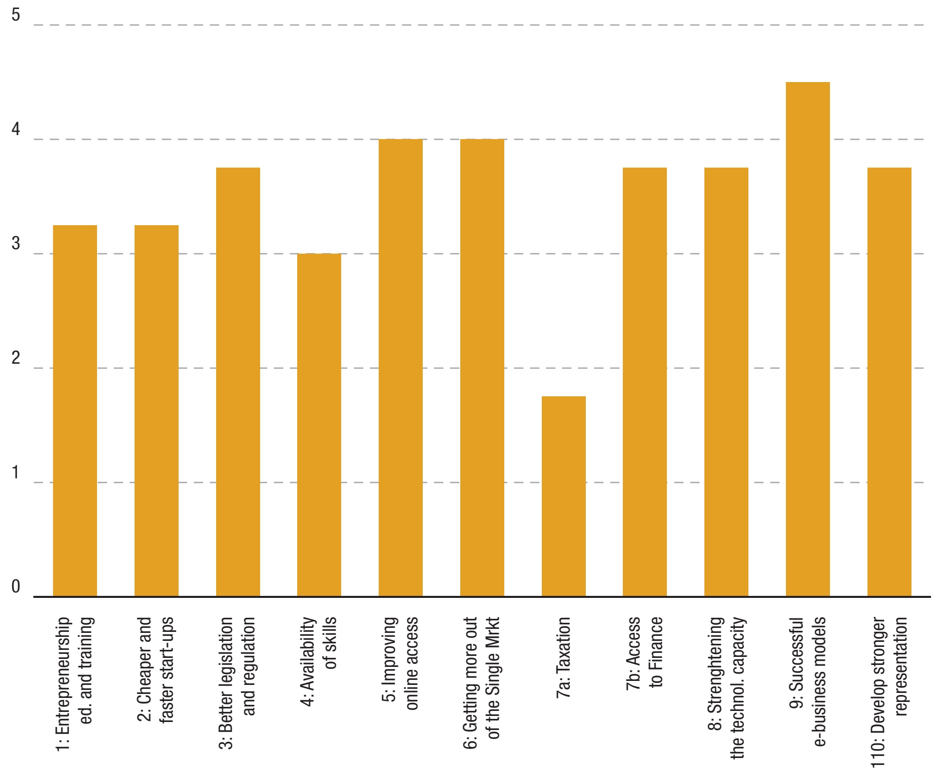
6. The way forward

Although Croatia has made further good progress in implementing the European Charter for Small Enterprises, there is still room for improvement, particularly in two areas:

Human capital (dimensions 1 and 4): A fuller engagement by the education authorities and universities within the cross-stakeholder partnership arrangements for entrepreneurial learning will be necessary in the development of a lifelong entrepreneurial learning framework. This should include a monitoring system to determine the extent to which entrepreneurship is being promoted across the school network. Developments in intelligence on enterprise training, including start-ups and growth enterprises, should be continued.

Better legislation and regulation (dimension 3): Despite Croatia's rigorous approach to and progress in the field of regulatory reform, progress in actually eliminating cumbersome and redundant legislation and regulations has been limited. There is a pressing need to take this step, after excellent progress has been achieved in reviewing and identifying obsolete legislation and regulations.

SME Policy Index scores for Croatia per Charter dimension (2009)[6]



Notes

1 *Source of SME-data: Croatian chamber of Economy: Industry and Technology department.*

2 *Ratio of total capital divided by risk-weighted assets and risk-weighted off-balance sheet items. A bank is expected to meet a minimum capital ratio of 8.0% unless a higher ratio is specifically prescribed by the Superintendent of Financial Institutions.*

3 *Singer S. et al (2009) What makes Croatia an entrepreneurial country? GEM Results 2007-2008, CEPOR, Zagreb*

4 *HITRO.HR is a service of the Government of the Republic of Croatia which provides faster communication of citizens and business subjects with state administration. The purpose of this project is to increase the quality level of services by increasing the speed, efficiency, flexibility and transparency in the operations of state administration. In addition to the HITRO.HR services intended for establishing a company or craft, HITRO.HR also offers e-PDV (VAT) services, e-KATASTAR (Cadastre) and e-REGOS services.*

5 *Cuckovic and Bartlett (2007), OECD & USAID (2007).*

6 *Although this report is published in 2009, data collection took place in 2008. For the SME Policy Index Report 2007, data were collected in 2006. All SME Policy Index scores have been rounded up or down to the nearest 0.25*

Kosovo under UNSCR 1244/99

1. Overview

The global economic environment negatively affects Kosovo under UNSCR 1244/99's macroeconomic growth. It is expected to slow down from its 2008 level of 5.4% to a lower, however, still positive level. Exports of several key categories suffered clear contractions. Sharply slowing economic growth and tight liquidity lead to deep external shortfalls in financing for the economy. Indeed, Kosovo under UNSCR 1244/99 is reliant on remittances from people from Kosovo under UNSCR 1244/99 that are working abroad to sustain its economy and these may decline in 2009, as the international crisis intensifies. Kosovo under UNSCR 1244/99 needs to improve its regulatory framework in order to create a stable environment for private investment. In a bid to attract foreign direct investment, the government has applied to join the World Bank and the International Monetary Fund. However, both applications are likely to face serious challenges, making membership in the short term problematic.

SMEs account for 99.8% of active business entities[1] registered with the Central Registry in 2006. There is no data on SME contribution to employment or GDP.

SMEs in Kosovo under UNSCR 1244/99 are classified according to the number of their employees:

Kosovo under UNSCR 1244/99's SME classification	
Micro	Up to 9 persons
Small	10-49 persons
Medium	50-249 persons

The definition of SMEs in Kosovo under UNSCR 1244/99 is based on the same criteria in terms of employees as the EU definition, thresholds for turnover and balance sheets differ in absolute terms because of Kosovo under UNSCR 1244/99's economy size and performance. The number of employees is the main criteria employed in both definitions, seconded by turnover and balance sheet figures.

Micro enterprises dominate the SME sector with 98.3%. Of total registered enterprises in 2006, only 1.4% were small and only 0.2% were medium-sized businesses.

In terms of sectoral breakdown, SMEs are mostly concentrated in mass and retail sales (around 50%), followed by transport, storage and traffic (14%), food products, beverages and tobacco (9%) and hotels and restaurants (9%). The sectoral distribution is stable over time.

Impact of the global economic crisis

As opposed to its neighbouring countries, there has not been a liquidity crisis in Kosovo under UNSCR 1244/99, as bank clients did not withdraw their deposits despite the global financial crisis. Kosovo under UNSCR 1244/99 has suffered other consequences of the global crisis. Remittances from migrants living abroad – accounting for a 17% of the country's GDP (2007) – are falling, as is the demand for its exports. Exports of several key categories, such as raw materials, primary metals, machinery and transport equipment, and manufactured goods, all suffered clear contractions from January 2008. Export revenues in January 2009 plunged nearly 50% compared to one year ago, from EUR 11.4 million to EUR 6.7 million. The wide external deficit signals significant external vulnerability in the current global economic environment and financing deep external shortfalls may prove challenging and costly. The Pension Fund suffered a sharp drop in the value of its portfolio when its investments abroad lost value. The losses totalled EUR 100 million in 2008 and approximately EUR 8 million in January 2009.

A multi-agency committee was recently set up to protect the country's financial stability. The committee was created following the signing of a joint memorandum of understanding by the Central Bank (KCB), the Ministry of Finance and Economy and Parliament's Commission for Budget and Finance. Its main goal for 2009 is to have the country join the International Monetary Fund. Kosovo under UNSCR 1244/99 has unilaterally introduced the Euro, therefore currency stability is not under question.

The government created a EUR 200 million fund for any economic sector in need of liquidity. It increased the monitoring of the commercial banks and enhanced co-operation between the KCB and other central banks. The government also cut various taxes starting January 2009 in order to stimulate consumer spending and foreign investment.

2. SME policy and public-private consultation

Institutional policy framework

In Kosovo under UNSCR 1244/99, the SME Support Agency is the responsible institution for the elaboration of the SME policy and its implementation. This situation is appropriate in Kosovo under UNSCR 1244/99 due to its small size and to the fact that it is in the process of building its own institutions. The agency was established in 2006 and it is subordinated to the Ministry of Trade and Industry.

Among the main attributions of the agency, there are:

- The development of policy framework supportive for the SMEs;
- Initiating legislation concerning the SMEs and giving recommendations on pieces of legislation that influence the business environment;
- Proposal and compilation of plans for a better co-ordination and co-operation between the existing domestic and foreign organisations working for the development of SMEs;
- Implementation of programmes related to the creation and the developing of SMEs.

In 2008 the agency had 12 employees and a budget to allocate to different projects of approximately EUR 2.3 million. Although the agency does not include in this budget the donor's support, this is rather significant for Kosovo under UNSCR 1244/99.

Inter-ministerial co-ordination in Kosovo under UNSCR 1244/99 is weak, as the Rules of Procedures provide for some requirements for it, but they are not very strong. Also a sort of internal competition between agencies for financial resources and influence limits the scope for co-operation.

However, apart from the SME Consultative Council that it is used both as a body for inter-ministerial consultation as well as for public-private dialogue (see section on public-private dialogue), in 2008 the government approved the creation of the Board of the Agency for the Support of SMEs, to be formed of representatives of four ministries and two representatives from the business community. This body should also insure inter-ministerial co-ordination in this field

The main problems related to the institutional framework in Kosovo under UNSCR 1244/99 are low capacity of the public administration in terms of professional personnel and the fact that the management level is affected by the influence of the political spheres. The first six months of 2008, the agency operated without a general manager due to the post-elections re-nomination procedures.

For the moment, there is no strategic framework for the SME sector development in Kosovo under UNSCR 1244/99. Although the drafting process of the Private Sector Development Strategy started in 2005 with the help of the European Agency for Reconstruction and a new and updated draft was delivered in 2008 to the Kosovo under UNSCR 1244/99's authorities, this strategy has not been adopted yet.

Public-private consultation framework

The main player in Kosovo under UNSCR 1244/99 for business representation is the Chamber of Commerce. It underwent reform in 2004 and now counts 5 000 members, all voluntary. The chamber benefited from significant donor support in order to develop its capacity to provide services. Its special competencies are trade, arbitration, certification and training. It seems that the chamber has a good representation capacity, being successful in influencing the economic reform agenda. Aside from the Chamber of Commerce an important role is played by the AmCham (for foreign investors) and the Kosovo Business Alliance.

In 2005 the SME Consultative Council was created as a consultative body for the Ministry of Trade and Industry. It was mandated to discuss and analyse the state of the SME sector and to decide on the necessary steps to improve its situation and to evaluate the draft legislation. The Council, which meets regularly, has 23 members from governmental and non-governmental organisations, the donor community, business associations and universities, etc. However, the effectiveness of this forum for the public-private dialogue is contested by some business representatives. Furthermore, the Rules of Procedure of the government do not create the obligation of consultations prior to the adoption of a legislative act.

Simplifying existing legislation and reducing the administrative burden

Due to the specific situation of Kosovo under UNSCR 1244/99 (it did not inherit the legislation from Serbia or Yugoslavia) and the fact that one of its main concerns is the creation of a comprehensive and clear legal framework, it does not focus, at this point in time, on the review of its current legislation. Therefore, it was decided not to assess Kosovo under UNSCR 1244/99 on this particular aspect but to emphasise the need to move towards the implementation of regulatory impact analysis.

The silence-is-consent principle, although it is recognised as an important element in the framework of better regulation is not yet fully applied in Kosovo under UNSCR 1244/99 with the exception of the business registration.

Regulatory impact analysis

Regulatory impact analysis is not used in Kosovo under UNSCR 1244/99, although a requirement for such analysis for the legislative drafts is included in the government's Rules of Procedure. The only assessment done is for the budgetary implications of the proposal. The lack of capacity to undertake such an analysis at the different ministries' level is to be blamed for not using RIA in the work of the government.

3. Operational environment

Company registration

Company registration in Kosovo under UNSCR 1244/99 is handled by the Agency for Business registration (KBRA), operating under the supervision of the Ministry of Trade and Industry. Business registration certificates are issued usually within one day for the date of application for business registered as sole ownership and within five days for all other type of business entities. Registration fees are low, with a maximum of EUR 20 for business entities registered as joint ventures. The KBRA does not operate as a one-stop shop. New business entities have to register separately with the Tax Administration, Social Security and Customs Authority. The entire notification process is completed with 5 to15 days. There have been no significant changes in the first phases of the business start-up process (registration and notification) over the last two years. Registration fees have been marginally reduced, while notification time has slightly increased. However, the overall business start-up process remains cumbersome and relatively expensive. While the minimum capital requirement for incorporated business has been eliminated, the pre-paid work permit fee, which can go up to EUR 1 000 according to the type of business, is still in place and the process for obtaining a business license at municipal level has become more complex. Online registration is not in place, however a pilot project has started in the Suhuareka municipality.

Enhancing SME competitiveness and strengthening the technological capacity of SMEs

Over the last two years the authorities in Kosovo under UNSCR 1244/99 have been focused primarily on the strengthening of the institutional and legal framework supporting SME policy. Targeted support to SMEs has been mainly provided by the donor community in co-operation with the newly established SME Support Agency. The main initiative conducted directly by the agency is the establishment of an industrial park located in the outskirt of Prishtina. The park is due to be up and running by the end of 2009.

Therefore, Kosovo under UNSCR 1244/99 is still in an early phase of policy development in the areas related to enhancing SME competitiveness and technological capacity, with no significant changes over the last two years. Export promotion activities are now in the portfolio of the newly established Kosovo Investment Promotion Agency. The capacity of the agency in this area is still limited and the main activities have been the organisation of trade missions and workshops for exporters with the support of the European Reconstruction Agency.

There are no initiatives under way in the technological area. However, initial steps have been made to identify possible areas for cluster development in the sector of stone processing, goldsmith and wine production.

Intellectual property rights

In Kosovo under UNSCR 1244/99 the IPR legislative framework and institutional framework is at an early stage of development. A Law on Customs Measures for IPRs was adopted in 2008 and implementation started in June 2008, providing the basic framework to the Customs administration to take action against piracy and counterfeiting. The Office of Industrial Property became operational in November 2007, but further actions are needed to strengthen its technical and administrative capacity. The enforcement record remains very limited.

Access to finance

The largest bank is Procredit Bank Kosovo with a market share by total assets of 41.2%. RZBK is the second largest bank with a market share of 36.4% of total assets out of seven banks active in Kosovo under UNSCR 1244/99. The third largest bank is NLB Pristina, which was created by a merger of Kasabank and new Bank of Kosovo in early 2008. With EUR 69.8 million, RZBK has the largest equity of all banks. The three largest banks, which are all foreign owned, hold 89.5% of the market share by total assets.

The Ministry of Trade and Industry is looking for the possibility to activate the Credit Guaranty Scheme, on which it is working closely with the Austrian Development Agency, the Austrian Patent and Licensing Management, the Economic Initiative for Kosovo representatives in Vienna and the Austrian Ministry of Economy and Labour.

Collateral requirements range between 150-200% of a loan amount. Business credits up to the amount of EUR 50 000 can be guaranteed only as uncollateralised loans. The Pledge Office (Central Registry) was established in 2008 under the Ministry of Trade and Industry.

UNMIK Regulation No. 2001/6 on Business Organisation, Article 39 defines procedures regarding concerned companies, their acceptance or bankruptcy.

The Cadastral Informative System of Kosovo under UNSCR 1244/99 is operational. According to cadastral records, owners and property users can be identified and the relevant documentation on ownership can be provided. However, the high level of corruption negatively affects the reliability of the information provided by the cadastre. A Pledge Registry Office is in place. A Credit Registry of Kosovo under UNSCR 1244/99 has been in place since 2006, operating under the Central Banking Authority and providing the positive and negative credit history of each client (regardless of loan issued or duration). Access to information is limited to financial institutions and the Central Banking Authority.

The Ministry of Economy and Finance in co-operation with the Ministry of Trade and Industry are drafting a law on the regulation of the leasing industry.

There is no venture capital or equity funds legislation under consideration.

4. Services for SMEs

Improving online access

Since 2006, Kosovo under UNSCR 1244/99 has made some progress in planning and implementing e-government measures that encourage small enterprises to adopt electronic forms of communication. The Ministry of Trade and Industry, as the key ministry responsible for SME policy, re-launched its website in 2006 and has improved its web presence considerably to reach a standard similar to the websites of the Ministry of Economy and Finance, and the Assembly of Kosovo under UNSCR 1244/99. But most Kosovo under UNSCR 1244/99 institutions are still in the first stage of the Internet age with a simple presentation of information on their websites. Some have moved to the use of web-based searchable databases but no website has reached serious level of interactivity. The Kosovo under UNSCR 1244/99 government is, however, now engaged in implementing a comprehensive e-government strategy and is starting to train its staff on it. Still, the Serbian and English language versions are lagging behind the Albanian.

The website of the SME Agency is updated from time to time and provides information on the agency's structure and work plan, and about laws and regulations relevant to SMEs. No coherent level of interactivity has been reached. The website of the Chamber of Commerce of Kosovo under UNSCR 1244/99 has proven a more effective tool to date for information exchange on aspects such as tenders or participation of SMEs in donor or government programmes.

The efforts in transferring government services online in the past two years have shown mixed results. Agencies with a certain regulatory independence such as the Pension Trust developed searchable databases for citizens to find the value of their pension savings, or for municipalities to check the licences of construction companies to see if they are able to participate in public tenders. The Cadastre Agency does not offer this service. The Kosovo under UNSCR 1244/99 tender service is a useful service from the Chamber of Commerce.

There are plans to allow for taxpayers to communicate with the tax agencies online via a new e-tax system. This is supported by the donor community as a vital part in the double effort to fight corruption and raise resources for the government of Kosovo under UNSCR 1244/99. There are presently trial projects undertaken between key taxpayers and the tax agency to implement VAT fiscal register cashiers in all of Kosovo under UNSCR 1244/99. As part of this new system it would be feasible to expect that the management of the tax authorities would use this opportunity to make a complete shift in its relations with the SME community in income, corporate and SME taxation. Sceptical voices in the SMEs community have expressed their concern that the incentive structure of tax inspectors might delay online tax return for the time being. Online services for social security returns and reporting enterprise statistics have not yet been developed in Kosovo under UNSCR 1244/99.

E-business and SME support

The European Agency for Reconstruction has implemented a project focused on the establishment of business incubators in Decan, Gjilan and Shtime. The incubator in Gjilan seems to work successfully and the other two seem to need more capacity building to produce sustainable long-term results. The efforts undertaken to create two industrial parks in Mitrovica and Drenas still require substantial additional funds. They appear to be large capital spending projects beyond the administrative capacity of the Kosovo under UNSCR 1244/99 government and beyond the planning time line of international donors. Nevertheless, incubators and business parks are highly needed as prices of property have gone up in the post-independence boom, and demand for subsidised and managed work space could be significant. The new government seems to be committed and more competent in handling these challenges. With the right support by the donor community, the success of both these important projects could be secured in a reasonable time frame.

There is an urgent need in Kosovo under UNSCR 1244/99 to reorganise its business support structures in the near future and to provide transparent information on the limited business services that are available. The SME agency implemented a Voucher Counselling Scheme (2006-2007) but the funding was too limited to have a significant impact. Kosovo under UNSCR 1244/99 has a broad range of donor-managed SME support programmes, especially the USAID Cluster project and the EAR grant programmes. There are various microfinance and SME access to funding projects, but there is a lack of co-ordination and information. There are, however, associations of accountants and a separate association of business consultants in Kosovo under UNSCR 1244/99. The EAR is planning a project to establish a common platform for these associations.

In terms of business information services or equivalent, the SME agency of Kosovo under UNSCR 1244/99 has five regional offices which are the main outlets of the government on the local level outside Pristina. The World Bank has concrete plans to establish business centres in all municipalities of Kosovo under UNSCR 1244/99. Most dealings with the government on business issues still have to be done in Pristina.

The law on the electronic signature has been passed and the new government and the post-status donor effort plan to set up a functional accreditation body.

5. Human capital

This section considers entrepreneurship education and training, and availability of skills for enterprises.

Kosovo under UNSCR 1244/99 has made considerable progress through the elaboration of a comprehensive entrepreneurial learning strategy where policy commitments have been made by three ministries in particular: education, industry and labour. The strategy identifies the challenges as well as priorities to ensure the development of lifelong entrepreneurial learning in Kosovo under UNSCR 1244/99. It includes a number of key EU policy recommendations, including across-campus entrepreneurship university education and specific training support for women, with recommendations for curriculum reform and teacher training. A wide range of stakeholders was involved in the strategy's development: government bodies, social partners, non-governmental organisations, women's business groups, municipalities etc. Overall, the strategy provides an excellent blueprint for developing lifelong entrepreneurial learning.

A number of activities from the strategy are already being implemented, including teacher training, curriculum reform and promotion of school-based mini-companies. While the strategy is constrained by lack of resources, its potential remains strong given that it is backed by a cross-stakeholder partnership and with a formal monitoring role provided by the Prime Minister's Office. The policy momentum in Kosovo under UNSCR 1244/99 could be backed up with a set of definite actions designed to meet the entrepreneurial learning targets set within the Charter policy index.

Turning to entrepreneurship promotion in lower and upper secondary education, good efforts have been made in introducing more open learning arrangements in education which will help in developing entrepreneurship as a key competence. A paper defining standards for entrepreneurial learning goes some way to meeting this objective. A curriculum revision group working in 2009 provides an opportunity for the learning outcomes to be more specifically defined. Good efforts at teacher training (initiated by 2006 EU funds and with follow up from the 2008 national budget) should build on the capacity of the teaching corps to deliver on the entrepreneurship key competence, as well as more specific entrepreneurship modules for secondary level students. More effort is needed to create structured co-operation and engagement of local businesses with schools.

While, there is a range of evidence demonstrating dissemination of good practice, given what is clearly a good entrepreneurial learning strategy, the range of partners responsible for its elaboration would do well to share it with fellow countries in the region, and beyond, as an example of good partnership and policy making.

With respect to enterprise skills, an initiative undertaken by the Chamber of Commerce on enterprise training needs analysis has the potential to be developed further, to include systematic tracking of human capital within Kosovo under UNSCR 1244/99's small business sector. There are plans to develop capacity through the chamber's regional offices in enterprise skills' surveys. This should ensure that the data requirements, particularly for start-up and growing businesses within the Charter policy index, could be met. Given sustained donor interest in Kosovo under UNSCR 1244/99, benefactors in education, training and enterprise sectors would do well to work with all parties to ensure that education and training developments are more tightly referenced to real enterprise needs. In this regard, further support for capacity building of enterprise associations in defining training needs will be important.

In terms of ensuring enterprise access to the training market, more support will be necessary to provide information on available training offer. As a training market develops, the enterprise sector, with government acting in partnership, should consider the development of a quality assurance system for training providers. This should contribute to better confidence of enterprises in training offer and stimulate more demand.

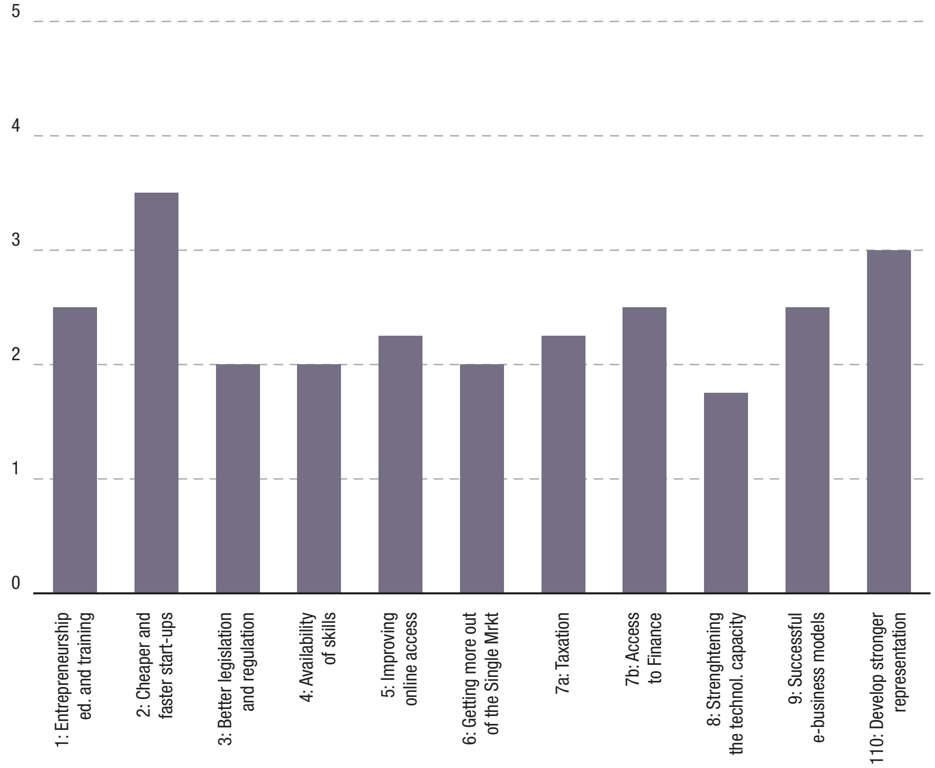
6. The way forward

Human capital: The policy momentum generated with the national entrepreneurial learning strategy should be accompanied by a set of actions to meet the entrepreneurial learning targets set within the Charter policy index. Meanwhile, an initiative of the Chamber of Commerce on developing intelligence on enterprise training should be continued. Government support should be considered here given mutual interest, thereby reinforcing public-private sector co-operation on enterprise skills.

Access to finance: SMEs in Kosovo have to face many challenges in their endeavour to access finance. The country has made few progresses in the assessed areas. Credit information services are not available which hampers bank lending to SMEs. SMEs face high collateral requirements and a poorly developed non-bank financing framework. No venture capital or equity fund legislation has been under consideration until assessment cut-off date. More advanced areas are those where laws are either under consideration (leasing law, establishment of credit guarantee scheme) or already in place albeit at an early stage of implementation (bankruptcy law). Although the ownership of land has been documented, the cadastre is not fully functioning.

Improving online access: In order to make the search for online information and services for SMEs less cumbersome, SME-relevant information and links should be bundled in a single SME-specific online portal, which is regularly updated and allows for interaction between SMEs and the administration.

SME Policy Index scores for Kosovo under UNSCR 1244/99 per Charter dimension (2009)[2]



Notes

1 *Source for SME-data: 'Kosovo Chamber of Commerce'.*

2 *Although this report is published in 2009, data collection took place in 2008. For the SME Policy Index Report 2007, data were collected in 2006. All SME Policy Index scores have been rounded up or down to the nearest 0.25*

The former Yugoslav Republic of Macedonia

1. Overview

Recent growth in the former Yugoslav Republic of Macedonia has been strong with 5.1% in 2007 and 5.3% in 2008, the highest rate recorded so far in the transition period. However former Yugoslav Republic of Macedonia's average growth performance in the last five years stays below that of the Western Balkan countries. Increased investment, partly financed by foreign direct investment, is the main driver boosting domestic demand. Another main driver of growth has been total factor productivity, which is common during the initial period of post-communist transition and results from the elimination of inefficiencies of the former economic regime. Despite its isolated position, the former Yugoslav Republic of Macedonia is impacted by the crisis with a lower, albeit still positive GDP growth projection for 2009.

The former Yugoslav Republic of Macedonia has adopted the EU definition for SMEs. According to this definition in terms of the number of employees (adopted in 2004 with the Law on Trade companies) SMEs account for 98.7% of active business entities registered with the Central Registry in 2006. The former Yugoslav Republic of Macedonia's SME sector accounted for 78.4% of employment and 54.3% of GDP in 2006. The informal sector remains large, although there are indications that it has been somewhat reduced, for example by improvements in tax collection, a lowering of the tax burden and financial incentives for registration.

There are very few large enterprises in the former Yugoslav Republic of Macedonia[1]. Within the SME sector, small companies dominate in number (98.7% of total), contribution to employment (66.7% of total) and value added (53.3% of total), while medium-sized enterprises dominate in terms of value added. Accordingly, economic efficiency increases with enterprise size in the SME sector.

From a sectoral perspective, small companies are mostly operating in the wholesale and retail trade sector (43.9%), while manufacturing (14.5%), together with health and social work (10%) and transport, storage and communication (9.4%) follow in terms of importance. Micro and small businesses are often family businesses. They lack a sufficient capital base and management experience, which makes them rather vulnerable and hardly suitable for business and employment growth. The SME sector is characterised by low export penetration and low business sophistication.

The highest concentration of SMEs is in the capital, Skopje (39.3%). Other regions with strong SME presence are the cities of Bitola (6.5%), Tetovo (4.7%), Stumica (4.6), Ohrid (4.5%), Prilep (4.5%) and Kumanovo (4.9%).

Impact of the global economic crisis

So far, the former Yugoslav Republic of Macedonia's economy has been affected by the further descent into recession of key export markets, tight credit conditions on global capital markets and limited access to working capital for the former Yugoslav Republic of Macedonia's enterprises. Deteriorating business and consumer confidence are dampening investment spending and household consumption as well. Basic metals are an important segment of both industrial output and exports, and this area is extremely depressed in the current global economic downturn. Industrial output in January 2009 was 17.7% lower than in the same month of 2008 in real terms. Output of mining and quarrying fell 23.7% year-on-year in January 2009, output and distribution of electricity, gas and water was down 4.6%. Manufacturing output declined 18.7% from the level achieved in January 2008. Among major manufacturing branches, the sharpest downturns in January measured year-on-year were suffered by wood products, basic metallurgy, non-metallic mineral products, transport equipment, textiles and tobacco products. In general, intermediate goods experienced the largest dip in output, down 41.4% from the previous year, and capital goods, 20.8% lower. As a consequence of the crisis most of the metallurgic companies have slashed their production and decided to decrease their workforce. Car parts producer Ruen-Kochani decided to decrease its workforce due to sinking demand. Due to the financial crisis, major investment or expansion plans are being delayed. Turkey's airport development, management and operating company TAV Havalimanlari Holding announced that it would suspend its investment plans in the former Yugoslav Republic of Macedonia for Alexander the Great Airport in Skopje and St. Paul the Apostle Airport in Ohrid.

The banking system has so far been unaffected, as the deposit base and the loans quality remain stable. There were no massive deposit withdrawals, although banks experienced a slowdown in the growth of deposits (from 59.5% in December 2007 to 37.6% one year later). The interest rates on bank loans started to rise as banks funding has become more expensive, and banks have become more prudent in their lending. The companies from export-oriented sectors, especially from the metal sector, are subject to increasingly more detailed screening from the banks. Banks are also more concerned about maturity mismatches between their loans and their funding base. The authorities appear to be monitoring the situation closely. In January 2009, Slovenia's second largest commercial bank Nova Kreditna banka Maribor announced it would delay its plans for expansion in the former Yugoslav Republic of Macedonia due to the ongoing global financial crisis. In December 2008, the central bank introduced a liability for commercial banks to maintain a certain minimal level of liquid assets for settling its liabilities which fall due in the following 30 and 180 days, separately in Denars and in foreign currencies. According to the central bank, this measure will result in an increase in the banks' resilience to the unfavourable effects from the current global financial and economic crises. Due to the lack of interest of foreign investors, trading on the stock exchange has also been negatively affected.

2. SME policy and public-private consultation

Institutional policy framework

In the former Yugoslav Republic of Macedonia, the two main institutions working for the support of the SME sector are the Department for Entrepreneurship and Competitiveness within the Ministry of Economy (MoE), and the Agency for Promotion of Entrepreneurship (APPRM). The department is in charge of elaborating the SME policy and in doing so, of consulting with all relevant institutions. Its second function is to provide support to the business organisations network. APPRM is the executive agency, established to implement the SME policy, and more specifically the programme on measures to promote entrepreneurship and the competitiveness of the SMEs, as well as other projects. However, it seems that the MoE retains the implementation prerogatives on specific projects. The agency employs 12 persons (9 are professional staff) in three sectors: Strategic and Development Project Sector, Co-ordination and Institutional Support, and Information and Research Sector. The 2009 budget of the agency is EUR 325 000, an amount insufficient to allow them to carry out their projects. Also, the agency has no network of local offices, but it co-operates with the existing network of business support organisations.

The number of staff in the SME department of the Ministry of Economy was increased from seven to nine and it seems now adequate. However, the SME agency still lacks sufficient human and financial resources to implement all the measures in the SME strategy, and implementation support of the European Charter for Small Enterprises. There is no co-ordination body in place in order to support the decision making process, but according to the Rules of Procedures the proposing ministry should consult the other ministries concerned. However, as the delays to receive comments have shortened further, to seven days, it is not reasonable to count on an in-depth analysis of the document. Furthermore, the consultation seem to appear late in the process and should not concentrate on legislative issues alone but also on policy ones. This should also allow for more feedback from non-governmental organisations and the business community. Enhanced co-ordination is necessary between the different programs that are aimed at enhancing competitiveness of the companies managed by the Ministry of Economy on the one hand (SME development, improving competitiveness, cluster programs, industrial policy measures) and Ministry of Education and Science on the other hand (R&D, technical culture and technological development).

The strategic document for SMEs in the former Yugoslav Republic of Macedonia is a long-term strategy: the National Development Strategy for SMEs for the period 2002-2012. Based on the results achieved after the mid-term implementation review, as well as on other changes that occurred such as achieving the status of candidate country, the implementation of the ECSE and the participation in the CIP, a revision of the strategy took place and it was also extended until 2013. The implementation of the strategy is done through annual programmes, specifying the measures to be taken in order to achieve objectives. However, the budget allocated for the activities under the 2008 Programme for the development of the entrepreneurship, competitiveness and innovation of the SMEs was insufficient to give effective impetus to the development of SMEs in the country.

Public-private consultation framework

In the former Yugoslav Republic of Macedonia the main system of business representation is the Chamber of Commerce. There are two types of chambers based on two pieces of legislation: the Law on the Economic Chamber of Commerce and the Law on the Chamber of Commerce (the first piece of legislation giving more favourable conditions). There are efforts to unify this legislative framework. Also, in the former Yugoslav Republic of Macedonia membership in the Chamber of Commerce is not compulsory, except for the Chamber of Crafts. There are several business associations. Although there are no specific SME associations, SMEs are present in sectoral associations. Currently the chambers offer a broad range of services, not tailored to SME needs. Also, the fact that for a certain type of service, the chamber has to obtain the approval of the public institutions adds to the difficulties to provide high quality, specific services.

Regarding the public-private consultations, there are two such platforms in the former Yugoslav Republic of Macedonia: the National Entrepreneurship and Competitiveness Council (NECC) and the SME Forum. The NECC was established in 2003, as a donor initiative and, for the moment, is in a process of redefining its institutional structure as well as its mission, planning to concentrate more on clusters and other measures to enhance the competitiveness of SMEs. (The NECC was designed to create a platform for discussions between the government and the private sector, organising regular meetings with an agenda approved initially by the business sector.) Also it disseminates information through the chamber of commerce and the business associations.

The SME Forum was established at the national level in 2005 and in 2008 several local SME forums were initiated. The forum should function as a two-way channel of communication and information between the government and the SME sector. However, this forum is managed by the Department of SME in the Ministry of Economy, meaning that the meetings are called for by MoE and the agenda is sometimes discussed with the private sector. From its creation until mid-2008, the forum met only five times. Another issue is that this is not institutionalised and it meets on an *ad hoc* basis. There are efforts to institutionalise it based on the Law of Public Private Partnership.

Simplifying existing legislation and reducing the administrative burden

The regulatory reform process started relatively late in the former Yugoslav Republic of Macedonia compared to other countries in the region and benefited from the support of the World Bank through the Business Environment Reform and Institution Strengthening Project. The Regulatory Guillotine Project was introduced in 2006 as a mechanism of review and streamlining of the existing legislation, including the simplification of the administrative burden. The process entailed the screening of a stock of 2 162 regulations (both laws and by-laws) both by the government and the business community, which tabled 900 proposals. At the end of the process, the Co-ordinative Committee led by the Deputy Prime Minister for Economic Affairs, recommended simplification or abolishment of 64 laws and 481 by-laws.

By September 2008, 27 of the primary laws and 357 of the items of implementing legislation identified in the first phase of the regulatory guillotine process were simplified or abolished. Most of the rest of the by-laws date from the period of ex-Yugoslavia and in order to be abolished, they require replacement by new by-laws. This reduction represents a mix of regulatory and business simplification, as it includes reduction of delays for the public administration to respond for permits and licenses and reduction of tariffs. The regulatory guillotine resulted in streamlining three regulatory regimes (tax payments, customs, and registration of land and real estate property).

Although the importance of the silence-is-consent principle is recognised and was included in the regulatory reform process, the principle is applied in only two cases: the Law on Craftsmen Activities and the Law on Trade.

Regulatory impact analysis

The introduction of the regulatory impact analysis was the second phase of the regulatory reform process in the former Yugoslav Republic of Macedonia. The legal framework for RIA was introduced in March 2008, through amendments to the government's Rules of Procedure and with the by-law for RIA methodology, making RIA mandatory for new pieces of legislation, except for urgent procedure laws, starting January 2009.

The body in charge of introducing and monitoring RIA is the Sector for Economic Policy and Regulatory Reform, within the General Secretariat of the government. It should also check and advise the ministries on RIA. Depending on the complexity of the legislation (based on the proportionality principle), it is decided if only an initial RIA is conducted or an extensive analysis. The initial RIA is carried out in parallel with the consultation process.

Since September 2008, two pilot projects were carried out as part of the RIA training and strengthening administration capacity for RIA implementation, the first RIA pilot project being for the draft Law on Court Taxes and the second one for the draft Law on Packaging and Waste Packaging.

3. Operational environment

Company registration

Since the entry into force in January 2006 of the Law on One Stop-Shop System and for the maintenance of the trade register and the register of other legal entities, the former Yugoslav Republic of Macedonia has further improved the efficiency of its company registration system and reduced company registration fees. The Central Registry is currently able to process a company registration application in less than one day, down from five days in 2006 for a fee of approximately EUR 57. As typical of a one-stop shop system, the Central Registry issues the unique company registration number and obtains, on behalf of the new company the tax registration number, normally in a matter of a few hours. In order to further reduce start-up costs the former Yugoslav Republic of Macedonia has recently waived the minimum capital requirement for limited liability companies.

The former Yugoslav Republic of Macedonia has a separate registration system for crafts. The registration is conducted through the 14 regional craft centres established in the branches of the Craft Chamber through the country. The silence-is-consent principle is applied and if the entrepreneur receives no objection within eight days, the start-up craft is automatically authorised to operate. During those eight days the Craft Chamber completes the registration process with the Central Registry and performs the necessary notification process. All the procedures are completed with a single visit to the craft centre. Online registration is not yet in place. However, an in-depth analysis of the requirements for introducing online procedures has been already completed and a tender for the development of an integrated database is under way. Online registration is targeted for October 2009.

Enhancing SME competitiveness and strengthening the technological capacity of SMEs

Over the last two years the government has taken steps in the export promotion area. Since 2006 it has established an export promotion programme and doubled state financial support from approximately EUR 277 518 to 571 361. The main actions have been the launch of a short-term credit facility for exporters, administrated by the *Macedonian Bank for Development* and disbursed through commercial banks, the introduction of an export insurance scheme and the opening of a bill discounting facility for exporters.

However, in spite of a relatively good starting position, the country performance in relation to innovation policy and support of the technological upgrading of SMEs over the last two years has been relatively mixed. Several initiatives have been launched, but a broad innovation strategy is still missed and a number of initiatives, launched with donor support, have encountered sustainability problems.

The former Yugoslav Republic of Macedonia was one of the first countries in the region to establish a National Competitiveness Council in 2003, but over the years this body progressively lost its catalyst role. There are currently proposals by private sector associations to revamp it, with a wider membership base. There has been some progress on the legislative front. A new law on Supporting and Facilitating Technological Development, opens the possibility for enterprises to apply for government co-financing for up to 50% of R&D project costs. At the end of October 2008, 57 projects proposals were under evaluation. However, budget allocations are limited to around EUR 146 921 in 2008. In the former Yugoslav Republic of Macedonia there are currently four technology transfer centres in operation (three in Skopje and one in Bitola) established with the support of GTZ, the German technical Co-operation Agency. Another nine centres are planned, under the USAID-funded Competitiveness Project. In addition, a local consortium formed of the Ss. Cyril and Methodius University, the Foundation for Management and Industrial Research, the Agency for the Promotion of Entrepreneurship and the Economic Chamber of the former Yugoslav Republic of Macedonia is providing technology transfer services in the context of the Enterprise Europe Network since the beginning of 2008, through the European Information and Innovation Centre in Macedonia (EIICM).

At the end of 2006 the country had nine clusters in incubation. Most of the cluster development activities were co-ordinated by the NCC, operating with the support of USAID. However, the NCC was *de facto* dissolved at the end of the USAID project, and since then cluster development activities have been scaled down considerably. Two cluster development programmes, focusing on tourism development and meat and dairy products, have actually been abandoned, as donor support was phased out. Currently there are seven cluster development programmes still in place, covering garment, fashion design, wood processing, small agricultural machinery and, fruit and vegetable processing, wine and IT. After an initial phase in which cluster development projects were mainly donor-supported, the government is currently preparing a four-year cluster development programme, with the purpose of creating synergies between government-supported programmes (such as export promotion services) and donor-supported projects.

Intellectual property rights

Over the last two years there has been some progress in the IPR area. The Copyright Law has been amended, allowing the transfer of the responsibility of inspections from the Ministry of Culture to State Market Inspectorate and raising the level of fines for copyright infringement. In addition there has been a limited improvement in the State Market Inspectorate administrative capacity. Some progress has also been made on the enforcement front, although piracy and counterfeiting remain widespread.

Access to finance

In May 2007, a new banking law was adopted to strengthen the banking system by raising the minimum capital requirement from EUR 3.5 million to EUR 5 million. In addition, requirements for foreign banks entry became stricter. There are 18 banks, but two-thirds of the sector's assets are concentrated in the three largest banks (Komercijalna, Stopanska and NLB Tutunska). By mid 2008, around 71% of the total banking shareholders' capital was in foreign hands, a 10% increase over end 2007. The level of financial intermediation is rising from year to year but remains relatively low. In the first half of 2008, total banking loans accounted for 43.5% of GDP (compared to 38% at end 2007), while the comparable ratio is between 40-80% in more developed transition countries and well over 100% in EU countries. Lending is largely funded by customer deposits, which are over 95% short-term. Long-term capital investment loans are predominantly funded by the capital foreign-owned banks, obtained from their parents and foreign credit lines. A registration system for movable assets is in place for legal and physical persons and can be accessed on request for a fee of around EUR 5. Information services on loans issued to physical and legal persons are available only to financial institutions.

The European Investment Bank has extended a EUR 20 million sovereign guaranteed credit line which has been fully disbursed by five local banks. Another active investor in the market of the former Yugoslav Republic of Macedonia, particularly in the micro and small lending segment, is the European Fund for South-Eastern Europe (EFSE). EFSE is successor of KfW (one of the investors in EFSE) which has disbursed EUR 32 million through five local banks accompanied by a technical co-operation component. To date, two SME credit lines and one subordinated loan totalling about EUR 30 million have been approved. Credit guarantee schemes could be significantly improved by increasing the amount of the guarantee, lowering collateral requirements, and improving marketing and promotion of the schemes.

Due to the financial crisis, SMEs are under a lot of pressure. Some foreign partners are cancelling contracts, some customers are asking for longer credits, and banks' lending policies have become even more conservative (it is now difficult to secure a loan for a term of more than five years). Banks have very rigid collateral requirements although some progress can be witnessed in the area of microfinance. However, microfinance loans have high provision and interest rates. The Law on Leasing was adopted in 2002 and amended several times subsequently. Out of 13 authorised firms, 6 are currently active on the financial leasing market.

The only long-term non-sovereign credit lines to the local commercial banks are extended by the EBRD and the IFC. The sovereign guaranteed credit lines from other financial institutions are channelled to the local banks through the *Macedonian Bank for Development Promotion*, the only state-owned bank which acts as an intermediary between the lenders and the commercial banks. Most of these credit lines are targeting the SME sector and have limits of maximum EUR 0.5 million. Sub-loan approval

	2005	2006	2007	2008
Real growth in credit to the private sector	19.0%	26.9%	31.1%	N/A
Domestic credit to private sector to GDP, official data	24.0%	28.9%	36.4%	N/A
Bank lending to enterprises, share in GDP	17.9%	21.3%	27.4%	N/A
Bank lending to households, share in GDP	7.5%	9.6%	13.5%	N/A
Share of total non-performing loans of banks in total loans	22.2%	15.1%	10.9%	N/A
Average capital ratio of all banks (capital/ total assets)	15.2%	13.6%	12.4%	N/A
Asset share of foreign-owned banks	51.3%	53.2%	85.9%	N/A

Source: EBRD.

procedures for most of these credit lines are lengthy and cumbersome for the borrowers, as the loans have to be approved by both the local bank and the *Macedonian Bank for Development Promotion* (or the lender as in the WB case). Local banks are reluctant to use these lines through the *Macedonian Bank for Development Promotion* due to the complicated procedure and risks of political interference by the *Macedonian Bank for Development Promotion* (being a state-owned bank) as well as due to the interest rate ceiling for the ultimate borrowers imposed by the *Macedonian Bank for Development Promotion*.

In April 2006 the EBRD established an investment facility (WB LEF) with financial contributions and support from the Italian government. The facility provides individual equity and quasi-equity investments that may reach up to EUR 8 million for minority local companies in Western Balkan countries, including the former Yugoslav Republic of Macedonia.

Another small equity fund, the Small Investment Fund, was established in September 2007. The fund is run by Skopje-based investment advisory SPMG Capital with an initial capital of EUR 500 000. The fund, which will operate for ten years, plans to exit its investments in three to five years. In October 2008, it made its first investment of approximately EUR 75 212 in an SME in the former Yugoslav Republic of Macedonia, acquiring a 20% ownership stake.

The US-funded Small Enterprise Assistance Fund Macedonia has undertaken 15 investments up to now, acquiring minority shareholdings of between 20% and 49% in enterprises which have a potential for rapid growth.

4. Services for SMEs

Improving online access

Since 2006, the former Yugoslav Republic of Macedonia has made some progress in planning and implementing e-government measures that encourage small enterprises to adopt electronic forms of communication. PRO, the institution responsible for tax payment and supervision and provision of information regarding the taxes paid by physical and legal entities, has been working on the development of software for electronic filing of the tax returns of small and medium taxpayers. However, at present, this system is not available mainly due to technical reasons, but the plan is to implement the system in the near future and to make it available for this group of taxpayers. At the moment, this service is available only to large taxpayers.

Regarding enterprise statistics, in June 2008, a project funded by the World Bank (BERIS) was finalised that would identify the preconditions in the former Yugoslav Republic of Macedonia for the establishment of an electronic exchange of financial and business information. The expectations are that this study will identify activities for legal persons in the country and for adjustments in the direction of international accounting standards, and introduce a unique standard for the exchange of data in the one-stop-shop system, transparency and comparability of business and financial data. This will ensure better opportunities for evaluating companies by foreign investors and for the implementation of the relevant European directives regarding the clarification of financial data and information.

Regarding other online government services, the Public Procurement Bureau operates an Information System for Electronic Filing (ISEF) through which all physical or legal persons may access calls for tenders and advertisements. ISEF permits electronic trade between, on the one hand, public institutions (the demand side) and, on the other, the domestic and foreign suppliers. This system eliminates the need for hard-copy tenders and improves the efficiency in implementing procedures for public procurement. In accordance with the Law on Public Procurement , the documents are submitted through electronic means and the regulations that are required for the use of electronic signatures are also applied.

Regarding online information for SMEs, there is no separate e-government web portal in the former Yugoslav Republic of Macedonia. Services for enterprises can be found on the websites of the different ministries or institutions, but not always in English. For instance, small and medium taxpayers can find necessary information regarding legislation and the relevant laws, regulations, brochures published, tax calendars, application forms and a dictionary of terminology on the website of the PRO. These can be downloaded electronically and all application forms and templates can be filled in electronically.

There is a government portal (www.uslugi.gov.mk) that provides information on relevant governmental institutions. Any person may pose a question on this portal, and depending on the type of the request, the relevant ministry or institution will reply by e-mail. There is a plan for this portal to become a major interactive link between the government and its institutions, and the citizens and the private sector. The focus on SMEs, however, is lacking to date.

E-business and SME support

Business incubators in the former Yugoslav Republic of Macedonia have suffered from the ending of a World Bank project in 2001, which funded incubators in Prilep, Krusevo, Makedonska Kamenica, Delcevo, Stip, Strumica, Ohrid and Veles. The responsibilities and follow-up of the operation of the incubators were transferred to some departments and units in MoE, as well as APPRM, yet today only the Ohrid incubator is now partially operational. Since 2006, however, a number of new initiatives have resulted in the opening of new incubators and the planning of others, which will be launched in 2009. The most successful incubator is the YES incubator, which officially started operations in September 2007: at the outset, only two companies commenced operations, but over time this number has grown and now stands at 15, all of them functioning successfully and employing about 50 young people.

The number and variety of business services in the former Yugoslav Republic of Macedonia is limited. Most of the services offered on the market are a combination of the services of private providers and training financed by the government and international organisations. The APPRM Voucher System of Counselling provides co-financing for business services to participants in the system (100% of costs for potential entrepreneurs and 50% for active enterprises). The issue of the vouchers takes place through regional SME centres in the country – Skopje, Strumica, Tetovo, Bitola, Kumanovo, Ohrid, Veles and the Roma Centre. The services for enterprises that may be co-financed through the voucher are in the following areas: enterprise management, marketing and export, human resource development, finance and financial services, production, quality, information technology and general counselling. During 2007, 231 vouchers for 157 clients were issued, of which 156 vouchers (96 clients) for unemployed persons and 75 for SMEs. In 2008, the innovative voucher, which co-finances consulting services in the field of innovations, new products and services etc. was introduced. The *Macedonian Enterprise Development Foundation* provides training to entrepreneurs, but with a greater emphasis on farmers, micro and small enterprises, and unemployed persons.

The quality certification of business services offered to enterprises is still in its early development phase. Although there are some attempts, it will still take several years to develop a body of service providers with the appropriate certification.

In terms of business information centres, SMEs may find the information they need in several locations. Even though the network of centres is best developed in Skopje, at the local level there is at least one centre or office to which entrepreneurs may address their requests for information. The only difference relates to the quality of information that entrepreneurs may expect from centres in less-developed and rural areas of the country. Nevertheless, the aim of the government is to provide entrepreneurs with the same quality of information and at the same speed regardless of their place of operation.

The Law on Electronic Data and Electronic Signature was adopted in the former Yugoslav Republic of

Macedonia in 2001, along with four sets of regulations. In June 2006, the first issuer of certificates was registered in the Single Register for Issuance of Certificates. The second issuer (Makedonski Telekomunikacii A.D.) was recently selected. In practice, any interested party may provide certificates at this moment and use them legally in all applications and services. The infrastructure is established, as well as the first applications that use digital certificates, but at this stage they are available only to a very limited extent. The beginning of the real upsurge of key public infrastructure for the applications is expected in the near future.

5. Human capital

This section summarises the human capital dimensions of the Charter: entrepreneurship education, and training and availability of skills.

Critical to the development of a lifelong learning model for entrepreneurship is that the range of partners responsible for education (all levels) and training, including those responsible for non-formal learning, have developed an all-encompassing framework to ensure that each part of the learning system contributes to entrepreneurship development. And that each part of the learning system builds systematically on the learning outcomes from earlier education. The assessment finds that more effort will be required by the range of partners in the former Yugoslav Republic of Macedonia to co-ordinate and co-operate on policy, and consequently, to allow for institutional understanding and commitment as to how a sequenced lifelong entrepreneurial learning system can be developed. While there is good evidence of singular initiatives involving a limited range of actors in co-operating on entrepreneurial learning, (e.g. vocational training centres with Chamber of Commerce) a more definite engagement of all parties, including the higher education establishment, into a common policy dialogue needs to take place.

While it is clear that the Charter co-ordination office is prompting co-operation amongst a small number of actors, the task ultimately lies with the authorities responsible for education and training to take the lead in facilitating a policy debate on entrepreneurial learning. This would be the opportunity to move from the existing narrow concept of partnership to a more comprehensive involvement of the wider range of players required for building a lifelong entrepreneurial learning framework. This partnership approach could facilitate policy making and allow for discussions as to how resources necessary for entrepreneurial promotion at different levels of education could be identified. Additionally, a more structured partnership would encourage better co-ordination between formal and non-formal entrepreneurial learning provision, where good practice is more easily identified (e.g. enterprise skills for young people supported by the British Council).

With respect to entrepreneurship promotion in the schooling system, there is a more developed awareness of entrepreneurship as a key competence within education with initial steps to address the entrepreneurship key competence within lower secondary schooling (ISCED 2). A proposal to establish a national working group for the entrepreneurship key competence is timely. This should be followed up and address curriculum and teaching/learning processes, including teacher training to allow for progress on the ISCED 2 indicators. The key competence issue also needs to be addressed within upper secondary education although good progress has been made with the majority of secondary schools having already introduced entrepreneurship as a compulsory subject within the curriculum.

Turning to performance on the enterprise skills' indicators, the assessment underlines that further work is required in order to establish more systematic data on human capital within the small business sector. Training needs analysis for the most part is undertaken as part of donor-supported initiatives although the Ministry of the Economy has taken steps to develop a more structured TNA system. Should this initiative move forward, data to meet the requirements of specific indicators e.g. enterprise training and start-ups should be satisfied, ensuring progress on both indicators.

While efforts are being made to promote training for growth enterprises a voucher scheme to encourage growth enterprises to develop innovation could be broadened to include a more definite human resource development line for interested companies.

Finally, good efforts are being made in bringing forward quality assurance in the training market with steps to establish a national accreditation framework for training providers. This should help build confidence of the enterprise world in the training market and boost demand. All developments in quality assurance ideally should be linked into wider quality assurance networks in the region and wider Europe.

6. The way forward

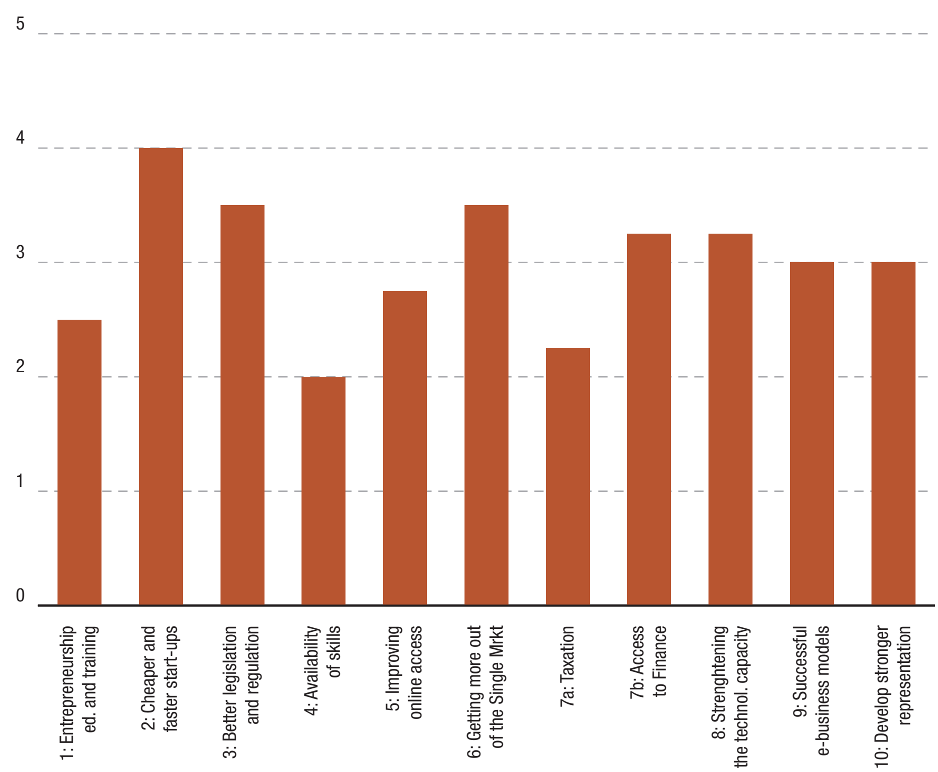
The former Yugoslav Republic of Macedonia should focus on the following areas of the Charter, in order to effectively improve SME development:

Human capital (dimensions 1 and 4): A better engagement particularly by the public education and training organs, including universities, will be necessary to ensure synergy, co-ordination and co-operation in development of a lifelong entrepreneurial learning system. Secondly, entrepreneurship as a key competence needs to be addressed within general education. Further work is required to establish more systematic data on human capital within the small business sector. Finally, efforts at promoting quality assurance in the training market should be continued.

Improving online access (dimension 5): In order to make the search for online information and services for SMEs less cumbersome, SME-relevant information and links should be bundled in a single SME-specific online portal, which is regularly updated and allows for interaction between SMEs and the administration.

Access to finance (dimension 7b): SMEs are still hampered by conservative lending policies with rigid collateral requirements. Land ownership of the country still needs to be fully documented in order to have a fully functioning cadastre allowing firms to use real estate as collateral in their efforts to access bank finance. The development of a central collateral registry covering most bank loans would furthermore ensure transparency over pledged assets. Credit information services available to financial institutions and the public, providing positive and negative information on legal and physical persons, would also help banks to identify reliable borrowers. Finally, bankruptcy laws are still at an early stage of implementation. Procedures would benefit from being fully integrated in commercial law and practice according to international standards.

SME Policy Index scores for the former Yugoslav Republic of Macedonia per Charter dimension (2009)[2]



Notes

1 *Ministry of economy – Annual Report 2007 for the SME Sector.*

2 *Although this report is published in 2009, data collection took place in 2008. For the SME Policy Index Report 2007, data were collected in 2006. All SME Policy Index scores have been rounded up or down to the nearest 0.25*

Montenegro

1. Overview

Global financial turmoil and economic recession will likely have a substantial adverse impact on confidence, credit growth, tourism and foreign direct investment inflows in the near term. After strong GDP growth of more than 10% in 2007 and 7% in 2008, a sharp deceleration in growth is expected in the near term. Banking system exposure to a sudden stop or even reversal in foreign financing flows from parent banks is high. Rapid wage growth in the context of the Euro peg will ultimately undermine Montenegro's attractiveness as a destination for foreign direct investment, making it more difficult to broaden the production base of the economy. Moreover, in the medium term, only a modest rebound in growth is expected. Cooling demand will also have a substantial adverse impact on fiscal revenues, and the fiscal position is coming under pressure.

SMEs dominate Montenegro's economy[1], representing 99.8% of all registered businesses. Within the European Union SMEs account for 70% of total EU turnover and represent 60% of total EU GDP. In Montenegro, the SME sector represents approximately 60% of national GDP. The sector's significance in the overall economy is mirrored by its weight in the overall employment figure. 67% of the total number of employees in Montenegro are employed in the SME sector.

SMEs in Montenegro are classified according to the number of their employees:

Montenegro's SME classification	
Micro	Up to 9 persons
Small	10-49 persons
Medium	50-249 persons

The EU definition of small and medium-sized enterprises consists of firms that employ fewer than 250 people, and have an annual turnover not exceeding EUR 50 million and/or a balance sheet total not exceeding EUR 43 million. The definition of SMEs in Montenegro is based on the same criteria as the EU definition; classification of thresholds differs in absolute terms for turnover and balance sheets because of Montenegro's economy size and performance. The number of employees is the main criteria employed in both definitions, seconded by turnover and balance sheet figures.

Within the SME sector, micro companies dominate the Montenegrin SME sector in number (77% of total), followed by small (9.6%) and medium-sized enterprises (2.8%). Unfortunately, there is no information available on turnover and value added by enterprises' size.

While SMEs are dominant in all economic sectors of Montenegro, evidence suggest that general trade and repair services play a very important role, both being activities which emerge easily in a developing economy. SMEs are concentrated in the following sectors: wholesale and retail; trade, repair of motor vehicles; motorcycles; and personal and household goods and manufacturing. The challenge for technical assistance programmes will be to assist the building of higher value added sectors which the economy can build upon, including those with export potential.

In terms of geographical distribution the SME sector is dominant all over Montenegro. However, the largest number of SMEs (68%) is concentrated in five municipalities: Pogdorica, Budva, Herceg Novi, Bar and Niksic.

Impact of the global economic crisis

The economy continued to expand, albeit at a slower pace in 2008, with an estimated real GDP growth of 7%. This growth performance has been underpinned by robust domestic demand fuelled by large foreign direct investment inflows and very rapid credit growth. As a result, the current account deficit widened to an estimated 36.4% of GDP in 2008 from 32.5% in 2007. On the fiscal side, the general government balance is estimated to have recorded a surplus of about 1% of GDP in 2008, thanks to larger than expected revenues and privatisation receipts.

The impact of the global financial and economic crisis started to be felt in the last quarter of the year. Despite foreign parent banks having continued to provide liquidity to their subsidiaries, credit growth has significantly slowed down to 52% year-on-year in

November 2008 compared with 176% in 2007. In addition, foreign direct investment inflows declined by 9.9% in the first ten months of the year, following the weakening of the global economy and a reduced risk appetite for investments. On the real side, industrial production contracted by 2% in 2008, mostly as a result of the downsizing of the aluminium conglomerate (KAP) to minimize its financial losses, as aluminium prices fell sharply and electricity became more expensive. Demand-driven inflationary pressures started to ease in the last quarter of 2008, with inflation slowing to 7% by end-year. Montenegro has unilaterally introduced the Euro, therefore currency stability is not under question.

Downside risks are significant, particularly given the narrow basis of the Montenegrin economy and foreign-owned domestic banks relying on their parent banks' support. Due to the global economic crisis, the activity in the tourism sector and foreign direct investment inflows could significantly slow down further, thus undermining economic growth. In addition, the future of KAP, the country's main exporter, which accounts for nearly half of all export revenues, is uncertain.

The global financial crisis has affected the financial sector in Montenegro, by means of a growing lack of confidence among depositors:

- Prva Bank, the second largest bank in Montenegro started to delay payments to its depositors. The main reason was a strong growth of the loan portfolio, which resulted in a very poor asset quality, due to large exposure to the real estate sector. When new inflows of deposits did not occur, the bank started to suffer from liquidity problems. The bank has started to use obligatory reserves, dismissed top management and replaced the board. For many clients, these events brought back memories of painful events which occurred during the 1990s, when many depositors lost their bank savings.
- Unsettling information in the media about a significant drop of the share price of Hungarian OTP Bank led to a bank run on CKB, the largest local bank, which is 100% owned by OTP.
- The maturity structure of deposits in the Montenegrin banking sector is in favour of sight and short-term deposits and their origins are mainly from foreign direct investment, of which 50% are related to real estate businesses. Some investors have postponed their real estate investments in Montenegro.

During 2008, the government has approved a number of new laws to preserve the liquidity and solvency of the Montenegrin banking system. In summary the key areas are:

- Guarantee of the deposits of all private and legal entities (national as well as foreign);
- Guarantee of inter-bank lending, limited to nominal value of the bank's shares and secured by a pledge on the bank's shares;
- Provision of credit support for up to one year, at ECB interest rate, limited to nominal value of bank's shares and secured by a pledge on the bank's shares;
- Recapitalisation of an ailing bank through the purchase of its shares at nominal value, leading to its nationalisation. This can be done either at the request of a bank, or at the request of the Central Bank, pending the approval of the government to allow a compulsory purchase of a bank, where the stability of the banking system is at risk;
- Permission for the banks to release 50% of their liquidity reserve from the Central Bank, for a maximum period of 30 days.

2. SME policy and public-private consultation

Institutional policy framework

In terms of institutional framework for the SME Policy, the main body in Montenegro is the Directorate for Development for Small and Medium Size Enterprises (SMEDA), which has the following co-ordination and implementation functions:

- Defining the strategy for the development of SMES;
- Preparing and implementing programmes and projects for SMEs;
- Providing expert assistance and participation in the preparation of regulations related to the development of SMEs;
- Exploring the impact of legal costs on the development of SMEs.

The co-ordination function is shared by the above-mentioned Directorate and the Department for Industry and Entrepreneurship in the Ministry for Economic Development, but the latter has not the capacity to carry out alone its activities entailed by this function. It is headed by an Assistant Minister and it employs two people. The main activities of the Department are law drafting and defining the strategy for the development of SMEs.

The Directorate of Small and Medium Sized Enterprises is well organised and well staffed in order to carry out its functions. This 'agency' employs 20 persons out of which 17 are professional staff. The budget of the agency is EUR 3.15 million, being one of the biggest in the region, and there is also a network of nine regional and local offices.

In Montenegro, inter-ministerial co-operation appears to take place on a regular basis as the Work Programme of the government identifies for every piece of legislation or strategic documents the ministries that must be consulted in conformity with the topic discussed. Furthermore the pieces of legislation should be prepared by inter-ministerial working groups which include the respective ministries and external experts. Starting from 2007 a new requirement was introduced requesting that a law should be preceded by a policy document also open to public discussion. Although some of the consultations started too late in the process, the co-ordination system in place in Montenegro seems to be adequate.[2] A good example in this sense is the Council for Elimination of Barriers to Business, established to work on the Programme for the Elimination of Barriers to the Development of Entrepreneurship. It is composed of the Prime Minister and several other ministers, the President of the Commercial Court and the presidents of the Chamber of Commerce, of the Employer's Union and of the Montenegro Business Alliance.

In October 2007 the government of Montenegro adopted the Strategy for SME Development for 2007-2010, intended to create a favourable business environment for development of a competitive SME sector that would boost economic development, macroeconomic stability and standards of living. The Strategy includes 11 operational goals and the work on their achievement is progressing well.

Public-private consultation framework

There are several business representation organisations in Montenegro, operating at the national level due to the small dimensions of the country. The main ones are the Employers' Union, the Montenegro Business Alliance and the Chamber of Commerce. Out of the three the first two have strong advocacy role, although the second one seems to protect more the interest of the foreign investors and bigger companies. The Chamber of Commerce has strengthened its role in the last period, but could still invest more effort in advocacy and services. There are also, within the Chamber of Commerce, sectoral associations, including the Association of Small Enterprises and Entrepreneurs.

Regarding the public-private dialogue, it seems that there is a strong emphasis on this aspect. Although an institutionalised body for PPD is only present in the case of elimination of business barriers (see the institutional framework), there are clear requirements in the Rules of Procedures for the public consultation. There is a real dialogue between the government and the business community, although on an *ad hoc* basis, which could be a good example for the region.

Simplifying existing legislation and reducing the administrative burden

In October 2007, the government adopted the Programme for Eliminating Barriers to the Development of Entrepreneurship in Montenegro, including an analysis of the barriers for business development, as well as suggestions for their elimination according to annual plans. The Operational Plan for 2008 was adopted in April 2008 and envisages measures in the following fields: registration of companies, licences and permits, bankruptcy procedures, property registration, import /exports barriers, labour market, etc. The 2008 Operational Plan is only partly implemented, the biggest advance being represented by the adoption of a new Law on Spatial Planning and Construction in July 2008, replacing several previous laws.

Montenegro is considering the widespread application of the silence-is-consent principle to other sectors of the public administration, apart from the business registration, and the amendments to the Law on General Administrative Procedure are in preparation.

Regulatory impact analysis

For the moment, regulatory impact analysis is not applied in Montenegro. Its introduction is envisaged for December 2009. The only analysis carried out regularly is the financial impact assessment, although not all ministries have the appropriate capacity to carry out this task.

3. Operational environment

Company registration

Montenegro has been one of the first countries in the Western Balkans to reform the company registration process and establish an electronic company register. The reform dealt successfully only with the first step in the business start-up process, the issue of the company certificate that can be delivered in less than two days for a low fee (around EUR 11). However, the reform has not touched yet the other phases of the start-up process, notification and compliance. Over the last two years, the only relevant change in the start-up process has been a marginal cut of the already low company registration fee. As other countries in the region have made substantial progress in the start-up process, the relative position of Montenegro in this dimension has deteriorated.

The notification phase is still not streamlined, with each administrative authority retaining its own registry, requiring a separate registration process and issuing a separate registration number. As a result, five registrations and identification numbers are still required (including commercial court, statistical office, customs, labour office and tax office). However, the main obstacle to complete the start-up process is connected to the requirement of obtaining a municipal business licence for all business activities. The license is issued after the completion of a municipal inspection. In addition the new entrepreneur has to produce a paper dossier, including certification of registration with the company registry and the other administrative entities. This set of information could be easily accessed by the municipality by consulting the electronic registries. The inefficiency of the double registration process, at national and municipal level, was already highlighted in the 2007 Charter report. The government intends to tackle this issue as part of the regulatory reform programme.

Enhancing SME competitiveness and strengthening the technological capacity of SMEs

As noted in the previous report Montenegro had introduced a number of programmes directed at supporting export-oriented and innovative companies. Most of those programmes are supported by donor funding and they are co-ordinated by the SMEDA. Over the last two years there has been no major new development in this area.

Regarding export promotion, the agency (besides providing training services for exporters and supporting trade missions), is working in co-operation with the Chamber of Commerce, the International Trade Centre and GTZ on the establishment of a Trade Information Centre. The Competitiveness and Export Department of the agency is also in charge of managing a co-financing and cost-sharing scheme to support exports. So far nine projects have been approved for a total amount of EUR 1.65 million. In addition 23 applications have been received for the cost-sharing scheme supporting marketing activities abroad.

By contrast, Montenegro's position in relation to innovation and technological support for SMEs is relatively weak and no significant policy development has taken place over the last two years. The Centre for Design and Development at the University of Montenegro in Podgorica, already mentioned in the previous report as the main initiative in this area, is still not operational.

Intellectual property rights

Montenegro is a specific case. Under the Union of Serbia and Montenegro, IPRs were covered by a State of Union Law. After independence, declared in June 2006, Montenegro has continued to apply the pre-existent IPR legislation. However, amendments on administrative fees were introduced in April 2008, a Law on Geographical origins was adopted in July 2008 and a draft law on patents has been approved by the Council of Ministers.

Access to finance

The banking sector continues to grow rapidly, bringing much-needed credit to the private sector but also raising concerns about possible overheating. Total domestic credit rose by 165% in 2007 but slowed somewhat in 2008, reaching 81% year-on-year by mid-2008 as a result of the banks' reduced appetite for risk and of new regulations introduced to restrict credit expansion, effective from January 2008. In October 2008, the authorities took steps to reduce the risks arising from the ongoing global financial turmoil. They announced a full guarantee of all bank deposits, removed ceilings on credit growth, and passed a law authorising the government to provide direct support to banks. The latter was applied in December 2008 to lend EUR 44 million to the financially troubled Prva Banka, the second largest bank in the country. According to the new measures, the largest commercial banks, with net credits in their balance sheet of over EUR 200 million, are obliged to limit their annual credit expansion to 30%. The smallest lenders, with credit portfolios of less than EUR 100 million, will be

	2005	2006	2007	2008
Real growth in credit to the private sector	30.7%	119.1%	146.2%	16.5%
Domestic credit to private sector to GDP, official data	20.7%	39.4%	88.4%	95.4%
Bank lending to enterprises, share in GDP	17.5%	35.9%	85.9%	N/A
Bank lending to households, share in GDP	6.4%	17.3%	32.8%	N/A
Share of total non-performing loans of banks in total loans	5.2%	2.8%	3.2%	N/A
Average capital ratio of all banks (capital/ total assets)	15.3%	10.4%	8.0%	N/A
Asset share of foreign-owned banks	87.7%	91.9%	78.7%	N/A

Source: EBRD.

allowed to increase their extended credits by no more than 60% annually. A ceiling of 40% on credit growth is applied to lenders that have outstanding loans in the range of EUR 100 million to EUR 200 million.

Legislation to regulate the establishment of Credit Guarantee Funds was approved in 2008. The *Doing Business* report indicates that banks can accept movable assets as collateral and that the definition of collateral is flexible. The cadastre covers about 51% of the territory (mostly urban areas), or 79% of cadastral parcels. A Secured Transaction Registry is in place for registration of pledges and liens. On the basis of the contract with the registry, authorised persons (lawyers and commercial banks) can file a notification statement electronically. Other entities can file notification statements in a written form or by telefax, and they can search the database of the registry online, check the accuracy of data entered by the registry staff and obtain other relevant information.

A public credit registry is in place and started sharing information with banks and microcredit financial institutions in the second half of 2007. The decision on amendments to the reporting decision (Form KR) of 6 June 2007 eliminated the minimum loan threshold of EUR 3 000 to include loans in the database; now, all loans are listed in the registry. However, legislation is not yet in place to ensure that all individuals can access their data.

There are two stock exchanges in Montenegro. The Montenegro Stock Exchange was established in June 1993 by four Montenegrin banks and the Montenegrin Agency for Economic Restructuring and Foreign Investments. The second stock exchange is the New Securities Exchange, established on 20 September 2001. According to the Securities Law, trading of securities can be performed only at the official stock exchanges; therefore no OTC market exists in Montenegro.

In 2005, the EBRD benchmarked the Montenegro securities markets legislation with the *Objectives and Principles of Securities Regulation* published by the International Organisation of Securities Commissions. The results demonstrated that the national legislation is in medium compliance with international standards, with major deficiencies registered in the Collective Investment Schemes section. This reflects gaps in the legal framework as collective investment schemes are not regulated by law.

A Law on Investment Funds was adopted. In accordance with this law, privatisation funds were re-registered as investment funds. The Securities Commission, within overall monitoring of market, monitors establishment and operations of investment funds. The only exit possibility is direct sales on the market.

Voluntary liquidation is regulated in accordance with international standards. A decision on a company's liquidation is made by at least two-thirds of its shareholders and the decision is published in the *Official Gazette*, as well as a decision on appointment of the liquidator who has all powers of a board of directors and does all things necessary for beneficial liquidation of the company. With regard to the cessation of existence of an insolvent entity, it incorporates three proceedings:

reorganisation, liquidation and orderly self-liquidation. The role of the court is brought down to the supervisory and ruling functions, whereas the emphasis on the liquidation proceedings is put on the administrator and creditors.

4. Services for SMEs

Improving online access

With respect to the improvements made in online access for SMEs and their interaction with government institutions, the Montenegro Tax Agency (the institution responsible for tax payment and supervision and provision of information regarding taxes paid by physical and legal entities) has been working on the development of software for electronic filing of the tax returns of small and medium taxpayers. This system is only partially functional, mainly due to technical problems.

Concerning online filing of social security returns, the law on common registration and reporting system on calculation and tax and contribution payment has been adopted. However, the simplification of the procedure for establishing a business, consisting of unifying the collection of all taxes and contribution under a single body, has not yet been enacted.

Montenegro has a relatively well functioning Enterprise Statistics office, including a separate database for business and certain reporting requirements. However, online reporting on statistics is not yet possible, but is included in the first phase of a Central e-Government Portal.

The Public Procurement Bureau operates a website which is part of the general web portal of the Government of Montenegro, but it lacks relevant and updated information. The agency for real estate transaction has a solid database which is searchable and accurate, and provides detailed information about land ownership in Montenegro, although it lacks maps with parcel numbers. Another issue is still the time delay it takes from the actual purchase until the new ownership title appears online, which is never less than one year.

Most services for enterprises can be found on the websites of different SME stakeholders, agencies and institutions. These websites are regularly updated. The websites of three key business organisations are up to date and provide useful information on their activity. However, an SME-dedicated portal is lacking, but is currently under elaboration.

SME support facilities and services

Montenegro is currently establishing its first incubator, initiated by SMEDA and the Municipality of Podgorica, with the support of EU and EBRD, through the TAM programme. The incubator premises are provided (50m2 for administrative staff and 120m2 for tenants of the incubator) and a list of potential tenants has been identified. The main activity of the incubator will be developing IT technologies.

Montenegro has established a network of regional and local business centres (six regional and three local), including a range of services: consulting, business plans development, referral services, etc. The network of private consulting agencies has expanded somewhat since the 2007 report, but the quality certification of business services offered to enterprises is still in its early development phase. Nevertheless, the business service providers have lately expressed the need for introducing quality standards and certification procedures for the provision of business services, which would lead to establishing real competitive conditions in the business services market.

Regarding the information available to SMEs on business, a national directory of business services providers has been compiled by SMEDA, and is available through the network of regional and local business centres and the EICC. Personalised business information is available in paper form from the regional/local business centres' network and EICC.

The Law on Electronic Data and Electronic Signature was adopted in 2003, but the lack of a functioning accreditation body has hindered effective implementation and an integration of the e-signature with services of e-government.

5. Human capital

This section addresses the human capital dimensions of the Charter: entrepreneurship education and training, and availability of skills.

Montenegro's efforts in accommodating the policy recommendations from the Charter on entrepreneurship education and training since the 2007 report are particularly marked by the development of a lifelong entrepreneurial learning strategy and an action plan (2008-2009). This is backed up with state funds to deliver a limited number of actions. While the strategy has value as a stand-alone instrument, the inclusion of entrepreneurial learning within a wider battery of policy documents and action programmes (e.g. National Action Plan for Employment 2008-2009, SME strategy, National Strategy for Employment and Human Resource Development, HRD Montenegro 2017) reinforces its overall potential in ensuring that the various strands of the lifelong entrepreneurial learning strategy are followed through. A second factor has been the mobilisation of an entrepreneurial learning partnership. It will be important that the partnership established for the purposes of strategy building is sustained and that commitments to funding of entrepreneurship promotion (particularly in the schooling system) are realised. This would allow for a more systematic tracking of entrepreneurial learning activities for monitoring and evaluation purposes, which remains to be developed.

Turning to efforts to promote entrepreneurial learning in lower and upper secondary education, the assessment finds significant efforts in promoting more open teaching and learning arrangements in public schooling. This includes entrepreneurship as an elective subject in upper secondary education, although the extent to which enterprise engages directly with the teaching and learning process is difficult to determine. Further, an important step has been taken to integrate entrepreneurship as a key competence with strategic piloting in the Berane region, including curriculum reform and teacher training. A next step is to determine how the Berane experience can be mainstreamed into wider national curriculum, involving initial and continuing teacher training efforts of Nikši Pedagogical Training Faculty and the Bureau of Education. The momentum of Berane reforms, including the high level of teacher and community engagement, should be maintained.

Data on training requirements of the enterprise environment remains an area for government and enterprise to work on together if Montenegro is to ensure that the quality of its human resources meets the requirements of a more competitive enterprise environment. A small-scale TNA initiative of the Montenegrin Employers' Federation (MEF) has generated discussion on how more developed intelligence on human capital within Montenegro's enterprises could evolve. Follow-up support for more developed data build-up is foreseen from the European Union. This effort should address budding entrepreneurs up as well as post-start up training, in order for Montenegro to more strategically monitor the impact of training for new ventures.

With respect to growth enterprises, there is clear policy recognition of the need for investment in management and occupational skills within the entrepreneurial learning strategy, although this target group does not feature in the action plan that accompanies the strategy. An MEF-led initiative to improve enterprise training intelligence should ensure that growth enterprises feature within its priority target groups.

Quality assurance for training programmes and training providers remains to be addressed systematically, while more needs to be done in developing information services to allow enterprises to more easily identify training offer.

Finally, efforts are being made to disseminate good practice in entrepreneurial learning and enterprise skills. Plans by the SME Directorate to establish a web portal will significantly reinforce the visibility of the range of effort. The remaining challenge for Montenegro on the good practice indicator is to demonstrate how know-how from Montenegro can be transferred internationally.

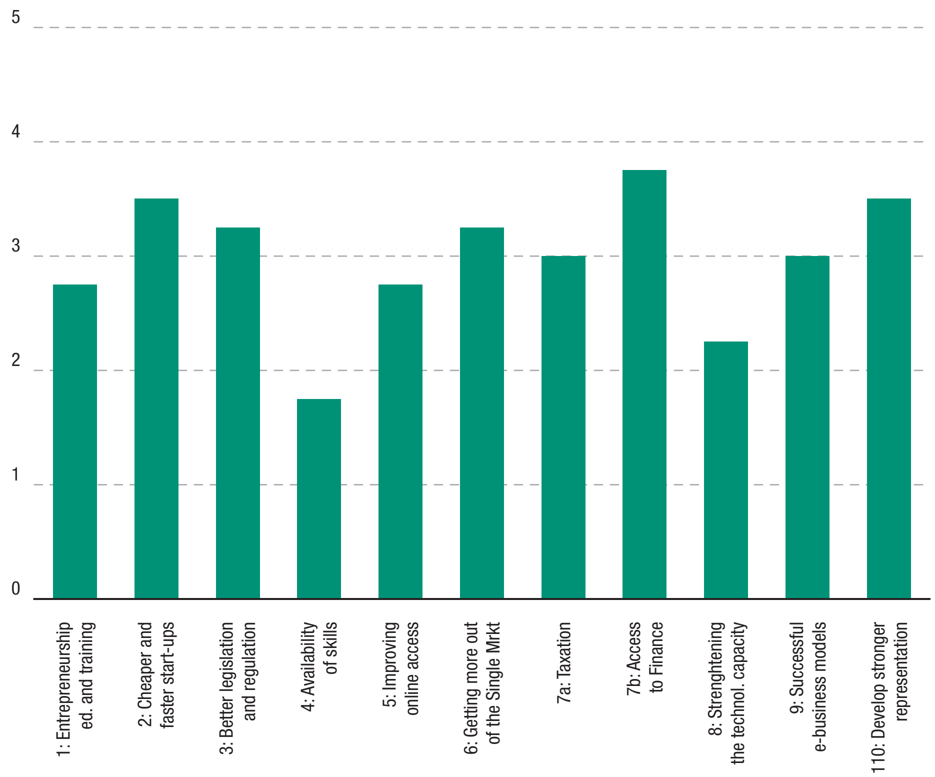
6. The way forward

Better online access: In order to make the search for online information and services for SMEs less cumbersome, SME-relevant information and links should be bundled in a single SME-specific online portal, which is regularly updated and allows for interaction between SMEs and the administration.

E-business and SME support: There is an urgent need to complete the regulatory framework for introducing the electronic signature and to establish a functioning and legitimate accreditation body. This is a precondition to developing electronic commerce and more advanced online business-to-business functions, as well as for making the most of online government services.

Human capital: A partnership arrangement for elaboration of a national entrepreneurial learning strategy will need continued political and financial support to ensure its strategic value is sustained. A next task for the partnership would be to provide a monitoring and advisory role to a planned National Employment and HRD Committee. Secondly, the good work and expertise developed in the Berane region on entrepreneurial learning should be transferred to other parts of the country. Finally, MEF plans to develop more systematic intelligence on enterprise human capital will need the full support of government.

SME Policy Index scores for Montenegro per Charter dimension (2009)[3]



Notes

1 *National Agency for Development of Small and Medium-Sized Enterprises.*

2 *Source : Sigma.*

3 *Although this report is published in 2009, data collection took place in 2008. For the SME Policy Index Report 2007, data were collected in 2006. All SME Policy Index scores have been rounded up or down to the nearest 0.25*

Serbia

1. Overview

With global financial turmoil increasingly spilling over to Serbia, the authorities requested assistance from the International Monetary Fund. Serbia's external and domestic economic environment has deteriorated abruptly and relentlessly. Exports and imports have plummeted, external borrowing has dried up and economic activity slumped. In this difficult setting, after strong growth in 2007 with 7.5% of GDP and in 2008 with 6.1% of GDP according to EBRD projections, Serbia's GDP growth is likely to be negative in 2009, with limited prospects of recovery next year. The arrangement envisages a loan of around EUR 3 billion with a programme period of 27 months until mid-April 2011. The authorities' policy package includes two elements: a large and balanced fiscal adjustment package and the maintenance of foreign banks' commitments in the country.

SMEs dominate Serbia's economy[1], representing 99.8% of all registered businesses. Within the European Union, SMEs account for 70% of total EU turnover and represent 60% of total EU GDP. In Serbia, the SME sector already accounts for 67.6% of total turnover and represents 56.7% of national GDP. The sector's significance in the overall economy is mirrored by its weight in the overall employment figure. 65.5% of the total number of employees in Serbia (54.7% in 2004) are employed in the SME sector, with a dominant share of SMEs in private ownership accounting for 46.5% of the employed in the economy.

Despite the growth in SME activity achieved over the past years, Serbian SMEs still face large challenges in increasing their competitiveness and export potential, and are still hampered by financing difficulties. SMEs in Serbia concentrate on the local market and lack export competitiveness with only a 43.9% share in total exports. Serbia also needs to improve the situation of women in the economy. The employment rate of women (40.8%) is below the average of the developed countries (around 56%). The unemployment rate of women in Serbia (27.4%) is also significantly higher than that of men (17.6%) and increasing rates of female entrepreneurship offer one solution to this problem.

SMEs in Serbia are classified according to the number of their employees:

Serbia's SME classification	
Micro	Up to 9 persons
Small	10-49 persons
Medium	50-249 persons

The EU definition of small and medium-sized enterprises consists of firms that employ fewer than 250 people, and have an annual turnover not exceeding EUR 50 million and/or a balance sheet total not exceeding EUR 43 million. The definition of SMEs in Serbia is based on the same criteria as the EU definition; the classification of thresholds differs in absolute terms because of Serbia's economy size and performance. The number of employees is the main criteria employed in both definitions and there is consistency between them, seconded by turnover and balance sheet figures.

Within the SME sector, micro companies dominate the Serbian SME sector in number, turnover and total value added, but in proportion to their number, small and medium-sized enterprises make the largest contribution. Accordingly, economic efficiency increases with enterprise size in the SME sector. Growth in turnover by micro enterprises has been decreasing, while that of both small and medium-sized enterprises has been steadily increasing.

While SMEs are dominant in all economic sectors of Serbia, evidence suggest that general trade and repair services play a very important role, both being activities which emerge easily in a developing economy. Out of the total number of SMEs 65% of them are concentrated in the following three sectors: wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods (37.5%), manufacturing (16.8%), and transportation, warehousing and connections (10.7%). The highest value added as a percentage of total value added is provided in the trade sector, closely followed by the manufacturing sector. The challenge for technical assistance programmes will be to assist the building of higher value added sectors which the Serbian economy can build upon, including those with export potential.

In terms of geographical distribution the SME sector is dominant all over Serbia. However, the largest number of SMEs (46.6%) is concentrated in four districts: the City of Belgrade, the South-Backa District, Nis District and South Banat District. These districts also correspond to the districts with the highest turnover achieved, closely followed by Srem District, where small and medium-sized enterprises have slightly higher turnover than enterprises in the South Banat District.

Donor programmes, which until now have focused their activities on the capital, are increasingly targeting the regions. Programmes need to be adapted as firms in the regions face less competition, a less developed business environment and a lack of qualified workforce.

Impact of the global economic crisis

As a consequence of the current global financial crisis, the Serbian economy is likely to slow down with a protraction of both exports and imports in 2009, accompanied by a sharp reduction of Serbia's current-account deficit. The country's full-year current-account deficit surged to about 20% of estimated GDP in 2008, while gross external debt rose to approximately 68% of GDP. In January 2009, the current-account gap dropped to a preliminary EUR 72.9 million, down dramatically over the revised year-earlier level of approximately EUR 351.2 million. The extent of Serbia's recent fall of 17.1% year-on-year in industrial output is alarming and can be expected to have adverse effects on other parts of the economy.

Major privatisation or foreign investments have been delayed or cancelled. After three failed attempts, the Serbian government has given up for now trying to sell a majority stake in the Bor mining complex. The tender for sale of 51% of JAT Airways failed in October 2008 as no suitors filed bids by the deadline. The privatisation of JAT Tehnika and the third attempt to sell IMR Rakovica failed as well. According to unofficial estimates, there are still between 300-500 smaller state-owned companies whose privatisation could be delayed due to the global financial crisis. US Steel Serbia and Tigar Tyres – the country's biggest exporters – have already started to experience financial difficulties, forcing them to temporarily suspend production. More generally, foreign direct investment is likely to drop sharply this year, not so much because of a perceived deterioration in the investment climate but simply because investors will find it more difficult to raise the required funding. The delay in Fiat's investment in Zastava is an example of this. The moderation of foreign direct investment inflows and more limited access to external loans have substantially raised the financing risks of Serbia's external deficits. Serbia's sovereign risk outlook has deteriorated once again, due to rising external imbalances and the heightening impact of the global financial crisis.

In February 2009, the government adopted a set of measures for alleviating the effects of the global financial crisis. The programme envisages setting aside EUR 1.3 billion for stimulating production and export through improving the liquidity of the economy and the purchasing power of the population. State funding will encourage banks to finance businesses, withdraw additional funds from their head offices, and enable citizens to buy local products under favourable terms. The cabinet will also set aside additional funds for securing 5.5% annual interest rates for the loans. Furthermore, it will allocate EUR 179 million for investment loans, of which 30% would be disbursed by the State Development Fund, while the remainder would be disbursed by the local lenders. Under the incentives for the local economy, the government will use an additional EUR 400 million in international loans earmarked for SMEs. Another measure announced by the government is the direct subsidising of consumer loans for purchasing local products.

Hit by a deepening crisis, the Serbian government is also asking the International Monetary Fund for some EUR 3 billion over the next two years that would help boost foreign currency reserves and provide balance-of-payments support. Serbian officials began a fresh round of talks with the International Monetary Fund on 16 March 2009, aimed at reaching a new stand-by arrangement to help secure the country's macro-economic position. If approved, the new loan would substantially raise funding to the troubled Serbian economy, replacing a preliminary agreement worth approximately EUR 398.6 million that was reached in November 2008 and which has not yet been drawn upon. If the Serbian authorities fail to reach a new agreement with the International Monetary Fund, the country's external position would be very complicated, serving as a trigger for a sovereign risk downgrade. Fitch ratings revised the Serbian outlook for 2009 from stable to negative on 30 December 2008.

2. SME policy and public-private consultation

Institutional policy framework

The institutional structure of the SME policy in Serbia remained unchanged from the previous report on the Charter's implementation. The institution in charge of elaborating the SME policy is the Ministry of Economy and Regional Development (MoERD), through the Sector for the Development of SMEs. MoERD is supervising the activity of the Agency for the Development of SMEs and co-operates in developing the strategic documents with other agencies such as the Serbian Investment and Export Promotion Agency, Export Credit Insurance Agency and National Employment Agency.

The implementation of the policy is conducted by the Serbian Agency for the Development of SMEs, established in 2001. The agency works closely with MoERD and defines its annual and quarterly work programme and activities together with the ministry. The agency also developed a network of regional agencies (14) and local centres (17), employing 35 permanent employees and 18 contractual agents for the offices across Serbia. Of them, 26 are professional staff. The agency is financed from the national budget and its own resources, its 2008 budget amounting to approximately EUR 3 million. The agency is also managing the start-up support facility providing grants to new companies operating under the National Development Fund.

The co-ordination body in Serbia regarding the SME policy is the Small and Medium Enterprises Council established in 2006. The tasks of the council are monitoring and analysing the state of the SMEs, offering support for the development and the implementation of the SME policy, and acting a forum for co-operation among different ministries. There are 12 members, of whom 7 are representatives of the ministries with a role in influencing the business environment of SMEs and 5 are representatives of the business community. Although the SME Council should meet every month, and submit quarterly reports to the government, the meetings were not frequent in 2008, due mainly to the elections that took place in that year and to the frequent changes of the different ministries' representatives. However, the council worked on several important documents, such as drafting the SME strategy for 2008-2013, adopting the Programme for the Development of Business Incubators and Clusters for 2007-2013, etc.

In October 2008, Serbia adopted a new strategy for SMEs, the Strategy for the Development of Competitive and Innovative SMEs for the period 2008-2013. The new strategy is based on five pillars:

Promotion and support for entrepreneurship and business start-ups;

- Human resources for a competitive SME sector;
- Financing and taxation for SMEs;
- Competitive advantages of SMEs in export markets;
- Serbia's legal, institutional and business environment for SMEs.

Although the strategy is accompanied by a detailed operational plan, its implementation cannot be assessed yet. Particular attention should be paid to the estimation of the costs to implement it and how the necessary budget will be gathered, while considering the donors' help. The previous strategy for the period 2003-2008 contributed to the improvement of the business environment, improvement that is also visible in the higher scores on the SME policy index.

Public-private consultation framework

In terms of SME representation, Serbia made significant progress since the last assessment exercise, when it was at the bottom of the classification. This is due mainly to the reform of the national Chamber of Commerce and the establishment of the SME Forum. Both the advocacy function and the capacity to provide services increased. In addition, it created an external network, with offices in 10 countries. Apart from the Serbian Chamber of Commerce the network of chambers comprises 16 regional and 2 district chambers. The focus on SMEs has increased. However, their efficiency in promoting SMEs' interest and offering the right services for SMEs has still to be improved.

Apart from the chambers system there are several associations including SMEs. According to the government's self-assessment, there are 161 general associations of entrepreneurs. However, although these associations might influence the decision-making process at the local level, only those associated with the chambers can make their voices heard by the government. One such association is the Association of Business Women, which is very active in promoting both the interest of women entrepreneurs and entrepreneurship among women in Serbia.

As per the section on institutional policy frameworks, it is advisable for the SME council to also operate as the main institution for public-private consultations in Serbia.

Due to the infrequency of meetings, the low representation of the business community and the fact that this council operates more as an inter-ministerial co-ordination body, the Serbian Chamber of Commerce initiated an SME Forum. Although it started out with *ad hoc* meetings with the government, the intention is to establish it as a consultative body to the government that will meet regularly.

Simplifying existing legislation and reducing the administrative burden

The inherited regulatory setting from the ex-Yugoslav Republic together with the introduction of new legislation after its dismantling (which is characterised by the lack of insight on the impact of legislation on stakeholders, lack of co-ordination between different ministries in elaborating it and a poor enforcing capacity) make regulatory reform in Serbia very important.

In 2003, the Council for Regulatory Reform and Quality Control was established in order to assist the government in the regulatory reform process. Although the council contributes to the entire reform process, its main contribution is in the RIA area (see section on RIA).

The Council elaborated the Regulatory Reform Strategy for 2008-2011, which was adopted in October 2008. The action plan for this strategy was in preparation at the time of the cut-off date. It is expected that the comprehensive review of the legislation be conducted in the period ending 2008 - 2009. One objective of the strategy is to reduce the administrative costs for business by at least 25% by 2011. The key elements[2] of the strategy are:

- Principles of good regulatory practice;
- Comprehensive regulatory review;
- Strengthening RIA implementation;
- Tools for maintaining the quality of regulatory environment;
- Establishing the tools for co-ordinating regulatory activities.

For the moment the silence-is-consent principle applies only to business registration, but this principle should be extended to other fields as well, such as licenses and permits and where the public administrations normally take a long time to decide.

Regulatory impact analysis

RIA has been applied in Serbia since 2004, this country being the most advanced country in the region in this domain. The obligation to undergo RIA for the new pieces of legislation is included in the Rules of Procedure of the government of 2005. It applies to all pieces of draft legislation, and also for several pieces of existing legislation (the Law on Business Companies, Business Registration Law and Insolvency Law). There is good evidence that the outcomes of RIA were used to change or cancel legislation.

In order to assist the different bodies of the government in applying RIA, the government established the Council for Regulatory Reform and Quality Control (see above).

The government of Serbia received EUR 2.4 million in support for developing RIA from the Swedish International Development Co-operation Agency (2006-2010) and help from the World Bank Group. Currently the type of RIA analysis applied in Serbia is a “soft” RIA due to the limited resources available that should be invested in a full RIA and is focused in the first phases on damage control. However, further improvement is necessary both in terms of personnel and methods used. A new law on RIA, providing for transparency and application of more sophisticated measures is envisaged. Also, specific testing for SMEs should be taken into consideration.

3. Operational environment

Company registration

Serbia has been one of the first Western Balkan countries to implement a comprehensive reform of the company registration process. The Law on Business Registration was approved in 2004 and the Business Registration Agency (BRA), that took over the function of company register from the commercial courts entered into operations in November 2005. Today Serbia has an efficient and relatively low-cost company registration process in place and the BRA performance is highly valued by the business sector.[3] According to law, company registration certificates should be delivered within five days from application; in fact the procedure is completed on average within three days. The BRA takes charge of notification and registration with the employment organisation, the pension fund and the health fund. However a separate process is need for registration with tax authorities. This can take up to 15 days, but it is normally completed within 5 days. Serbia does not have a separate registration process for crafts. Over 95% of new start-ups register as a limited liability company. There have not been major changes in the company registration process over the last two years, but the overall performance of the BRA has generally improved. The introduction of new controls on money laundering has added one more step to the process, while the overall cost of starting a business in relation to GNP has slightly declined. The BRA has made the necessary preparatory steps to introduce online registration, but entry into operation is conditional to the introduction of the electronic signature.

Enhancing SME competitiveness and strengthening the technological capacity of SMEs

Over the last two years, Serbia has further improved its export promotion and export support system, so that it now ranks among the most structured and developed in the Western Balkans. The Serbia Investment and Export Promotion Agency (SIEPA) offers a wide range of integrated services to exporters, with support tailored to individual companies. A cost-sharing scheme is in place to support SME efforts in developing new products and entering new markets. SIEPA is now planning to open trade promotion offices in the main export markets, starting with Germany.

The government has also made progress in taking action to promote competitiveness and support the technological capacity of SMEs. In January 2008 the government formally established the National Competitiveness Council. Its membership includes all key economic ministries, the Central Bank, the main private-sector associations, leading academics and business leaders. Its mandate is to conduct analysis on competitiveness issues, elaborate policy proposals, monitor policy development and foster programme co-operation; it is expected to become a key policy forum.

The institutional and legislative framework is largely in place. Serbia has an Innovation Law, introduced in 2005, which defines activities and initiatives that can apply for government support. At the end of October 2008, 3 innovations centres, 20 research and development centres, 39 research and production centres, 2 technological parks and 3 technological incubators had registered with the Ministry of Science and Technology and became eligible for financial support covering up to 50% of their R&D projects, with a pre-determined cap. Budget allocation in 2008 amounted to EUR 4.7 million. A specific strategy for cluster development and business incubators, covering the 2007-2010 period, is under implementation. The government has also established a competitiveness fund to support SMEs of two years' existence or more in adopting technological and managerial standards. Donor-funded projects such as the USAID-funded Competitiveness Project and the Technical Support to Enterprise Policy and Innovation and Turn-Around Management Programme to support the pre- and post-privatisation restructuring and development of SMEs sponsored by the EC, with a value of EUR 3.5 million, provide support at company level and complement the government action.

Intellectual property rights

Over the last two years Serbia has made some progress in strengthening IPR legislation and improving the capacity of the institutions in charge of IPR supervision and enforcement. In October 2008, the government appointed the Intellectual Property Office as co-ordinator for all government activities concerning copyrights and improving institutional co-ordination. In June 2008, Serbia was invited to accede to the European Patent Office. However further improvements are needed in the enforcement area, through an increase in the number of specialised judges and a reinforcement of the market inspectorate.

Access to finance

Due to the financial crisis, year-on-year credit growth has decreased significantly. Serbia's banking system is still sound thanks to tight regulation. Official total banking assets at end June 2008 amounted to EUR 20.6 billion, but the real amount is higher due to cross-country loans. Bank lending conditions have significantly tightened with the crisis in the global financial sector. Funding from parent banks has decreased and banks experienced runs on deposits as savers withdrew EUR 1 billion. Less-affected banks are domestic banks such as Komercijalna Banka. However, they face equity and single-party exposure constraints. As a result of the lower liquidity banks have been experiencing, the central bank scrapped the reserve requirement on external borrowing in October 2008 (45% requirement on borrowing by banks, 20% on subordinated foreign capital and on funds extended to leasing companies). On 17 January 2009, the central bank reduced the key interest rate by 125 basis points to 16.5%, the first rate cut since October 2007. The government has increased the amount of guaranteed deposits of citizens, entrepreneurs and small and medium-sized enterprises to EUR 50 000 from EUR 3 000. Emergency funds will be included in 2009 budget to deal with a potential crisis in the banking system.

	2005	2006	2007	2008
Real growth in credit to the private sector	28.5%	10.3%	24.3%	16.5%
Domestic credit to private sector to GDP, official data	29.7%	29.8%	34.9%	37.5%
Bank lending to enterprises, share in GDP	N/A	N/A	N/A	N/A
Bank lending to households, share in GDP	7.6%	10.1%	12.6%	N/A
Share of total non-performing loans of banks in total loans	N/A	N/A	N/A	N/A
Average capital ratio of all banks (capital/ total assets)	16.2%	18.5%	21.0%	N/A
Asset share of foreign-owned banks	66.0%	78.7%	75.5%	N/A

Source: EBRD.

Banks have become more aware of the importance of the SME sector and all of them now have special departments to work with SMEs. Compared to the previous assessment on the implementation of the European Charter for Small Enterprises, Serbia has retained similar rankings with slight improvements in two areas: collateral and provisioning requirements, and venture capital and private equity funds. Serbia achieves the highest available score in the two newly introduced sub-dimensions for movable assets and credit information services.

Serbia's cadastre system is planned to be completed by 2010, with still 16% of land to be registered. The World Bank Real Estate Cadastre and Registration Project focuses on capacity building and institutional strengthening of Serbia's Republic Geodetic Authority thus speeding up completion and maintenance of the real estate cadastre, allowing firms to use mortgage as a collateral.

Serbia's Business Registration Agency and the National Development Fund have a fully functioning system for the registration of movable assets allowing firms to use movable assets as collateral in their efforts to access bank finance. Information is available online, free of charge with multiple search criteria.

The Serbian National Bank provides regularly updated credit information services on legal and physical persons, encompassing all positive and negative obligations. Credit information on physical persons, however, is available only to banks.

A further tool to support SME access to credit is the reduction of collateral requirements through credit guarantee schemes. The Serbian guarantee fund, Vojvodina Guarantee Fund and several municipal funds issue guarantees for SMEs out of every branch of economics, start-ups and agricultural producers. The Export Credit and Insurance Agency, and Serbia and Montenegro Export Credit Agency are focusing their assistance on export-oriented sectors. It is felt that overlapping of activities of these governmental funds may require merging and/or better co-ordination of the activities. Serbia's Strategy for Increasing Exports has started to focus on this. Furthermore, EBRD recommends that credit guarantee schemes be privately managed in order to achieve efficient resource allocation through the incentive structure of a well-functioning private sector mechanism.

As a result of the credit crunch, however, banks have dramatically slowed down lending to both retail and corporate customers. Collateral requirements for extending bank loans to enterprises are still high. In previous years, loans in local currency were more expensive than those in foreign currency, thus enhancing the foreign currency exposure of SMEs.

Lower inflows of foreign currencies and withdrawals of foreign currency savings caused the Dinar to depreciate. In October and November 2008 the central bank intervened with EUR 269 million and over EUR 230 million in order to smooth the exchange rate fluctuations. The weaker Dinar will negatively affect citizens and enterprises who borrowed in Euros, and importers and banks whose capital is Dinar-denominated. It will benefit exporters and citizens whose savings are in Euros. Changes were introduced to the currency structure of required reserves: 20% to be in Dinars and 80% in foreign currency (previously 90% in foreign currency and 10% in Dinars).

Serbia's bankruptcy law which came into force in 2004 is in line with international standards. Its enforcement is strongly backed by USAID's Bankruptcy and Enforcement Strengthening project. Key results to date are (among others) a comprehensive assessment of the existing Serbian enforcement system identifying problems and possible solutions; meetings with 13 major Serbian banks resulting in agreement to support reform of the enforcement system; and completion of a preliminary design for a new IT system aimed to significantly improve the efficiency of the bankruptcy system, along with standardisation of all documents and institutionalisation of best practices and procedures.

Since the Law on Financial Leasing came into force in 2003, Serbia witnessed a strong expansion of leasing companies (currently 17). The Law on Investment Funds which came into force in 2006 is a first step towards allowing the establishment of private equity funds. Operations of the funds, however, will be regulated by the Company Law. Several foreign private equity funds operate in Serbia but no domestic fund has been registered so far. Open End Investment Funds appeared in the Serbian market in 2007 after the relevant legislation had been passed. Currently there are 13 open end funds with assets of some EUR 22 million at end October 2008 (down from EUR 50 million) which is very small compared to the region. The largest funds are Delta Plus and Fima Proactive. The recent downfall in the stock market is turning investors and regional players away from the funds. Furthermore, the currently high capital gain tax (20%) is expected to be decreased to 10% which may provide additional motivation for investors to invest in these funds. The first funds to enter the market were closed private equity funds. The list below is not all inclusive:

- The most significant investments were made by funds managed by Salford (New World Value Fund, Virgin Islands and FFP Balkan Limited, Cayman Islands). These funds have acquired a number of successful and well-known companies in the food and beverage industry with a total investment of EUR 400-500 million (e.g. companies in the dairy industry; Bambi, a confectionery company; and Knjaz Milos, a water and beverage company).
- Southeast Europe Equity Fund (the previous name of Soros Investment Capital, Ltd. has invested in Serbian Broad Band Cable Company and has made other smaller investments in Serbia and Montenegro.
- In 2007, Emerging Europe Convergence Fund II managed by Mid Europa Partners acquired a majority stake in Serbian Broad Band Cable Company.
- Midland Resources has invested in a number of Serbian companies, most of which have been exited.
- Private equity firm Reconstruction Capital II made its first investment in Serbia in mid-2008 with the acquisition of 21.3% of East Point Holdings.
- SEAF, a private equity fund which invests smaller amounts, mostly below EUR 5 million, has made two smaller investments.
- 7L Capital Partners Emerging Europe L.P., a EUR 100 million private equity fund which invests in the region, has acquired the Internet provider Veratnet.

Second types of funds have taken minority stakes in companies of up to 10%. Some of these funds are Gustavson, East Capital, Herma, Falkon and Rafles. East Capital has been one of the most active funds and has invested over EUR 50 million in Serbia, with investments in 27 different companies (e.g. Metalac, Alfa Plam, Bambi, Banini, Cacanska banka etc.) with a total fund value of approximately EUR 1.5 billion.

The stock exchange is shallow and trading is on a small scale. Its size is quite small and has recently decreased drastically as a consequence of the financial crisis and withdrawal of foreign investors. At end October 2008, market capitalisation was only EUR 11 billion (end 2007 it was EUR 18.2 billion) out of which equities were EUR 9.6 billion and bonds EUR 1.6 billion. Trading on the Belgrade Stock Exchange in the first three quarters of the year plunged 50% year-on-year to EUR 800 million, with the bourse's blue-chip index BELEX15 losing 71% since the beginning of the year. Some of the most frequently traded stocks are majority domestically owned banks which are listed on the exchange.

4. Services for SMEs

Improving online access

It is still impossible for Serbian SMEs to file taxes, social security returns or any other government services online, which is due to the lack of a functioning accreditation body for electronic signatures (see next section on e-business and SME support). Enterprise statistics surveys can be downloaded online but have to be submitted by mail or in person.

Online information for SMEs is abundant in Serbia and is spread across several, well-structured websites that are available in Serbian, English and often one or several additional European languages. The most notable websites are those of the Ministry of Economy and Regional Development (Directorate for SMEs and Entrepreneurs), the Serbian Business Registration Agency, the National SME Agency, and the newly developed website of the Chamber of Commerce. Together the websites provide the SME sector with information on registration, taxation, regulations, credits, answers to frequently asked questions, and the possibility to ask specific questions. However, only the website of the Chamber of Commerce resembles a portal, bundling several websites and services. Nevertheless, the Strategy for Competitive and Innovative SMEs of the National SME Agency includes the creation of an SME-dedicated online portal and there are concrete plans to establish such a portal in 2009.

E-business and SME support

Serbia currently has 17 business incubators that are registered under the Innovations Law, of which 7 are operational. Within the National SME Agency, a training centre for business incubators was recently established.

No comprehensive network of business service providers has been established to date, although recent efforts have been made into that direction. In October 2008 a conference was held to create national and regional business consultants associations and a register of business consultants was initiated. The National SME Agency offers a range of consulting and mentoring services to SMEs, free of charge. The agency also encourages SMEs to use and pay for specific business services by subsidising up to 50% of the costs.

Regarding the availability of information on business services, the Chamber of Commerce keeps a fairly complete database on business services providers. Information from the database can be obtained on demand, both regionally and locally, although there are plans to make this information available online, through the website of the chambers of commerce, free of charge. SIEPA is offering an online catalogue of exporters and various providers (including business services providers), but its database is incomplete.

The Law on Electronic Signature was adopted in March of 2004 and the Public Postal Enterprise PTT Serbia has been nominated as the certification body pending accreditation.

5. Human capital

This section addresses the human capital dimensions of the Charter: entrepreneurship education and training, and availability of skills for enterprises.

Firstly, getting to a structured partnership for lifelong entrepreneurial learning within Serbia has been slow although there is already a good awareness amongst the wide range of stakeholders as to the importance of co-operation. A number of actors already demonstrate commitment to entrepreneurship education through their policies and activities (e.g. national employment office, vocational education and training services, youth services) with a particular effort being made by the economy ministry to raise the profile of lifelong entrepreneurial learning within national policy debate. However, given the importance attributed by the Charter to entrepreneurship within formal education, a more direct commitment of the education authorities to entrepreneurial learning will be important. To date, emphasis has concentrated on entrepreneurship in vocational education. Attention now needs to turn to general education (primary, secondary and higher).

Turning to education delivery, the assessment underlines that developments on entrepreneurship key competence (lower secondary) remain to be addressed at system level to ensure a more comprehensive application across the school network. Nonetheless, good efforts are being made in upper secondary education (primarily vocational) with more flexible teaching arrangements. This includes specific subject-oriented curriculum on entrepreneurship. Further, there are good examples of school-enterprise co-operation.

To move forward, the education authorities could consider establishing a working group to develop a lifelong entrepreneurial learning strategy as well as to determine curriculum, teaching and assessment arrangements for entrepreneurship key competence promotion in lower and upper secondary education. This could borrow on the experience, materials and know-how from existing non-formal education initiatives (e.g. Junior Achievement). More developed intelligence on non-formal education provision is required. In this regard, an initiative of the

Serbian Chamber of Commerce to develop an information portal for providers of entrepreneurial learning provides an opportunity to address this information gap.

On enterprise skills, a number of agencies undertake enterprise training assessments (e.g. national employment service, SME agency, Ministry of Economy and Regional Development) and use a variety of instruments. However, given their different objectives, getting to an overall assessment of enterprise training remains difficult. Bringing order to the diverse data sets will be important for policy purposes as well as national investment in enterprise training. To this end, a study underlines the importance for a more coherent intelligence framework for information on enterprise human resources. It advocates a pooling of intelligence by the range of institutions but with targeted training for analysts within sector-oriented committees. Should these measures be taken on board, an important step towards meeting the quantitative requirements of the Charter indicators will have been met.

With respect to training for growth enterprises, the Operational Plan for Development of Competitive and Innovative SMEs (2008-2013) provides an important framework for promoting business growth and where enterprise skills are given particular importance. A next step will be to ensure concerted support for human resource development for growth enterprises set against clear criteria to ensure investment targets the right companies.

A network of training providers ensures that training services are well developed across the country with a particular effort by the national SME agency through its local offices. Further, plans are in place to develop quality assurance and accreditation of training providers. This will help build confidence of enterprises in the training market. A planned initiative of the Chamber of Commerce for an e-learning platform should promote greater access of businesses to training provision.

6. The way forward

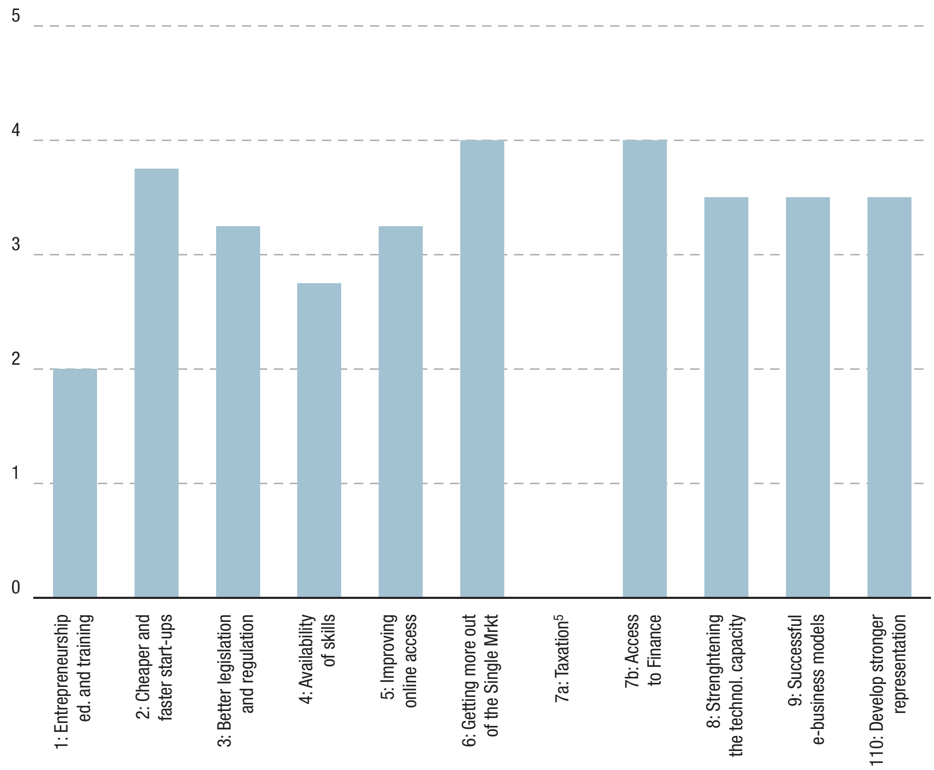
Access to finance: Capacity building and institutional strengthening of Serbia’s Republic Geodetic Authority, thus speeding up completion and maintenance of the real estate cadastre, allowing firms to use mortgage as collateral.

Merging and/or better co-ordination of governmental credit guarantee funds’ activities. Furthermore, EBRD recommends that credit guarantee schemes be privately managed in order to achieve efficient resource allocation through the incentive structure of a well-functioning private sector mechanism.

E-business and SME support: There is an urgent need to complete the regulatory framework for introducing the electronic signature and establish a functioning and legitimate accreditation body. This is a precondition to developing electronic commerce and more advanced online business-to-business functions, as well as for making the most of online government services.

Human capital: A more definite engagement by the education authorities into lifelong entrepreneurial learning will be important, including reflections on how entrepreneurship as a key competence can be brought forward in compulsory education. Universities should be included into the reflection and dialogue. Government and enterprise support institutions should determine how existing data on human capital within enterprises could be improved, borrowing on existing recommendations for a more coherent intelligence framework for information on enterprise human resources. Developments in quality assurance of the training market should be continued.

SME Policy Index scores for Serbia per Charter dimension (2009)[4]



Notes

1 *Report on Small and Medium-Sized Enterprises and Entrepreneurship 2007.*

2 *http://irr-network.org/document/477/Marusic-_Andreja_-2008a_Regulatory_Reform_in_Serbia._Regulatory_Reform_Strategy_2008-2011.html*

3 *FIC (2008), White Book 2008.*

4 *Although this report is published in 2009, data collection took place in 2008. For the SME Policy Index Report 2007, data were collected in 2006. Insufficient information was available to measure the dimension 7a Taxation. All SME Policy Index scores have been rounded up or down to the nearest 0.25*

5 *The data for Serbia is absent du to lack of information.*

List of abbreviations

AAEF	Albanian American Enterprise Fund
ACE	Action for Co-operation in Economics (EU Phare Programme)
APIU	Croatian export and investment promotion agency
APPRM	Agency for Promotion of Entrepreneurship (FYR Macedonia)
BAS	Business Advisory Service
BHEPA	Export Council and Export Promotion Agency
BIC	Business Information Centre
BICRO	Business Innovation Centre of Croatia
BRA	Business Registration Agency (Serbia)
CAR	capital adequacy ratio
CIT	corporate income tax
CIP	Competitiveness and Innovation Programme
EAR	European Agency for Reconstruction
EBRD	European Bank for Reconstruction and Development
EC DG ENTR	European Commission's Directorate-General for Enterprise and Industry
EEN	Enterprise Europe Network
EFSE	European Fund for South-Eastern Europe
EICC	European Information and Communication Centre
EIICM	European Information and Innovation Centre in Macedonia
EPPA	Enterprise Policy Performance Assessments
ETF	European Training Foundation
EU	European Union
FDI	foreign direct investment
FINA	Croatian National Financial Agency
FYR Macedonia	the Former Yugoslav Republic of Macedonia
GDP	gross domestic product
GEM	Global Entrepreneurship Monitor
GNI	gross national income
HAMAG	Croatian SME agency
HGSME	high-growth small and medium-sized enterprise
HITPOP	Croatian enterprise training website
HRD	human resource development
ISCED	International Standard Classification of Education
ICT	information and communications technology
IFC	International Finance Corporation
INSTAT	Albanian Institute of Statistics
IPA	Instrument for Pre-Accession Assistance
IPPC	Integrated Pollution Prevention and Control
IPR	intellectual property rights
ISEF	Information System for Electronic Filing
IT	information technology
I&T	innovation and technology
KBRA	Kosovo Business Registration Agency
KCB	Kosovo Central Bank
KPI	key public infrastructure
KTP	Knowledge Transfer Partnership

MEF	Montenegrin Employers' Federation
MELE	Ministry of Economy, Labour and Entrepreneurship
METE	Ministry of Economy, Trade and Energy (Albania)
METR	marginal effective tax rate
MoE	Ministry of Economy (FYR Macedonia)
MoERD	Ministry of Economy and Regional Development (Serbia)
NBMFI	non-bank microfinance institution
NCC	National Competitiveness Council
NRC	National Registration Centre (Albania)
NECC	National Entrepreneurship and Competitiveness Council
OECD	Organisation of Economic Co-operation and Development
OECD PSD	Organisation for Economic Co-operation and Development Private Sector Development Division
PIT	personal income tax
PPC	public/private consultation
PPD	public-private dialogue
R&D	research and development
RDA	regional development agency
RIA	regulatory impact analysis
SAA	Stability and Association Agreements
SBA	European Small Business Act
SEE	South East Europe
SME	small and medium-sized enterprise
SIEPA	Serbia Investment and Export Promotion Agency
SMEDA	Directorate for Development of Small and Medium Sized Enterprise (Montenegro)
SMEPED	SME Policy Enhancement and Delivery
TAC	Training and Consultancy
TAM	TurnAround Management
TNA	Training Needs Analysis
UNDP	United Nations Development Programme
VAT	value added tax
WBC	Western Balkan countries (including Kosovo under UNSCR 1244/99)
YES	Youth Entrepreneurial Service

The SME Policy Index Tool

1. ENTREPRENEURSHIP EDUCATION AND TRAINING

		Level 1	Level 2	Level 3	Level 4	Level 5	Weight for sub-dimension or indicator (1-3)
	Policy framework for entrepreneurial learning (EL)						**3**
1.1	**Policy partnership**	No structured co-operation between public, private and non-governmental sectors on EL.	An ongoing national dialogue with view to structure co-operation between public, private and non-governmental sectors on EL.	A national EL partnership has been established between public, private and non-governmental sectors to promote entrepreneurial learning.	State funds ensure sustainable contribution of EL partnership to national developments (e.g. administrative support, work plan, capacity development).	An EL national partnership advises on a range of national strategies (education, employment, SME, R&D) and action plans.	1
1.2	**Policy support resources**	No systematic allocation of financial resources to support EL policy implementation.	Pilot projects funds available (public and/or private) for EL developments (e.g. teacher training, teaching materials).	Dialogue ongoing between state authorities, private sector and philanthropic societies for co-ordinated financial support for systemic life-long EL.	National funds allocated for systemic EL development and detailed in annual education budgetary commitments.	Financial allocation for EL clearly identifiable within national education budget. National EL developments include financial commitment from public-private partnership.	1
1.3	**Policy elaboration process**	No evidence of clearly identifiable or articulated policy guidance available for the education sector.	EL recognised as developing feature within education policy instruments.	Policy instruments specific to each level of the education system clearly identify EL as a priority development area with due reference to curriculum, teacher training and school governance.	EL policy linkages are clearly articulated with SME, employment and R&D policy documents.	National economic development plan includes a specific chapter on life-long EL detailing specific and complimentary objectives for the various parts of the EL framework.	1
1.4	**Monitoring and evaluation**	No system in place to monitor and evaluate EL activities.	Baseline data is being collected on EL projects and is registered within a national database.	Documented evidence of evaluation of EL activity at each level of the education system	An annual report is published and made available on-line detailing key developments in EL in the country, including lessons learnt and identification of good practice.	Recommendations from monitoring and evaluation of EL are integrated into further policy reforms and action plans.	1

		Level 1	Level 2	Level 3	Level 4	Level 5	Weight for sub-dimension or indicator (1-3)
	Lower secondary education (ISCED 2)						**2**
1.5	***ISCED 2 Organisation**	Traditional teaching and learning environment prevails with little or no option for flexible teaching and learning arrangements conducive to promoting entrepreneurship as a key competence (e.g. opportunity identification, initiative, creativity, innovation and risk taking by pupils) within lower secondary schools.	Some evidence of more flexible teaching and learning arrangements conducive to promoting entrepreneurship as a key competence (e.g. opportunity identification, initiative, creativity, innovation and risk taking by pupils) within lower secondary schools. Evidence in some lower secondary schools of school co-operation with local communities and enterprises reported in baseline data (Monitoring and evaluation sub-indicator)	At least 5% of lower secondary schools engaged in flexible teaching and learning arrangements conducive to promoting entrepreneurship as a key competence (e.g. opportunity identification, initiative, creativity, innovation and risk taking by pupils) within lower secondary schools. This includes direct co-operation between the schools, local communities and local enterprises. Evidence for this level will be drawn from schools' Annual Reports (Monitoring and evaluation sub-indicator)	Regulatory framework in place which provides for flexible teaching and learning arrangements which promote entrepreneurship as a key competence (e.g. opportunity identification, initiative, creativity, innovation, and risk taking by pupils) within lower secondary schools. This includes co-operation between lower secondary schools, local communities and local enterprises.	At least 50% of lower secondary schools meet the regulatory framework for flexible teaching and learning arrangements which promote entrepreneurship as a key competence (e.g. opportunity identification, initiative, creativity, innovation, and risk taking by pupils) within lower secondary schools. This includes direct co-operation between the schools, local communities and local enterprises. Evidence for this level will be drawn from schools' Annual Reports (Monitoring and evaluation sub-indicator)	1
1.6	***ISCED 2 Key competence**	EL in lower secondary education is confined to ad-hoc projects which are not part of mainstream education curricula.	EL in lower secondary education is confined to school-based individual initiatives which are known to the education authorities.	EL in lower secondary education comprises entrepreneurship key competence provisions as an integral feature of the national curriculum.	EL in lower secondary education comprises entrepreneurship key competence provisions of the national curriculum and is included in teaching plans of at least 25% of lower secondary schools. Evidence for this level will be drawn from schools' Annual Reports (Monitoring and evaluation sub-indicator).	EL in lower secondary education comprises entrepreneurship key competence provisions of the national curriculum and is included in teaching plans of at least 50% of lower secondary schools. Evidence for this level will be drawn from schools' Annual Reports (Monitoring and evaluation sub-indicator)	1
1.7	***ISCED 2**	No ELmaterials, staff expertise nor partnerships with local civic/enterprise communities.	Evidence of development of EL: a) teaching materials and b) teacher training which includes entrepreneurship as a key competence.	At least 5% of lower secondary schools have EL material and staff knowledge and skills for teaching entrepreneurship as a key competence.	At least 25% of lower secondary schools have EL material and staff knowledge and skills for teaching entrepreneurship as a key competence.	At least 50% of lower secondary schools have EL material and staff knowledge and skills for teaching entrepreneurship as a key competence.	1

	Upper secondary education (ISCED 3)						**2**
1.8	***ISCED 3 Organisation**	Traditional teaching and learning environment prevails with little or no option for flexible teaching and learning arrangements conducive to promoting entrepreneurship as a key competence (e.g. opportunity identification, initiative, creativity, innovation and risk taking by pupils) and more specific business skills** within upper secondary schools.	Some evidence of more flexible teaching and learning arrangements conducive to promoting entrepreneurship as a key competence (e.g. opportunity identification, initiative, creativity, innovation, risk taking by pupils) and more specific business skills** within upper secondary schools. Evidence in some upper secondary schools of school co-operation with local communities and enterprises reported in baseline data (Monitoring and evaluation sub-indicator)	At least 25% of upper secondary schools engaged in flexible teaching and learning arrangements conducive to promoting entrepreneurship as a key competence (e.g. opportunity identification, initiative, creativity, innovation, risk taking by pupils) and more specific business skills** This includes direct co-operation between the schools, local communities and local enterprises. Evidence for this level will be drawn from schools' Annual Reports (Monitoring and evaluation sub-indicator).	Regulatory framework in place which provides for flexible teaching and learning arrangements conducive to promoting entrepreneurship as a key competence (e.g. opportunity identification, initiative, creativity, innovation, risk taking by pupils) and more specific business skills**. This includes direct co-operation between the schools, local communities and local enterprises.	At least 70% of upper secondary schools meet the regulatory framework for flexible teaching and learning arrangements conducive to promoting entrepreneurship as a key competence (e.g. opportunity identification, initiative, creativity, innovation, risk taking by pupils) and more specific business skills**. This includes direct co-operation between the schools, local communities and local enterprises. Evidence for this level will be drawn from schools' Annual Reports (Monitoring and evaluation sub-indicator).	1
1.9	***ISCED 3 Entrepreneurial learning**	EL in upper secondary education (entrepreneurship key competence and business skills**) is confined to ad-hoc projects which are not part of mainstream education curricula.	EL in upper secondary education (entrepreneurship key competence and business skills**) is confined to school-based individual initiatives which are known to the education authorities.	EL (entrepreneurship key competence and business skills**) is an integral feature of the national curriculum which specifies entrepreneurship key competence and elective EL subjects.	EL (as a key competence and business skills**) is included in teaching plans of at least 50% of upper secondary schools. Evidence for this level will be drawn from schools' Annual Reports (Monitoring and evaluation sub-indicator).	EL (as a key competence and business skills**) is included in teaching plans in at least 70% of upper secondary schools. Evidence for this level will be drawn from schools' Annual Reports (Monitoring and evaluation sub-indicator).	1
1.10	***ISCED 3 Learning environment**	No EL materials, staff expertise nor partnerships with local civic/enterprise communities.	EL materials and teacher training under development by way of strategic pilots and which include structured co-operation between upper secondary schools, local communities and enterprise.	At least 25% of upper secondary schools are employing EL material, with staff trained for entrepreneurship key competence and business skills.** The schools have structured partnerships with local communities and enterprise.	At least 50% of upper secondary schools are employed EL material, with staff trained for entrepreneurship key competence and business skills development.** The schools have structured partnerships with local communities and enterprise.	At least 70% of upper secondary schools are employing EL material, with staff trained for entrepreneurship key competence and business skills development.** The schools have structured partnerships with local communities and enterprise.	1

* This indicator is particularly concerned with promoting teaching and learning arrangements which will contribute to entrepreneurial mindsets and behaviour (curiosity, creativity, autonomy, initiative, team spirit) in keeping with the recommendations of the EU's Oslo Agenda.

** At ISCED Level 3 education, entrepreneurship as a key competence should continue to be an integral part of the national curriculum reinforcing the contribution made at ISCED level 2. At ISCED 3 level, the entrepreneurship key competence could be supplemented with harder business skills (e.g. business planning, start-up training, marketing, book-keeping) developed through business related studies as a compulsory or as an elective subject within the curriculum.

		Level 1	Level 2	Level 3	Level 4	Level 5	Weight for sub-dimension or indicator (1-3)
	Good practice						**1**
1.11	*** Good practice**	There is no systematic exchange of good practice between lifelong EL providers.	A national network of life- long EL providers meets on a regular basis to exchange good practice.	Examples of adapted EL good practice (domestic and/or international) are being piloted in the country.	Results of domestic good practice are being disseminated nationally (at least one annual event).	Within the reporting period, at least one domestic good practice has been transferred to another education and training environment in a neighbouring country, European Union or beyond.	1
	* Note that this indicator is cumulative i.e. each ranking requires fulfilment of the earlier levels of the indicator.						
	Non-formal entrepreneurial learning						**1**
1.12	**Non formal learning**	Examples of actions to promote non-formal EL (privately and/or publicly supported).	A working group monitors non-formal EL as part of national EL strategy and advises on improvements. Evidence of at least one quarterly, high-level press coverage (national newspaper or TV) of EL policy or delivery.	Examples of agreements established between public authorities, enterprise, community groups or philanthropic organisations to develop entrepreneurial spirit and skills across society with particular reference to children and young people.	At least one annual, high-profile event at national level to promote awareness and information on broader EL (formal and non-formal) to show-case successful projects. High-profile event includes national recognition or awards for EL practice.	Transfer of know-how: principles or practice from at least 2 of the non-formal show-case projects from the previous year's high profile event are integrated into other EL environments national or internationally.	1

2 CHEAPER AND FASTER START-UP

		Level 1	Level 2	Level 3	Level 4	Level 5	Weight for sub-dimension or indicator (1-3)
2.1	**Issuing of company registration certificate**						2
2.1.1	**Number of days for obtaining company registration certificate**	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.	1
2.1.2	**Number of administrative steps for obtaining the 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.	Registration requires 1 administrative step.	1
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
	Company Identification Numbers						1
2.1.4	**Administrative identification numbers in dealing with the public administration**	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.	1
2.1.5	**Number of days for compulsory company identification number(s)**	All numbers in more than 30 days.	All numbers in more than 15 days, but less than 30 days.	All number 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 day.	1

		Level 1	Level 2	Level 3	Level 4	Level 5	Weight for sub-dimension or indicator (1-3)
	Completion of the overall registration process and entry in operations						**1**
2.1.6	**Number of days for completing the overall registration process, including compulsory licences for standard business activities *(WB Cost of Doing Business Index)***	Registration takes 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 takes 1 day.	1
2.1.7	**Number of steps 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.	Registration requires 2-4 administrative steps.	One-stop-shop.	1
2.1.8	**Silence is consent applied to company registration procedures**	Silence is consent is not applied				Silence is consent is systematically applied	2
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 between 2.5% and 5% of GNI per capita.	Costs are below 2.5% of GNI per capita.	Costs are minimal (close to 0 of GNI per capita).	2
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.	Less than 10% of GNI per capita.	No minimum capital requirements for general partnerships with personal liability.	2
2.2	**Increase on-line access for registration**						**1**
2.2.1	**On-line registration**	The government has not taken any steps towards the introduction of on-line registration.	Evaluation of existing administrative procedures and detailed proposals for the introduction of on-line registration. Budget provisions and pilot project.	Law on online registration, action plan and budget provisions approved. Designation of competent authority.	Level 3 + solid evidence of implementation of on-line registration system available only in some regions.	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	1

		Level 1	Level 2	Level 3	Level 4	Level 5	Weight for sub-dimension or indicator (1-3)
2.3	**Craft registration**						
	Craft registration certificate						**2**
2.3.1	**Number of days for obtaining craft registration certificate**	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.	1
2.3.2	**Number of administrative steps for obtaining the craft 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.	Registration requires 1 administrative step.	1
2.3.3	**Official cost of obtaining the craft 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
	Craft identification numbers						1
2.3.4	**Administrative identification numbers in dealing with the public administration**	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.	1
2.3.5	**Number of days for compulsory craft identification number(s)**	All numbers in more than 30 days.	All numbers in more than 15 days, but less than 30 days.	All number 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 day.	1

3 BETTER LEGISLATION AND REGULATION

		Level 1	Level 2	Level 3	Level 4	Level 5	Weight for sub-dimension or indicator (1-3)
3.1	**Simplification of SME legislation of SME related legislation and regulation**						3
	Review of the current legislation						
3.1.1	**Strategy for legislative and administrative simplification**	No formalised strategy for legislative and administrative simplification, including sector strategies, exists.	Legislative and administrative simplification strategy is under elaboration.	Multi-year legislative and administrative simplification strategy for current period is approved by the government, following a process of consultation with stakeholders, and in particular with the private sector and civil society. The strategy is at an initial stage of implementation.	Solid evidence of implementation of the legislative and administrative simplification strategy with indication of key targets achieved and assignments completed.	A pro-active, comprehensive legislative and administrative simplification strategy is put in place after a wide-consultation process. The strategy incorporates action plans covering key areas of the regulatory reform agenda. There is significant evidence that all components of the strategy have been implemented, as demonstrated by time-bound targets achieved and number of assignments completed.	3
3.1.2	**Review and simplification of current legislation**	There are no plans to review and simplify current primary or secondary legislation related to enterprise policy.	There has been ad-hoc activity to simplify current enterprise legislation and the government has plans for a systematic review of current legislation related to enterprise policy.	A concrete plan to review and simplify legislation related to enterprise policy has been approved and institutions in charge have been identified.	Implementation of the plan to review and simplify legislation related to enterprise policy beginning with the review of mainly primary legislation related to enterprise policy.	Legislative review well-advanced and extended to secondary legislation.	2
3.1.3	**Elimination of redundant legislation and regulations (e.g. regulatory guillotine)**	There are no plans to carry out systematic elimination of redundant legislation and regulations.	There has been ad-hoc activity to carry out elimination of redundant legislation and regulations. The government is planning to carry out this exercise.	A concrete plan to carry out systematic elimination of redundant legislation and regulations has been approved and institutions in charge have been identified.	Implementation of the plan underway, covering key areas of mainly primary legislation related to enterprise policy.	Regulatory guillotine process well advanced and extended to secondary legislation.	2

		Level 1	Level 2	Level 3	Level 4	Level 5	Weight for sub-dimension or indicator (1-3)
	Regulatory Impact Analysis						
3.1.4	**Use of Regulatory Impact Analysis (RIA)**	No systematic regulatory impact analysis targeted at SMEs exists.	Proposal for a law on RIA for legislation with impact on SMEs. A simplified, pilot RIA programme is being used in certain areas of regulation.	Approval of law on RIA.	Implementation of RIA in some SME-related policy areas.	RIA on SMEs is systematically implemented.	**1**
3.1.5	**Type of Regulatory Impact Analysis**	The RIA applied is limited in scope and is restricted to simplistic techniques (e.g. inter-ministerial meetings, consultation with interested parties). There is no preceding analysis on what technique is most applicable and the RIA process is poorly structured.	RIA is based on both unsophisticated and sophisticated (e.g. cost-benefit analysis, cost-efficiency analysis, real case pilots) techniques. However, there is no structured preceding analysis on what type of technique is most applicable and the RIA process is poorly structured.	The type of RIA applied is targeted to the type of legislation examined based on pre-defined criteria. Accordingly, sophisticated techniques are applied.	Level 3 + There is some evidence that the outcomes of the RIA have been used to change or cancel legislation.	Level 4 + There is ample evidence that the outcomes of RIA have been used to change or cancel legislation. RIA is also applied ex-post to measure the impact of legislation during the implementation stage.	**1**
3.2	**Simplify rules**						**1**
3.2.1	**Silence-is-consent principle**	The principle is not used in standard administrative practice.	Evaluation of current procedures and detailed proposals on the introduction of the silence-is-consent principle.	Approval of law on silence-is-consent.	Solid evidence of implementation of the silence-is-consent 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.	1

		Level 1	Level 2	Level 3	Level 4	Level 5	Weight for sub-dimension or indicator (1-3)
3.3	**Institutional framework**						**3**
3.3.1	**Inter-governmental co-ordination in policy elaboration**	No institution is 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 a 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.	1
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 for current period is approved by the government and at initial stage of implementation. Budget established but entirety of funds not yet received.	Solid evidence of implementation of the 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.	1
3.3.3	**SME policy implementation agency or equivalent**	No SME policy implementation agency with an executive role (or equivalent) exists.	Government considering the establishment of an SME policy implementation agency (or equivalent).	SME implementation agency (or equivalent) established. Staff, structure and budget in place. Range of output to be covered by agency being drafted.	SME implementation entity fully operational and covers a range of activities with measurable outcomes. 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, wide-reaching, and its activities have proven to be effective in supporting SME development with measureable outcomes.	1

4. AVAILABILITY OF SKILLS

		Level 1	Level 2	Level 3	Level 4	Level 5	Weight for sub-dimension or indicator (1-3)
4.1	**Training needs analysis policy (TNA)**	Small business TNA 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, social partners and business community are in dialogue with view to establishing a systematic TNA framework for the small business community.	A national TNA framework has been agreed between government, social partners, and business community with particular reference to economic growth sectors. The TNA framework identifies a) skill weaknesses in the workforce, b) skill gaps and c) future skill requirements. Standard data collection instruments and a data management system are in place as part of a wider national economic development plan.	TNA as defined by a life-long EL policy are undertaken in at least 20% of small businesses in growth sectors and reported publicly on a recognised website for access by enterprises, training providers and policy makers.	Annual TNA is undertaken in at least 40% of small businesses in growth sectors and available publicly on a recognised website for access by enterprises, training providers and policy makers.	3
	*Evidence for this indicator will be taken from enterprise survey-based data.						
4.2	**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 Government regarding quality, standards and accreditation of training provision for enterprises. This is linked to wider European quality assurance networks.	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 small enterprise support agencies, public and private employment agencies and training centres.	The national quality assurance system for enterprise training is operational and fully integrated in to European Quality Assurance Framework (trade skills) and recognised management training quality assurance systems.	2
4.3	**Start-ups***	No training available for start-ups.	20% of newly registered start-ups in last 24 months have benefited from training and business advisory services in the reporting period (including e-training).	40 % of newly registered start-ups in last 24 months have benefited from training and business advisory services in the reporting period (including e-training).	60 % of newly registered start-ups in last 24 months have benefited from training and business advisory services in the reporting period (including e-training). Business advisory services for small enterprises available up to 36 months after start-up.	80 % of newly registered start-ups in last 24 months have benefited from training and business advisory services in the reporting period (including e-training) Business advisory services for small enterprises available up to 36 months after start-up.	1
	*** Start-up training comprises management, basic finance and basic marketing skills supported by public and private funds**						

		Level 1	Level 2	Level 3	Level 4	Level 5	Weight for sub-dimension or indicator (1-3)
4.4	**Enterprise growth**	No systematic approach to develop small enterprise human resources (knowledge and skills) for growing businesses.	Knowledge and skills development for enterprise growth has been agreed as a priority between business community and government and is registered in national economic development plan. Public finance agreed to support training and advisory services for growth enterprises.	Financial support for training and business advisory services for growing enterprises available.(1) Financial support is linked to clear criteria to allow enterprises to apply for subsidies to support training and advisory services linked to enterprise growth.	20% of growing businesses benefited from training and advisory services.	More than 50% of growing businesses benefited from training and advisory services.	1
	(1) Financial support will particularly address the knowledge and capacities related to the EU regulatory framework.						
4.5	**Access to training**	No on-line public register of training providers and training programmes is available.	Register of training providers and training programmes broken down by regions, available on a recognised website.	Small business training provision is developed but is limited to specific towns and regions. Government support measures promote development of on-line training services.	Good training provider network developed across the country. (1) Evidence of on-line training services developing for small business community.	Good training provider network developed across the country. Data on on-line training acquired by enterprises is tracked by TNA system and evaluated as part of national entrepreneurship learning policy improvements.	1
	(1) Information on training providers available within economic development departments of local/regional administration offices.						

5. IMPROVING ON-LINE ACCESS

		Level 1	Level 2	Level 3	Level 4	Level 5	Weight for sub-dimension or indicator (1-3)
5.1	**Interaction with government services**						**1**
5.1.1	**Tax returns**	Tax returns cannot 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.	1
5.1.2	**Social security returns**	Social security returns cannot be filed on-line.	Government is considering proposals to allow for on-line filing of social security returns. Pilot project.	Approval of legislation and budgetary provisions. Development of software.	Early phase of implementation. Social security 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.	1
5.1.3	**Reporting on enterprise statistics**	Reporting on enterprise statistics cannot be filed on-line.	Government is considering proposals to allow for on-line reporting on enterprise statistics. Pilot project.	Approval of legislation and budgetary provisions. Development of software.	Early phase of implementation. Reporting on enterprise statistics can be filed on-line, but the software allows only for a limited number of operations.	Advanced phase of implementation + software allows for wide range of operations.	1
5.1.4	**Extension to other services (i.e. pensions, procurement, cadastre, etc.)**	Other services cannot be filed on-line.	Government is considering proposals to allow for on-line filing of other services. Pilot project.	Approval of legislation and budgetary provisions. Development of software.	Early phase of implementation. Other services 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.	1
5.2	**Information**						**2**
5.2.1	**On-line information for SMEs**	No on-line information available on key areas of interest for SMEs (i.e. tax, labour, standard regulations).	Some SME-specific information can be found on-line, but on different portals.	Initial stage of development of SME dedicated portal limited information available on-line no possibility of interaction.	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 4 + SME-specific single portal allows interaction (request of information applications tax returns) between SMEs and the administration.	1
5.2.2	**Quality of on-line portal**	Existence of on-line portal unknown to SME community. Information is not updated or maintained.	On-line portals are not easily accessible by the SME community. Portal is not user-friendly. Information is updated and maintained on an ad hoc basis.	On-line portals are accessible to SME community. Portal is regularly updated and maintained.	Level 3 + portal is user friendly.	Level 4 + Portal offers information in local languages, English and language of the most present foreign investor.	1

		Level 1	Level 2	Level 3	Level 4	Level 5	Weight for sub-dimension or indicator (1-3)
6.1	**Export promotion programmes**	No export promotion programmes exist.	Export promotion programmes under consideration/ some pilot programmes in place, limited funding available and no co-ordination between programmes.	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 limited support given to a small number of SMEs.	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.	Range of well-funded export promotion programmes capable of providing all of the dimensions mentioned in level 4.	2
6.2	**Enhancing SME competitiveness**	No programmes or initiatives enhancing SME competitiveness in place.	Competitiveness programmes under consideration/initial pilot programmes in place	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.	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.)	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.	2
6.3	**National SME promotion events**	National SME promotion events occur on an-ad hoc basis. Events are not open to the entire SME stakeholder community and cover a limited number of sectors.	National SME promotion events in under consideration by the government. Draft calendar of events being considered by concerned ministry/agency.	New national SME promotion events approved. Evidence that relevant stakeholders have been informed of and invited to upcoming events.	Regular hosting of national SME promotion events occur. Evidence that a wide-representation of stakeholders attend and that events cover a wide range of sectors.	Level 4 + evidence that national SME promotion events have enhanced SME competitiveness. Regular evaluation of past events and planning of future events held by relevant ministry/agency.	1

7. TAXATION AND FINANCIAL MATTERS

		Level 1	Level 2	Level 3	Level 4	Level 5	Weight for sub-dimension or indicator (1-3)
7.1	**Adapt tax system to favour SMEs**						
7.1.1	**Analysis of tax burden on SMEs**	The Ministry of Finance does not maintain a corporate income tax (CIT) and a personal income tax (PIT) micro-simulation model that distinguish taxpayers by turnover (gross business revenue) and total business assets. No current plans to implement such models.	The Ministry of Finance does not maintain CIT and PIT micro-simulation models distinguishing taxpayers by turnover and total business assets, but is taking steps towards implementation.	The Ministry of Finance does not maintain CIT and PIT micro-simulation models distinguishing taxpayers by turnover and total business assets, but is currently taking steps to implement such models and datasets within one year.	The Ministry of Finance maintains CIT and PIT micro-simulation models distinguishing taxpayers by turnover and total business assets. The models are routinely used to analyse the contribution of SMEs to total corporate income tax revenue, and total personal income tax revenue on business income, and to analyse the tax revenue implications of tax reform proposals.	Level 4 plus the requirement that analyses of SME income tax liability are carried out at the industry (rather than economy-wide) level (requiring datasets stratified by industry).	1
7.1.2	**Analysis of tax impediments to SME investment**	The Ministry of Finance does not maintain a marginal effective tax rate (METR) model that enables analysis of tax effects on (distortions to) SME investment (versus investment by large firms). No plans for implementation.	The Ministry of Finance does not maintain a METR model that enables analysis of tax effects on SME investment, but is taking steps towards implementation.	The Ministry of Finance does not maintain a METR model that enables analysis of tax effects on SME investment, but is currently taking steps towards implementation within one year.	The Ministry of Finance maintains a METR model that enables analysis of tax effects on SME investment. The model is routinely used to analyse tax distortions to SME investment and the implications of tax reform proposals.	Level 4 plus the requirement that a) the METR model is disaggregated across machinery and equipment, buildings, inventory and land and b) METR results are explained in summary reports for consideration by Ministers to help inform policy-making.	1
7.1.3	**Analysis of tax impediments to SME equity finance**	Studies examining implications for enterprise financing and investment of double taxation of distributed and retained profit have not been undertaken by tax officials.	Studies examining implications for enterprise financing and investment of double taxation of distributed and retained profit have been undertaken by tax officials, with study findings documented and reported to senior Ministry of Finance officials for discussion and consideration.	Level 2 plus the requirement that the analysis of double taxation includes an assessment of pros and cons (advantages, disadvantages) and tax revenue implications of alternative 'integration' systems to relieve double taxation of distributed and retained profits.	Level 3 plus the requirement that findings of studies of double taxation and alternative integration systems are addressed in current tax policy or in planned tax reform over the next two years.	Level 4 plus the requirement that studies of special tax incentives in the current system, or planned for introduction over the next two years, or being proposed by business (main provisions) to increase financing of small enterprises, have been undertaken, documented, and reported to senior Ministry of Finance officials. Tax revenue and efficiency implications of adjusting (possibly eliminating) these incentives have been considered alongside implications of adjusting the degree of double taxation relief in respect of distributed and retained profit.	1

		Level 1	Level 2	Level 3	Level 4	Level 5	Weight for sub-dimension or indicator (1-3)
7.1.4	**Analysis of tax arbitrage by SME owners**	Studies have not been undertaken by tax officials examining effective tax rates on business income of closely-held corporations paid out as wages, or dividends, or realised as capital gains, to assess possible tax distortions to earnings payout policies in such cases. Similarly, studies have not been undertaken examining possibilities for conversion of taxable capital gains (e.g. on real property) into tax-preferred (possibly tax-exempt) capital gains (e.g. on shares).	Studies have been undertaken by tax officials examining effective tax rates on business income of closely-held corporations paid out as wages, or dividends, or realised as capital gains, to assess possible tax distortions to earnings payout policies.	Level 2 plus the requirement that studies have also been undertaken by tax officials examining possibilities for conversion of taxable capital gains into tax-preferred (possibly tax-exempt) capital gains.	Level 3 plus the requirement that reports have been prepared considering possible means to address tax arbitrage by owners of closely-held companies. The findings have been documented and reported to senior Ministry of Finance officials for discussion and consideration, but measures have not been adopted to address the most common forms of tax arbitrage.	Level 4 plus the requirement that measures have been adopted to address the most common forms of tax arbitrage.	1
7.1.5	**Analysis of tax impediments to risky investment in SMEs**	Possible impediments to investment in early-stage, high-risk companies of alternative loss-offset rules governing limits to tax deductibility of business losses, and capital losses on shares, have not been analysed, documented and discussed amongst senior tax officials of the Ministry of Finance.	Possible impediments to investment in early-stage, high-risk companies of alternative loss-offset rules governing limits to tax deductibility of business losses, and capital losses on shares, have been analysed with findings documented and reported to senior Ministry of Finance officials for discussion and consideration.	Level 2, plus the requirement that tax-planning opportunities under alternative loss-offset provisions have been examined (taking into account limits to tax audit surveillance that can be carried out by the tax administration), with study findings reported to senior Ministry of Finance officials for discussion and consideration.	Level 3 plus the requirement that main findings of studies of possible impediments to risk-taking (including investment in equity shares), and possible tax-planning opportunities, under alternative loss-offset provisions, are addressed in current tax policy, and/or in planned tax reform over the next two years.	Level 4 plus the requirement that following the adoption of tax reform that expands or limits loss offset provisions, and/or broadens or contains scope for tax-planning around losses, an ex-post evaluation is carried out that examines implications for risk-taking and tax-planning.	1

		Level 1	Level 2	Level 3	Level 4	Level 5	Weight for sub-dimension or indicator (1-3)
7.1.6	**Analysis of tax compliance costs for SMEs and remedial tax administration**	The Ministry of Finance (or Tax Administration) has not assessed the average cost to SMEs of complying with any of the main taxes (current design) imposed by central government.	The Ministry of Finance (or Tax Administration) has assessed the average cost to SMEs of complying with certain main taxes (e.g. income tax, general consumption tax (VAT or sales tax), in their current design) imposed by central government.	The Ministry of Finance (or Tax Administration) has assessed the average cost to SMEs of complying with all main taxes (current design) imposed by central government.	Level 3, plus the requirement that studies have been prepared to determine the pros/cons of simplifying certain elements of central government tax administration (e.g. less frequent tax instalments, electronic filing). There has been some initial implementation of reforms that address the main findings of these studies.	Level 4, plus evidence that a) reforms have been implemented that address the main findings of studies of possible simplification of central government tax administration and b) meetings have been held with senior provincial/state-level tax officials to discuss SME compliance costs where studies reveal that tax compliance costs in relation to sub-central government axes (e.g. property tax) are excessively high.	1
7.1.7	**Assessment of policy measures to lessen tax compliance costs for SMEs**	The Ministry of Finance has not assessed the implications of alternative simplified tax policy regimes (e.g. presumptive regimes) to apply to SMEs to address tax compliance costs under application of basic income tax and basic VAT systems. No plans for assessment.	The Ministry of Finance has not assessed the implications of alternative simplified tax policy regimes to apply to SMEs to address tax compliance costs under application of basic income tax and basic VAT systems, but plans an assessment within one year.	The Ministry of Finance has assessed the implications of alternative tax policy regimes (e.g. presumptive regimes and/or VAT exclusions for firms under turnover threshold) to apply to SMEs to address tax compliance costs of basic income tax and basic VAT systems.	Level 3 plus the requirement that analyses have been prepared that consider criteria and options for establishing threshold level(s) determining the application of alternative regimes (e.g. VAT exemption, versus presumptive tax regime, versus basic VAT regime), and possible distortions (e.g. to firm size) introduced by different threshold levels.	Level 4 plus the requirement that there has been some initial implementation of reforms that apply different tax regimes to SMEs, depending on their size (e.g. turnover), where analyses indicate that such reforms would be desirable and appropriate.	1
7.1.8	**Assessment of SME taxpayers assistance to reduce tax compliance burden**	Limited taxpayer access (at regional/local tax offices) to information, supporting documentation and assistance towards understanding and complying with the main taxes imposed on business by central government. No immediate plans by central government to significantly improve taxpayer service.	Information and documentation to assist taxpayers in complying with the main taxes imposed on business by the central government is disseminated to registered taxpayers along with tax returns. Plans are being developed by central government to improve its taxpayer service.	Level 2 plus the requirement that tax returns and information and supporting documentation are widely available to taxpayers (e.g. available at non-government sites, downloaded from government websites). A toll-free telephone service, with adequately trained tax specialists, is provided to respond to taxpayer questions.	Level 3 plus the requirement that additional services to educate business on its tax obligations, reporting and filing requirements are provided through an 'outreach programme' that includes tax seminars organised at the local level (e.g. with local chambers of commerce), special advertising, and possibly other strategies to actively disseminate tax information to business.	Level 4 plus regular discussions with national Chambers of Commerce and other bodies to consider how taxpayer assistance and education could be improved.	1

		Level 1	Level 2	Level 3	Level 4	Level 5	Weight for sub-dimension or indicator (1-3)
7.2	**Access to Finance**						
7.2.1	**Credit guarantee schemes**	No credit guarantee scheme in place.	Credit guarantee scheme facility under consideration.	Credit guarantee facilities in place. (Government initiative and state controlled).	Credit guarantee facility operating under contract to the private sector but state-funded.	Number of mutual or mixed credit guarantee schemes in place under private managers able to finance themselves out of fees alone.	1
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.	3
7.2.3	**Laws and procedures on distressed companies, receivership and bankruptcy**	No specific laws and/or other procedures on distressed companies, receivership and bankruptcy.	Distressed company, receivership and bankruptcy laws and/or procedures in drafting stage.	Distressed company, receivership and bankruptcy laws and/or procedures formally in-place. Legislation not systematic and at an early stage of implementation.	Evidence of implementation of distressed company, receivership and bankruptcy laws and/or procedures in line with international standards and fully integrated in and consistent with commercial law and practice. Backlog of old cases has been reduced.	Distressed company, receivership and bankruptcy laws and/or procedures effectively and systematically applied in a transparent way. Procedures take place speedily.	3
7.2.4	**Cadastre**	No functioning cadastres.	Plans have been made to implement a functioning cadastre.	Cadastre 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 cadastre is not fully functioning.	Level 4 + fully functioning cadastre allowing firms to use real estate as collateral in their efforts to access bank finance. Available on-line.	3
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.	1

		Level 1	Level 2	Level 3	Level 4	Level 5	Weight for sub-dimension or indicator (1-3)
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.	1
7.2.7	**Registration systems for moveable assets**	No functioning registration systems for movable assets.	Legislation to establish a functioning registration system at the drafting stage.	Registration system of movable assets in place, but not yet fully operational. Information not easily accessible or fully reliable.	The ownership of pledges on the registered assets has been fully documented. Easy, low-cost access to registration and information. Registration system in-line with international standards.	4 + fully functioning system for registration of movable assets, allowing firms to use movable assets as collateral in their efforts to access bank finance. Information available on-line.	3
7.2.8	**Credit information services**	No credit information services available in the country.	Credit information services in-place, but access limited to financial institutions.	Credit information services available to financial institutions and to the public. Both positive and negative credit information is available.	3 + data on loans of more than € 20,000 to legal and physical persons are collected and made available to financial institutions and the public upon request. Information is updated regularly and comprehensive.	4 + more than 2 years of historical data are distributed. By law, borrowers have the right to access their data.	3

8. STRENGTHENING THE TECHNOLOGICAL CAPACITY

		Level 1	Level 2	Level 3	Level 4	Level 5	Weight for sub-dimension or indicator (1-3)
8.1	**Promote technology dissemination towards SMEs**						**1**
8.1.1	**Support training on technology**	No support for training on technology.	Government is planning to introduce some form of support, but no concrete action has been taken.	Formulation and approval of concrete programmes to technological training, relying on public and private service providers designation of competent authority and budget provisions.	Partial implementation record of support programme. Key components fully operational.	Full implementation of technological training programmes, i.e. system of vouchers to support training on technology fully implemented and available throughout the country.	1
8.2	**Foster technology co-operation develop research programmes focused on commercial application of knowledge and technology**						**1**
8.2.1	**Innovation and technology centres/ co-operation between universities, R&D centres and SMEs**	No schemes to promote co-operation on innovation.	Evaluation and proposals on the introduction of innovation and technology centres. Partnership with private sector.	Policy framework in place. Action plan and budgetary provisions approved, pilot schemes introduced.	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.	Network of high level innovation and technology centres present in the country. Strong relationship with research institutions and private sector.	1
8.2.2	**Intellectual property rights (IPRs)**	No legislation on intellectual property in place, systematic violations of IPRs.	Legislation on IPRs 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 IPRs legislation. IP is effectively and systematically protected in all its forms and for all products.	2
8.3	**Develop inter-firm clusters and networks**						2
8.3.1	**Inter-firm clusters and networks**	Government has no clear strategy on inter-firm clusters.	Proposals to develop inter-firm clusters and networks. Consultations with business sector. Pilot project in one key sector.	Approval of action plan and designation of competent authority.	Inter-firm clusters and networks concentrated in traditional export sectors.	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	Weight for sub-dimension or indicator (1-3)
9.1	**SME support facilities and services**						1
9.1.1	**Business incubators**	No incubators in place and no plans to establish them	Strategy on incubators under discussion/local initiatives in preparation.	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 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 4 + network of incubators throughout the country. Focus on innovation, provision of high quality services, existence of exit strategies. OECD guidelines widely implemented.	1
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 consultancy firms	2
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.	2
9.2	**Information for SMEs**						1
9.2.1	**Availability and accessibility of information**	No information on availability of business services.	Fragmented information on availability of business services available locally.	National directory of providers of business services available locally.	Level 3 + personalised information on providers of business services available on-demand in paper form.	National directory of providers of business services available on-line with multiple-criteria search engine.	1
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.	1
9.3	**Law on electronic signature**						1
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.	1

10. DEVELOP STRONGER, MORE EFFECTIVE REPRESENTATION OF SMALL ENTERPRISES' INTERESTS

		Level 1	Level 2	Level 3	Level 4	Level 5	Weight for sub-dimension or indicator (1-3)
10.1	**SME network**						3
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.	2
10.1.2	**Chambers of Commerce (CoC)**	CoC has no institutional advocacy role, general information services provided, few basic business services offered to members		Some advocacy role, limited local network, capable of offering some services and operating under clearly defined governance rules.		Strong advocacy role extended also to SME related issues, strong local presence, capable of offering a wide range of services.	1
10.2	**Public Private Consultations (PPCs)**						3
10.2.1	**Frequency of public/private consultation (PPCs)**	Consultation on SME issues between the public and private spheres occur sporadically / ad-hoc.	Proposals have been made to establish a structure/framework for public/private consultation.	A regulation(s) has/have been adopted which stipulate(s) regular consultation between public and private spheres on SME issues.	Consultations involving key actors from public and private sector take place on a quarterly basis.	Level 4 + the consultations take place on a monthly basis or more.	2
10.2.2	**Formal influence of PPCs**	PPCs take the form of unstructured debates between the public and private sector on general SME issues.	Level 1 + the private sector has the opportunity to give formal recommendations on the issues discussed.	Level 2 + the private sector has the opportunity to formally comment on draft SME legislation in those meetings.	Level 3 + there is ample evidence that the comments on draft legislation are integrated + the private sector can suggest own initiative draft laws or measures on SME policy.	Level 4 + there is ample evidence that suggestions on own initiative draft laws or measures from the private sector have been realised.	2
10.2.3	**Representativity of PPCs**	Few, randomly selected companies are invited to the PPCs. The access to the PPCs is thus restricted and there is no system of disseminating the information about upcoming PPCs to the private sector.		Invitations of companies to the PPCs are targeted, however mainly to big and influential companies. Some attempts are made to inform the private sector about upcoming PPCs (e.g. announcements on government website).		The PPCs consist of a forum that is broadly representative of the SME community (different sectors, different company sizes, chambers of commerce, etc.). Comprehensive and widely accessible structures are in place to inform the private sector about upcoming PPCs.	2
10.2.4	**How does the PPC meet?**	The timing of the PPCs is decided upon by the government with short notice. There is no pattern in the timing of the meetings throughout the year. Meetings are short and the government decides on the agenda entirely. No formal record of the meetings is kept.		PPCs occur on a regular basis, the schedule is agreed upon with the private sector at the beginning of the year. The agenda of the PPCs is sent to the participants in advance and they are given the opportunity to give comments and suggest changes. A formal record of the meetings is kept, but is not easily accessible.		Level 3 + The private sector is responsible for designing part of the agenda independently and can call for an exceptional meeting several times per year when deemed necessary. A detailed record of the meetings is kept and it is widely accessible (e.g. published on a website)	1

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