
Introduction and Methodology

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

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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

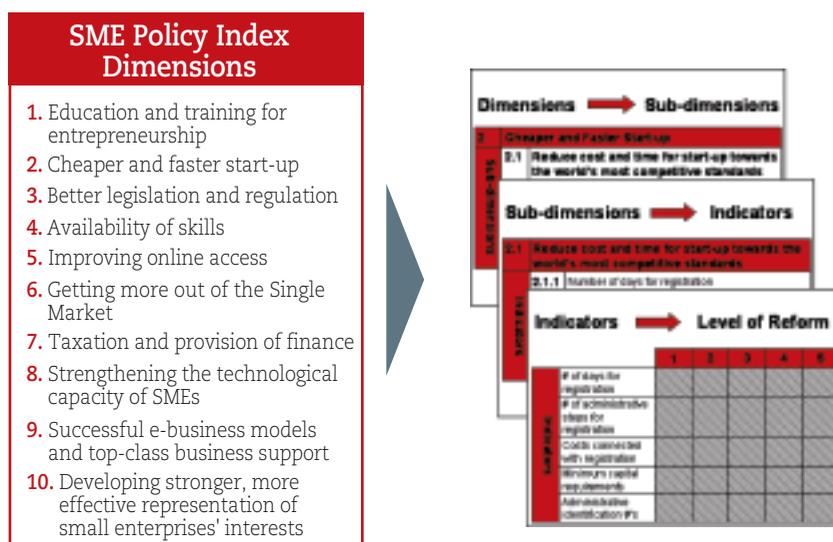
good practices identified as a result of the EU Charter process and the OECD Bologna Process.³

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



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.