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.

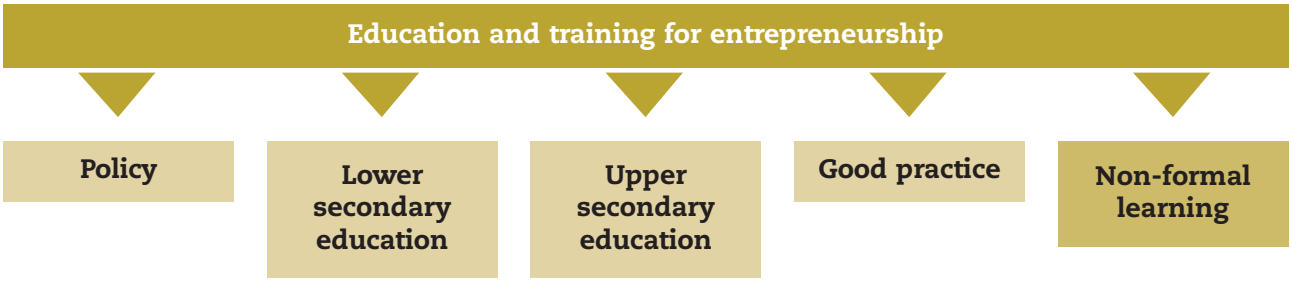
Good practice

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.

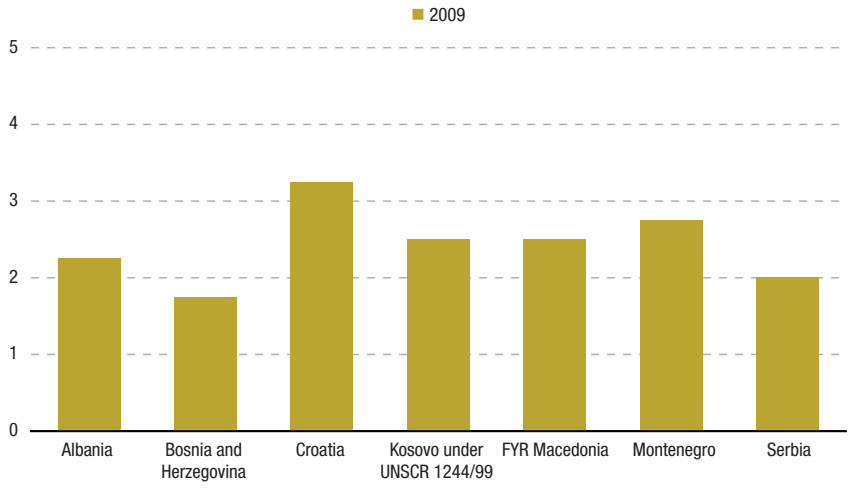
In terms of practice, organisations like Junior Achievement (Albania, Bosnia and Herzegovina, Kosovo under UNSCR 1244/99, the former Yugoslav Republic of Macedonia, Montenegro and Serbia) and ECONET training firms (Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia and 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.

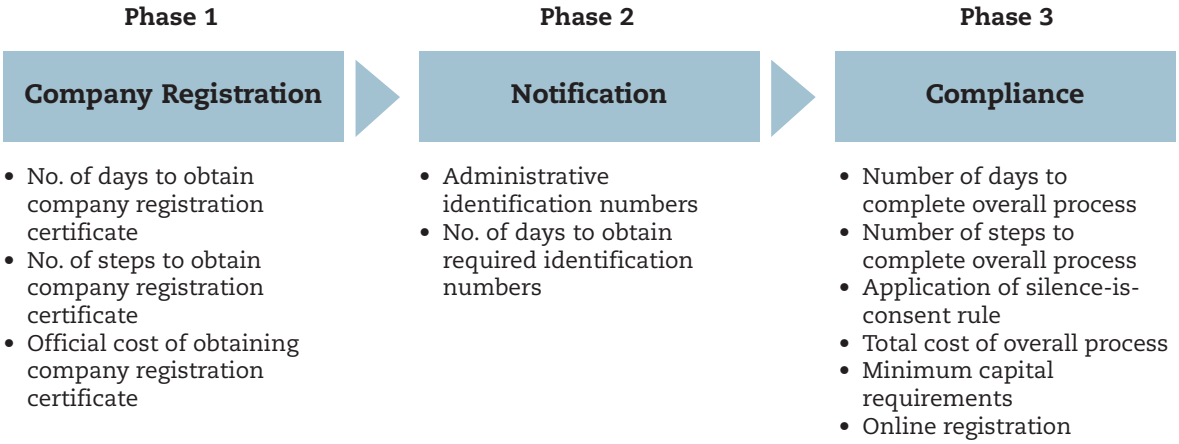
2.2 Assessment framework

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



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

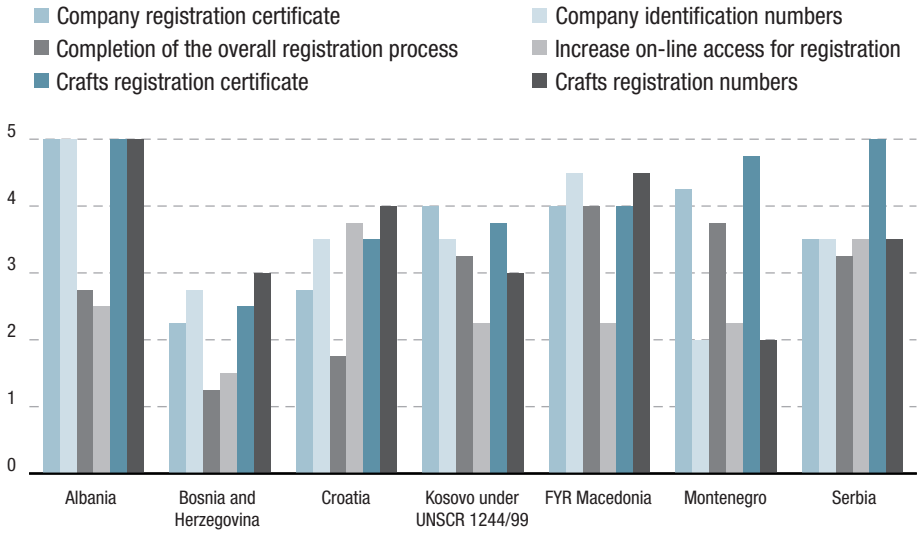
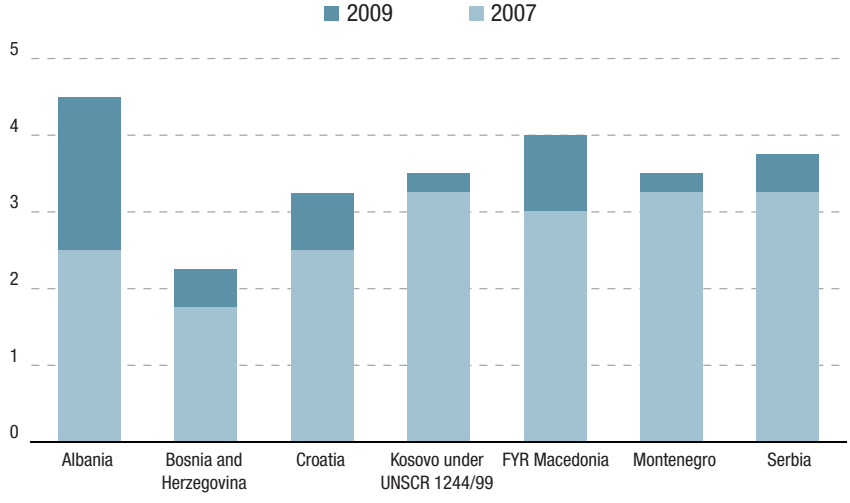


Figure 2.3 Overall scores for dimension 2



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.

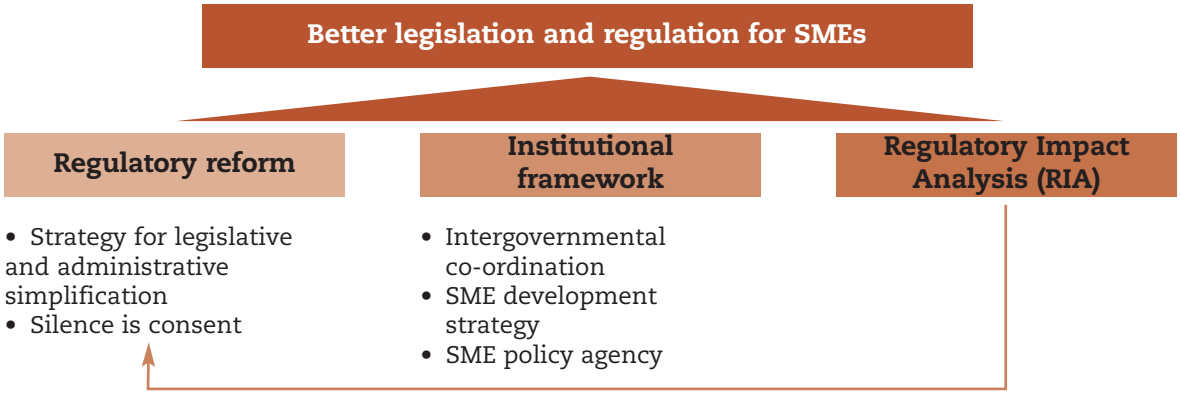
3.2 Assessment framework

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

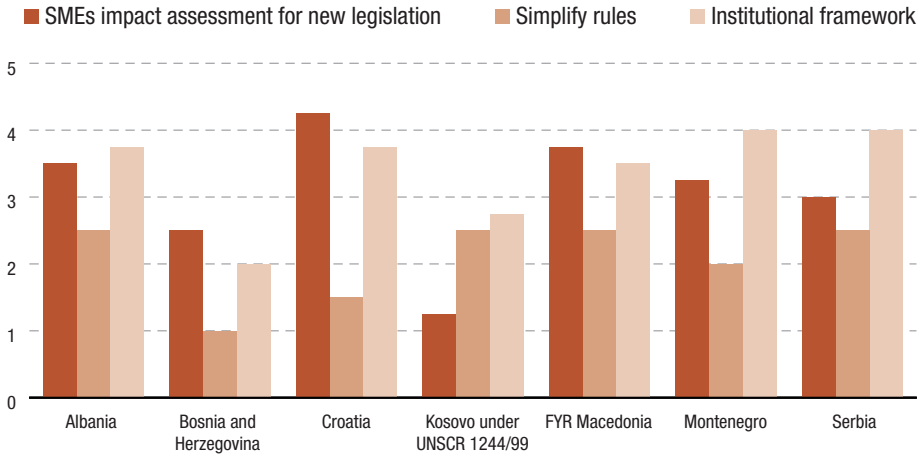
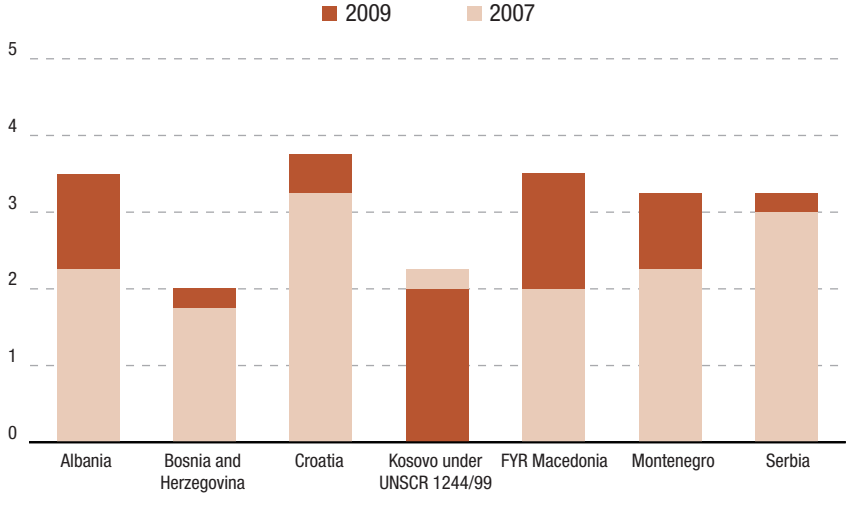


Figure 3.3 Overall scores for dimension 3



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.

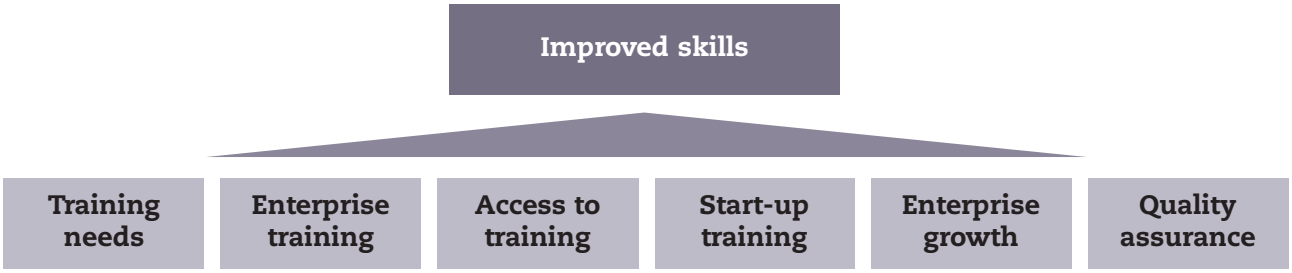
Access to training

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.

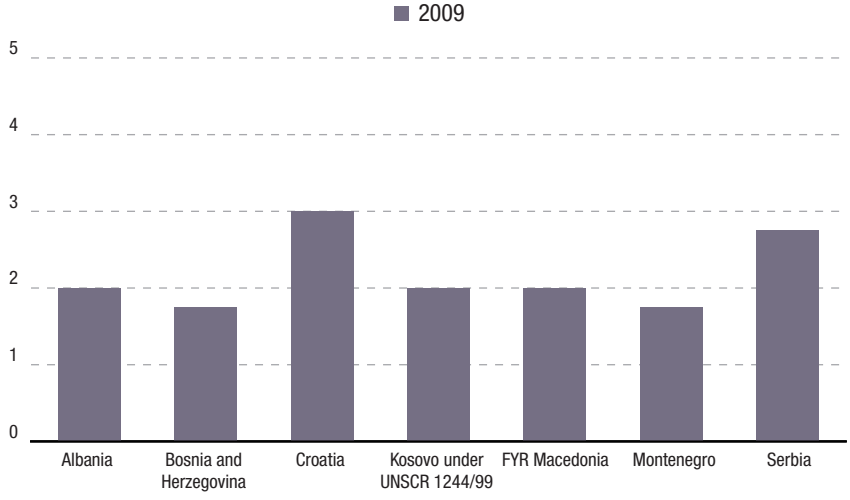
Croatia and Serbia demonstrate more developed policy commitment and targeted financial support specifically for growth businesses. For example, Serbia's SME strategy and five-year operational plan for the promotion of competitive and innovation SMEs gives particular emphasis to expanding businesses.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

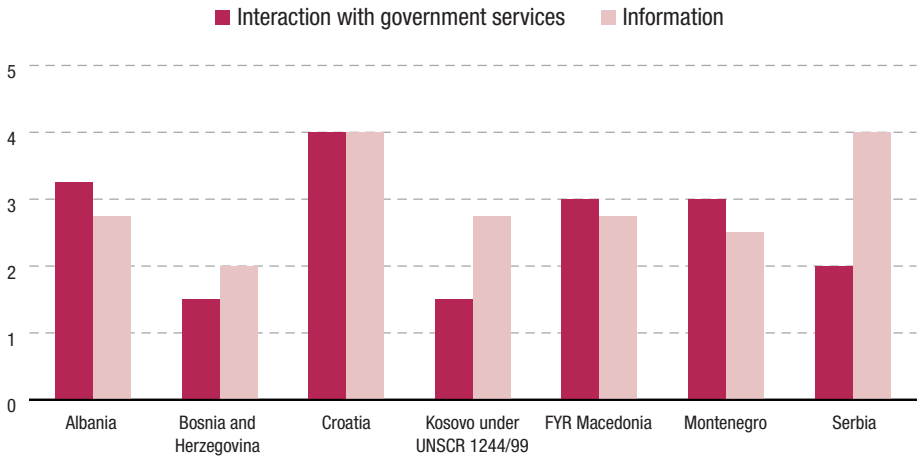
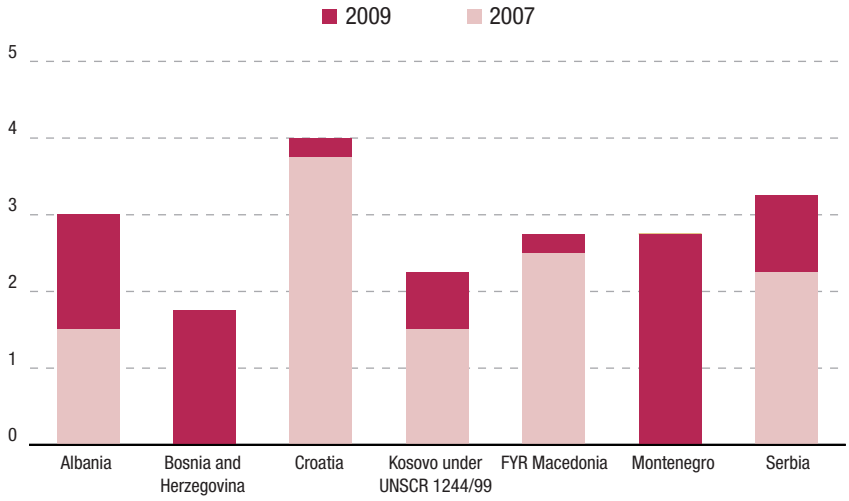


Figure 5.3 Overall scores for dimension 5[5]



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.

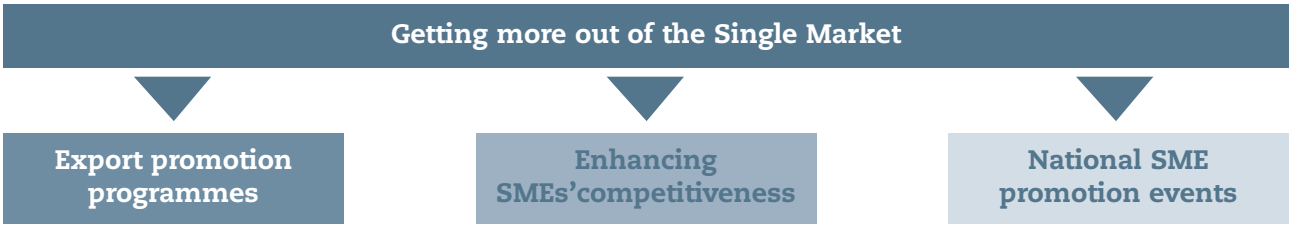
The 2009 report shows that progress on this dimension has been relatively limited in the last two years. It has been more significant in the area of export promotion, but remains particularly weak in the area of competitiveness enhancement. Only two countries (Croatia and Serbia) are currently implementing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

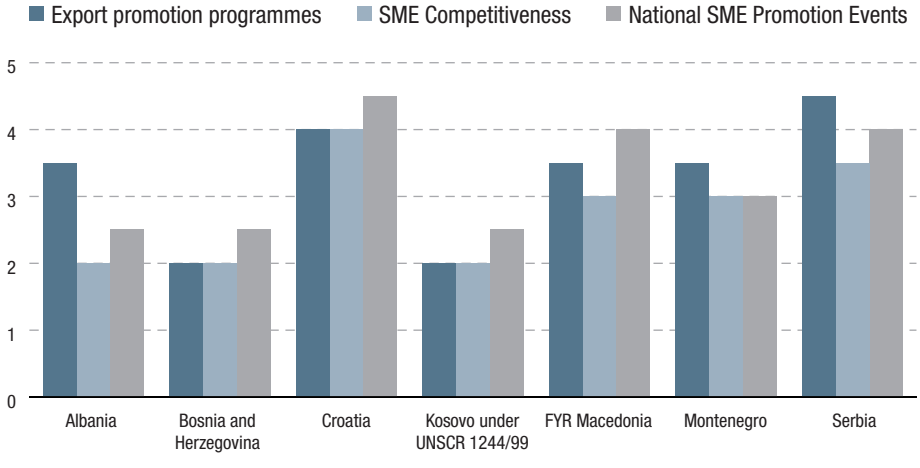
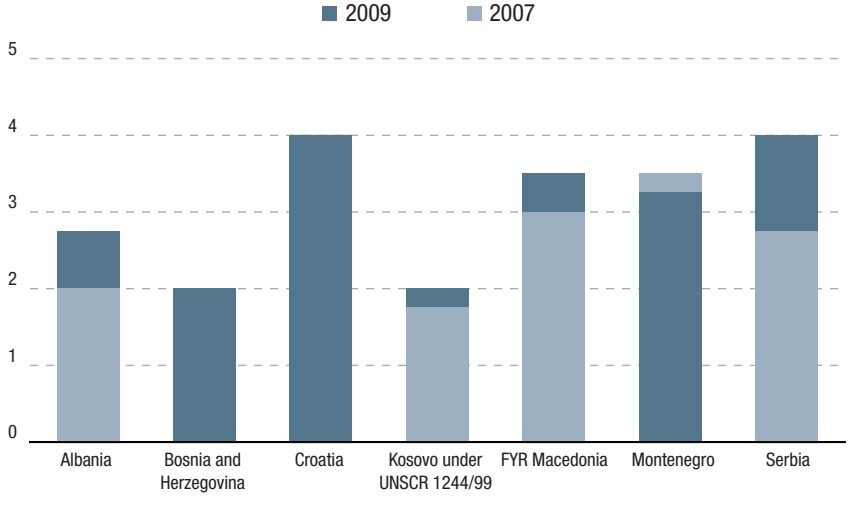


Figure 6.3 Overall scores for dimension 6



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.

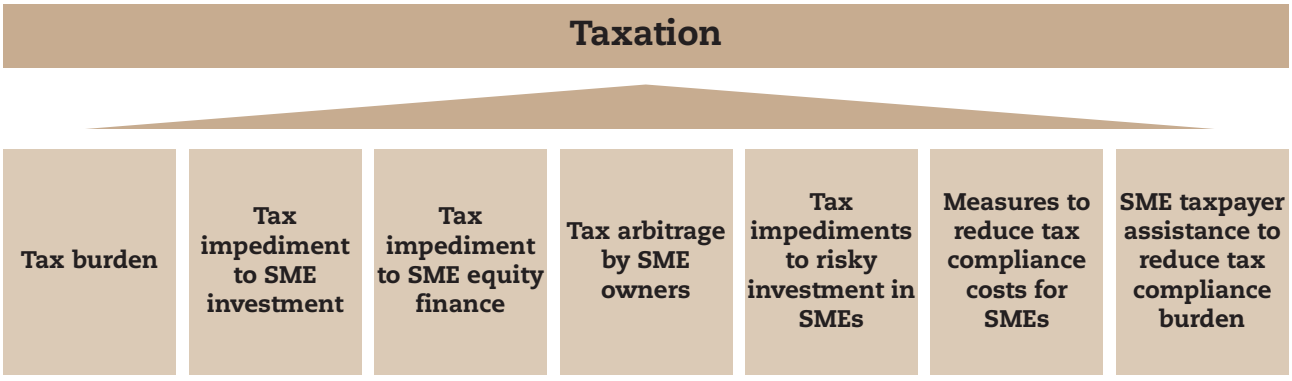
The fifth sub-dimension addresses the potential for tax design, in particular the treatment of losses, to discourage investment in small enterprises with relatively high-risk business ventures, leading to reduced investment that would be observed without taxation or under neutral tax design. The focus 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).

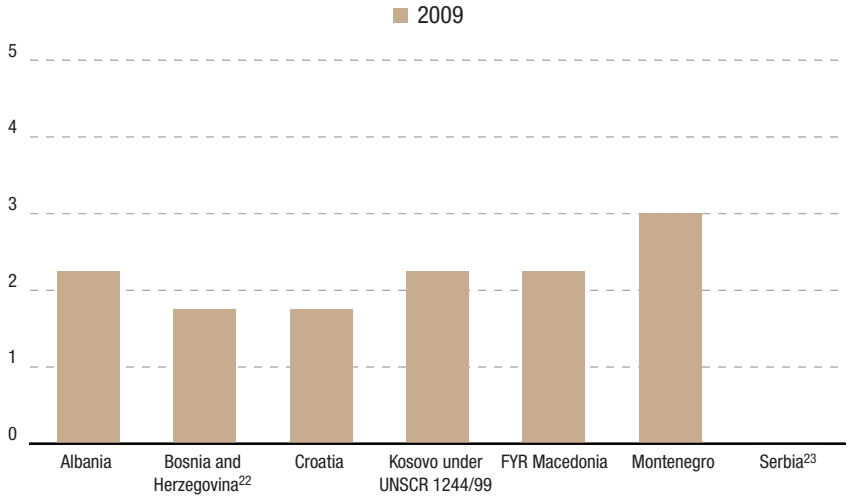
The indicators under this eighth and last dimension examine countries in terms of the access to information, supporting documentation and assistance they provide to assist small businesses in understanding and complying with the tax system. When sending out tax returns, all countries and regions in the 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%.*

Access to Finance

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

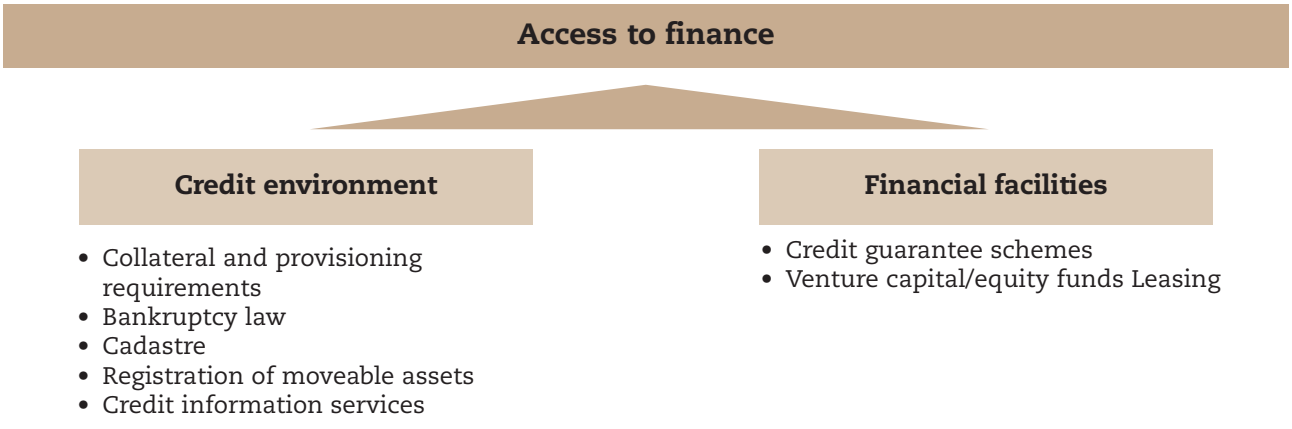
Dimension 7 of the Western Balkans Charter for Enterprise covers two components that are vital for enterprise development: access to finance and taxation. External finance (in the form of debt, equity or other financial products) allows companies to leverage their initial capital base, better manage 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



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

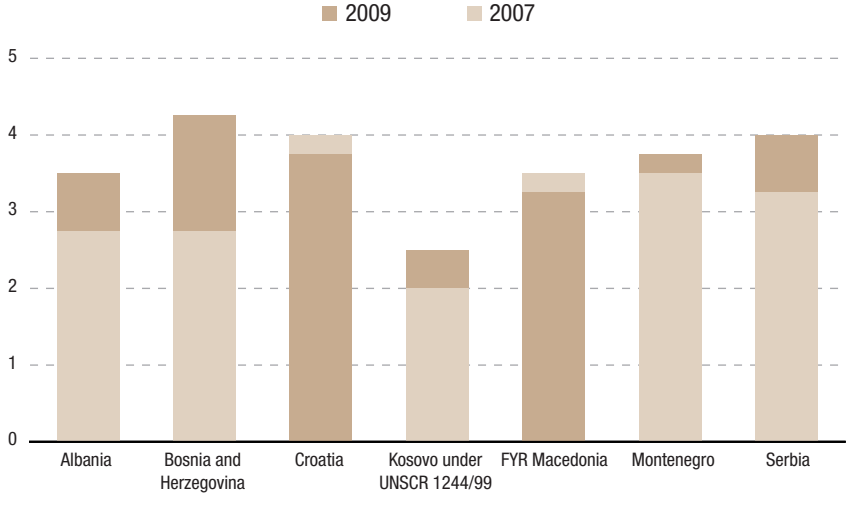
This measures whether the economy enjoys the services of public or private credit registries. Public credit registries are databases, managed by a government agency, often the central bank or the supervisory authority for the banking sector, containing information on the credit status of borrowers and 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

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

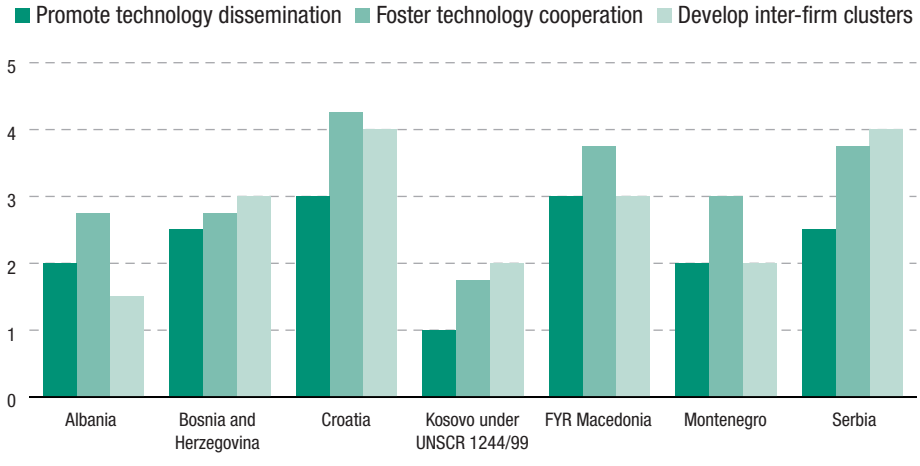
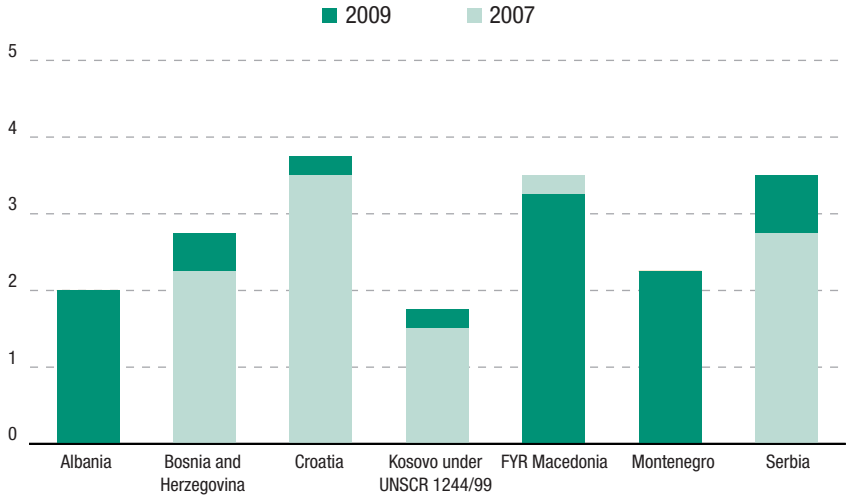


Figure 8.3 Overall scores for dimension 8



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.

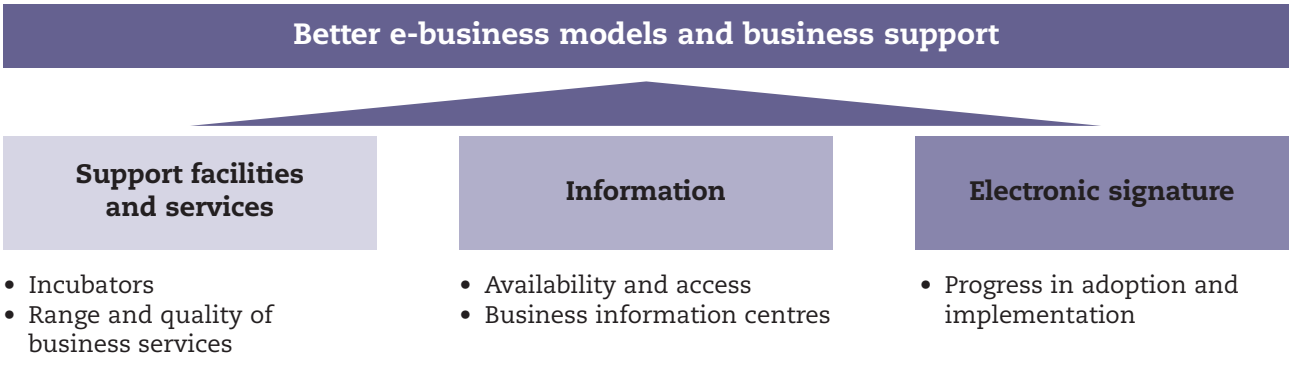
To assess performance in this dimension, the following three sub-dimensions were analysed (these sub-dimensions and their indicators have not changed from the 2007 SME Policy Index Report):

- 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

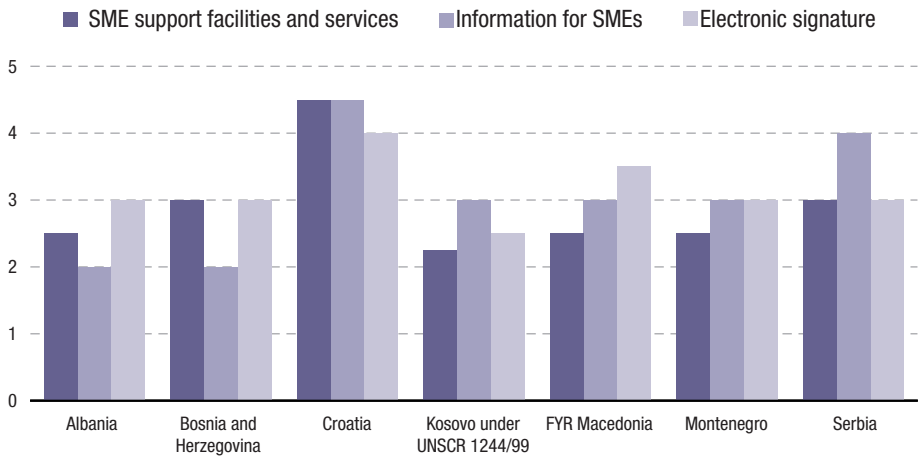
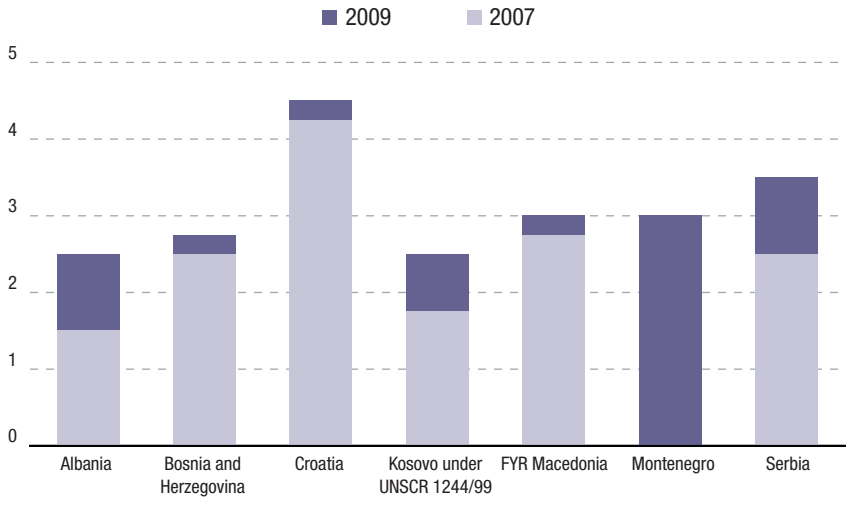


Figure 9.3 Overall scores for dimension 9



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.

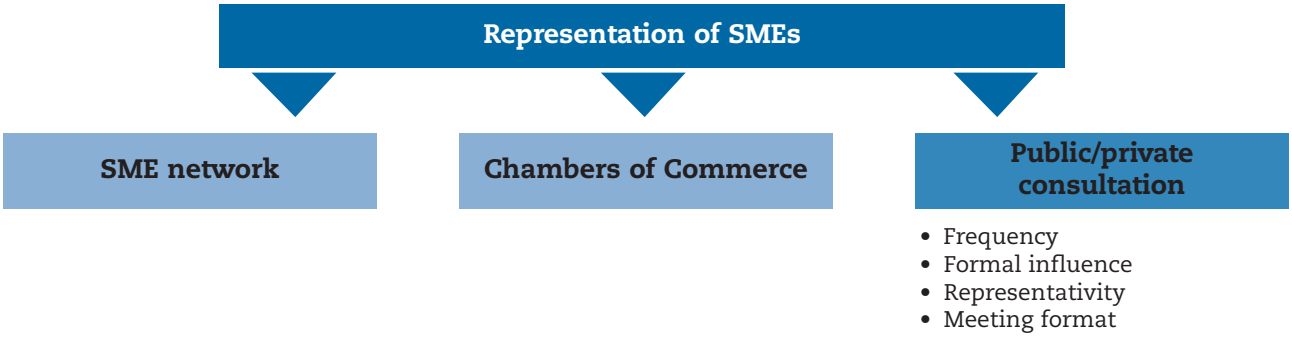
Regarding the first element, although the main component to be considered is the SME associations, there are several types of business associations that are included under this dimension, such as: trade/industry associations, women's associations and confederations (due to the fact that the some of them 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

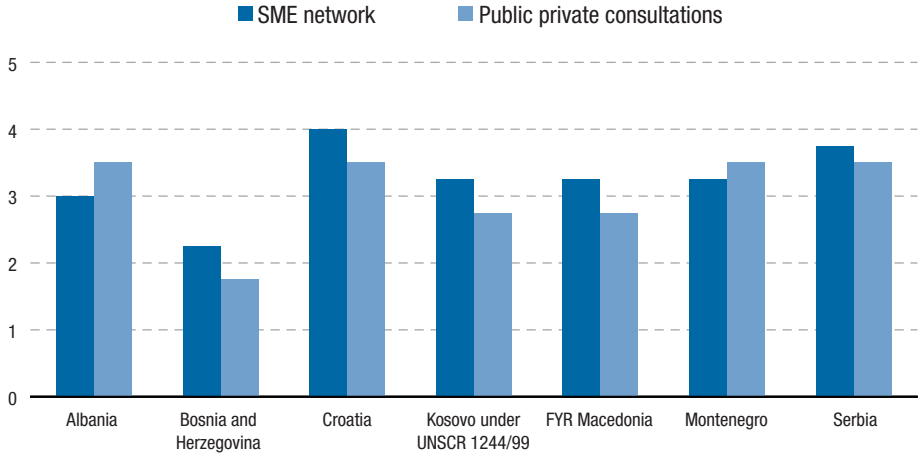
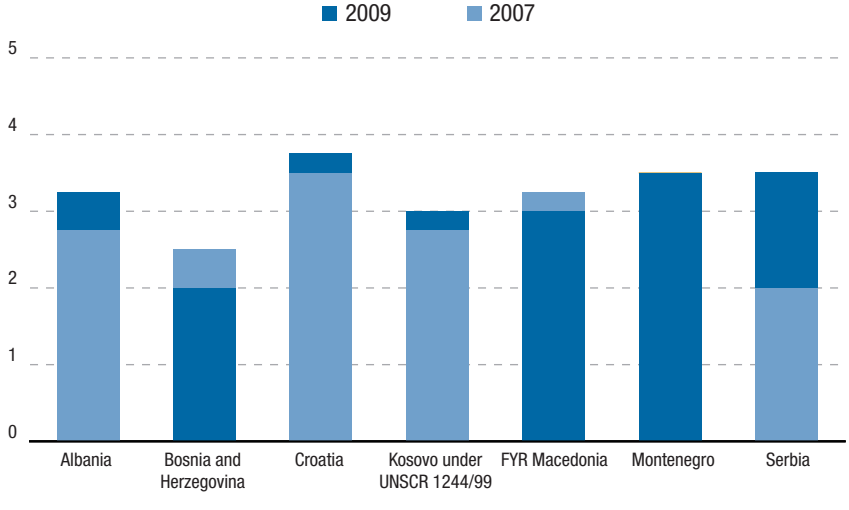


Figure 10.3 Overall scores for dimension 10



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*