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COMMISSION STAFF WORKING DOCUMENT

**Report on the implementation of the European Charter for Small Enterprises in
Moldova and the countries in the Western Balkans**

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PART 1 – INTRODUCTION AND EXECUTIVE SUMMARY

The European Charter for Small Enterprises in Moldova and the Western Balkans in its third year

The countries of the Western Balkans (Albania, Bosnia-Herzegovina, Croatia, former Yugoslav Republic of Macedonia, Serbia and Montenegro including Kosovo) endorsed the European Charter for Small Enterprises at the European Union-Western Balkans summit of Thessaloniki (Greece) on 21 June 2003. Moldova joined this process in 2004. The current report therefore concerns the third reporting cycle for the countries and entities of the Western Balkans and the second for Moldova.

This report analyses the progress made in the different areas of the Charter by the different participating countries/entities over the last 12 month (September 2004-September 2005), takes stock of the general state of play in the ten Charter areas. The European report is based on eight national reports of the participating countries or entities (Kosovo and Montenegro have a separate input into this process).

Launch of the 2005/2006 process

The European Commission staged the 6th meeting of national co-ordinators of the Charter in the Western Balkans and Moldova on 28-29 April 2005 to launch the 2005/2006 implementation cycle. The meeting was successfully organised by the United Nations Interim Administration Mission in Kosovo and was part of a policy of the European Commission to foster Kosovo's constructive neighbourhood relations as articulated in one of the action points of the Commission Communication "A European Future for Kosovo"¹

At the meeting, agreement was reached on the text of a (revised) questionnaire aimed at assessing the countries' progress in all ten areas of the Charter, and on the calendar of bilateral meetings in the different countries.

The questionnaire serves to help the national coordinators draw up the national reports on the state of implementation of the Charter. Reporting countries were asked to:

1. Describe significant developments in the small business environment and the policies and measures launched in the last twelve months. This section allowed the **identification of good practice** through cross-comparison of the different reports.
2. Report on progress made in realising the objectives the different countries/entities set themselves in the previous Charter report.
3. Identify a small number of voluntary **objectives and targets** for the next twelve month period. This is a voluntary part of the questionnaire.

The bilateral meetings were then organised in the various countries and entities, to which key enterprise policy stakeholders were invited to discuss the draft national reports. These meetings were scheduled as follows:

¹ COM (2005) 156 of April 2005

| Table 1. Dates of the bilateral meetings | |
|---|--------------|
| Serbia | 30 June |
| Montenegro | 1 July |
| Kosovo | 1 September |
| Moldova | 16 September |
| Bosnia and Herzegovina | 19 September |
| Former Yugoslav Republic of Macedonia | 23 September |
| Croatia | 27 September |
| Albania | 6 October |

The bilateral meetings mobilised some 40 to 80 SME policy stakeholders at each meeting. Typical participants at the meetings were:

- (1) Relevant Ministries for the formulation of policies for small enterprises (Ministries of Economic Affairs) and for the formulation of policies in other areas highlighted in the European Charter (Ministries of Education, Finance, Labour and others)
- (2) Chambers of Commerce and Industry
- (3) Agencies at national and regional/local level which support small enterprises: national SME agencies, business support centres, local and regional development agencies
- (4) Banks and financial institutions or NGO's providing finance to small enterprises
- (5) Independent experts (academics and researchers)
- (6) Experts and representatives of international organisations and multilateral or bilateral donor organisations, in particular the OECD, the European Training Foundation, the World Bank, USAID, GTZ (Germany), the European Agency for Reconstruction and other bilateral donors as and when relevant
- (7) Representatives of independent entrepreneur associations

In October 2005 the national reports, duly redrafted after the bilateral meetings, were submitted to the European Commission and published on the internet².

² http://europa.eu.int/comm/enterprise/enterprise_policy/charter/charter-2006_balkan.htm

On 26 October 2005 Serbia organised the 7th meeting of national co-ordinators to discuss main findings of the annual reporting cycle and present progress from the different countries and entities. This meeting constituted the last meeting of co-ordinators within the three year mandate which the **Thessaloniki Agenda** conferred on the European Commission to implement the European Charter for Small Enterprises in the region. To this effect, the meeting coincided with a regional political meeting during which representatives of the various governments signed the so-called **Belgrade Declaration** in which the countries and entities herald the merits of the Charter process and call on the European Commission to ensure its continuation. The Belgrade Declaration can be found in the annex of this report.

As in the previous year, a dedicated effort has been made to compare the findings of the Charter exercise with those arising out of the **Enterprise Policy Performance Assessment (EPPA)**, an annual policy assessment exercise conducted in the region as part of the Investment Compact³ under the auspices of the **OECD in conjunction with the European Bank for Reconstruction and Development (EBRD)**. The EPPA reports are not government reports, like the Charter reports, but are drawn up by experts on the basis of interviews with entrepreneurs. This year a growing number of Charter meetings – regional ones or the bilateral reporting meetings – have been organised to coincide with the work of the OECD so as to enhance synergies. Moreover, the **European Training Foundation (ETF)** in Turin has provided its own assessment of the national reports on the Charter areas 1 and 4, dealing with education and training and the current report reflects this analysis as and when appropriate. The specific country assessments can be found on the ETF's website⁴

Before entering into the specifics of the different Charter areas, it can be noted that the development of a basic policy infrastructure for SME policies has somewhat progressed compared to the situation in 2004, as illustrated in table 2. Bosnia and Herzegovina has made a serious effort to align with the other countries in the Western Balkans with the design of a medium-term SME strategy which also included the setting up of an SME Agency for the implementation of this strategy, but this document has so far not been adopted at a political level. Chapter 2 of this report offers more detail on this specific situation. In Kosovo, a framework contract was launched in February 2005 to develop a private sector development (PSD) strategy, of which an SME strategy is an identifiable and separate part. The result was presented at a conference in Prishtina in August 2005. Moldova has developed a new draft of a strategy for 2006-2008, which is now in a process of approval. Kosovo, Moldova and Bosnia and Herzegovina do not have specific SME Agencies.

³ www.investmentcompact.org

⁴ www.etf.eu.int/entrepreneurshiplearning

| Table 2. Basic policy infrastructure for SME policies | | |
|--|---|---------------------------------|
| | SME strategy | SME Agency |
| Albania | √ | √ |
| Bosnia-Herzegovina | Draft is develop but political decision is pending | Foreseen in the strategy |
| Croatia | √ | √ ⁵ |
| Kosovo | √ | no |
| Former Yugoslav Republic of Macedonia | √ | √ ⁶ |
| Moldova | √ | no |
| Montenegro | √ | √ ⁷ |
| Serbia | √ | √ ⁸ |

A transition report

The current Charter report is the third report and therefore the final in the three year mandate offered by the Thessaloniki Summit.

Overall, as the conclusions of this document stipulate in more detail, the introduction and implementation of the Charter process has taken place in a smooth and successful manner. Looking back over three years, some of the benefits of the process have become clear:

- It has allowed SME policy makers in the countries and entities of the region to let the issue of SME policies climb up the local **political agenda**. This is evident by the number of SME related measures that have been introduced and adopted in the legislative agenda of the countries and entities, the extensive press coverage on the bilateral meetings (which were most often opened by the Minister of Economic Affairs and the Head of the EC Delegation in the country concerned) and a significant increase of projects supported by EC funds in the framework of the CARDS programme. Overall, the process and the engagement of the European Commission provides SME policy makers with political pressure and a higher profile for these types of policies, which risk to be crowded out in a economic and political context of multiple priorities and limited resources. The Charter process lends a European recognition to this policy field and this acts as a pressure vessel to raise aspirations.

5 www.hamag.hr
6 www.apprm.org.mk
7 www.nasme.cg.yu
8 www.sme.sr.gov.yu

- The Charter **process** has instigated two types of **dialogue** on SME policy which were, before the Thessaloniki Summit, virtually absent in this policy field. First of all, there is the dialogue within the country with policy **stakeholders**, which is one of the requirements of the Charter process. The groups present at the Charter bilateral meetings have, over time, become more integrated in the policy design and delivery process on SMEs. A culture of debate and dialogue on the policy issues has started to develop and bilateral meetings have gradually become more inclusive. Secondly, a **regional dialogue** mechanism has come to fruition through the process. Many of the countries and entities now have a forum to meet, exchange ideas and “compare notes” in a regular and organised way. This regional forum is one of the features most cherished by the group and one of the main motivations behind the signing of the Belgrade Declaration.
- The Charter **substance** i.e. the ten policy guidelines enshrined in the Charter, has allowed the development of a more **systematic approach to policy making** as opposed to a piece meal approach often encouraged by the project ideas of donors and experts. The Charter structure may have its limitations as any document of this kind may have, but its greatest advantage lies simply in its existence and its use throughout Europe. Many countries and entities in the region have copied the principles into legislation and SME strategy in an effort to stop the debate on “what to do” on SMEs and move into a phase of “doing it”. It has provided the stakeholders with an easy, clear, broadly defined and accepted reference framework within which to design and deliver policies.
- Fourthly, as explained in more detail in the conclusion of this document, there are clear signs that the **peer-pressure mechanism** is working and that the success of one country spurs on the others to accomplish similar results. In a number of policy areas, success has been achieved which, without doubt, would not have been achieved, or would have been achieved later, without the Charter process in place.
- Finally, the Charter process provides all the partners in the region the opportunity to feel part of an **overall European process** and to meet their counterparts from across the wider Europe at annual Charter events.

These are some of the reasons why the European Commission is favourable to the idea of continuing the process in the region. Through the process, the Commission has also been able to raise its own role on SME policy in the region. For the Commission, the Charter also acts as an antenna to better understand the challenges of the business environment in the region and to fine-tune its technical and financial assistance to the real needs in this area.

The experience with this type of reporting on the Charter is, however, mixed. The countries and the entities in the region wish to maintain this type of reporting as it allows each of them to report on progress made in the various areas of the Charter and to compare with other countries. However, at a European level, the reporting model of the last three years has had the following limitations:

- The format of the report does not allow an in-depth description of the situation in each country – the number of Charter areas and the number of countries concerned would make that a daunting task

- No clear choice is made between an annual stock-taking report, country highlights (good practice), a collection of data and a more thorough comparative analysis. The reports, both at European and national/entity level, have become a hybrid of different reporting objectives
- It is difficult to measure the progress achieved and to compare between one country/entity and another
- A small number of national reports on which (together with information obtained at the bilateral meetings) the European report is based, appear incomplete or incorrect when compared with other local or international information resources. This makes country comparisons a perilous task.
- As an annual process, the reports tend to be repetitive and the overall reporting cycle tends to be rather demanding on resources in the European Commission and the countries and entities concerned.

For these reasons, the format of reporting at European level (as well as national level) needs to be re-examined for the next phase.

This next phase has been introduced by the *adoption on 26 October 2005 of the “Belgrade Declaration”* by the countries and entities of the Western Balkans, in which they herald the advantages of the process and request the European Commission to continue the process beyond the three year mandate of the Thessaloniki Agenda. The text of this Declaration can be found in annex. The European Commission, in agreement with the future Austrian Presidency, will therefore seek to re-launch the process in 2006 as a policy response to the Belgrade Declaration, as articulated in the recent Communication “The Western Balkans on the road to the EU”⁹.

This second phase of the process will build on the lessons of the past and introduce some important improvements in the reporting and monitoring systems. Elements proposed to be included by the Commission services are the development of specific indicators or “yardsticks” in the ten areas of the Charter which would specify the expected level of achievement which can realistically be pursued by the countries and entities in question, a more precise annual monitoring of progress towards these targets and, possibly, the production of league tables and scoreboards, as and when appropriate. Also, a closer alignment to the work of other organisations in the region, in particular the OECD and the European Training Foundation, will be pursued, as announced in the Commission’s Communication.

Such a shift in monitoring and reporting would raise the stakes of the process and breathe new life into the exercise whilst raising its profile and visibility. The current report on the implementation of the European Charter for Small Enterprises is therefore a transitional report and limited in aspirations. It aims to set out some of the highlights reported in the national reports, and presents some comparative tables. The traditional scoreboards of targets have, however, not been integrated in this report as they will not be re-visited next year when the new style of reporting starts. Moreover, experience has demonstrated that the targets are often very different in nature and aspiration level. Compiling a “naming and praising” scoreboard

⁹ COM(2006) 27 final of 27.1.2006

which compares easy targets with difficult ones, or, sometimes, the continuation or expansion of existing donor-funded technical projects, with the more cumbersome overhaul of systems, regulation and legislation, is not necessarily a useful contribution to the process. The reporting in the second phase of the Charter exercise should also help to address this challenge and create a more objective means of assessing where countries should place the bar in their policy aspirations.

PART II – WHAT HAS BEEN ACHIEVED – SUMMARY OF NATIONAL REPORTS

1. EDUCATION AND TRAINING FOR ENTREPRENEURSHIP

Actions recommended under the Charter:

- Nurture entrepreneurial spirit and new skills from an earlier age and throughout the education system.
- Develop specific business-related modules in education schemes in secondary level, in colleges and universities.
- Promote the entrepreneurial efforts of young to-be entrepreneurs.

Primary education

Apart from **Croatia** and **Montenegro** where localised support is being provided to a limited number of primary schools, entrepreneurship education at this level continues to be primarily developed through the *Junior Achievement* programme and supported by a range of donors. What is not clear, however, is the extent to which the efforts, which are essentially school-based, are impacting on systemic reform and modernisation within the early education system itself. This prompts the question of sustainability. **Albania**, for example, reports closure of activities, originally supported through Junior Achievement, due to high costs.

Within the European Union greater attention is now being given to the role of the early education system in promoting entrepreneurial skills as a ‘core competence’. In this regard, **Montenegro** stands out within the regional group in its highlighting core competencies as a general issue in workforce development.

Secondary education

Regarding general secondary education, evidence reported in 2005 suggests that entrepreneurship promotion varies from awareness-raising activities e.g. *school fairs* (**Croatia**), *career days* (**Serbia**), *school competitions* (**Montenegro**), to more targeted exercises designed to promote knowledge and skills of young people to create businesses. Of particular interest here is the practice-oriented *mini-enterprises* where a significant effort is being made by a range of countries at secondary school level (**Croatia, Kosovo, former Yugoslav Republic of Macedonia, Serbia, Bosnia and Herzegovina**).

With respect to developing the teaching profession's understanding and application of entrepreneurship principles, only **Albania, Croatia, Montenegro, and Serbia** report on *teacher capacity building measures*.

Vocational education

With respect to vocational education, the 2005 reports demonstrate considerable efforts are being made to integrate entrepreneurship into the delivery process.

Only two countries acknowledge the link between *vocational education and self-employment* or business start-up (**Montenegro, Serbia**) This suggests that the awareness of many young people of self-employment or eventually establishing a small business as labour market options, as well as the responsibilities associated with such (e.g. tax declaration) may not be effectively addressed.

Higher education

Higher education is an area insufficiently addressed in the annual reports although some countries provide a more detailed account of developments around a number of higher education establishments. **Croatia and Serbia**, in particular, elaborate on a number of initiatives for the most part designed to promote business-oriented courses. They link these developments back to the Bologna Process (a European higher education cooperation mechanism designed to promote mobility and employability of university graduates) demonstrating wider policy awareness. Both countries do well in making the connections between the university reform effort and broader market reforms.

With all 8 countries/entities now participating in the Bologna Process, it is recommended that each give more attention to the role and contribution of higher education to entrepreneurship promotion. In this regard, there are already some good case studies coming forward. For example, an agreement between a number of universities, the City of Skopje and national authorities in the **former Yugoslav Republic of Macedonia** demonstrates how partnership is being used to establish a business incubator for young entrepreneurs in the field of information technology. **Croatia** additionally is promoting a youth entrepreneur incubator while **Moldova** and **Montenegro** highlight more enhanced human capital development practice with recommendations for a technology park at the Moldova Technology University and a national strategy in place in Montenegro to develop business incubators, technology parks and innovative centres. In **Moldova**, the Academy of Economic Studies (AES) and the National Association of Youth (ANTiM) created the first *university business incubator* catering to young people in particular.

Training of SME managers

The national reports on delivery of training for managers of small enterprises suggest the development of a lively market ranging from standard training subjects (e.g. finance and accounting, market and sales) to more specialised issues (European business cooperation, export management), including innovation management. These are being delivered by a range of public and private training providers. **Croatia**, in particular, provides a detailed *catalogue* of small business development services, and demonstrates a growing training and consultancy industry. Although not specifically stated in the reports, training would generally appear to be more based on market 'pull' or local demand although the EBRD's TAM (Turn Around Management) project in **Kosovo** suggests that management training continues to be prompted in some countries. **Moldova**, on the other hand, through its *Centre for Productivity and Competitiveness*, is making a concerted effort to develop the managerial capacities of enterprise managers with training on total quality management and consultancy services for

strategic management. However, across the region management training is generally under-developed.

In conclusion, this is a fairly rich field of the Charter where all countries and entities are making progress and accumulating experiences, including in some highly sophisticated fields such as virtual enterprises and specific teacher training modules. However, a more integrated approach by the countries and entities to entrepreneurship learning, where the various parts of the learning system (including the R & D environment) come together creating essentially a life long learning framework, needs to be further pursued. Efforts in primary education and management training remain patchy. There is a host of programmes in secondary education, but so far efforts at mainstreaming i.e. integration in the compulsory curriculum, are not significant.

2. CHEAPER AND FASTER START UP

Actions recommended under the Charter:

- Encourage the evolution of company start-up costs, and the time taken and procedures required for approving new companies, towards the most competitive standards in the world.
- Increase on-line access for registration.

The last twelve month period has seen a lot of progress in this field with new company registration procedures introduced in **Serbia, Croatia and the former Yugoslav Republic of Macedonia**, following progress noted already last year in Moldova, Montenegro and Kosovo. Currently the only country lacking a modernised company registration procedure is Albania, despite a target the country had set in 2004 to that effect.

In **Croatia**, good progress was made in 2005 with the introduction of a “one stop shop project” called *HITRO.HR*. This service provides a go-between between companies and the various government agencies involved in the approval and registration process for companies. Strictly speaking, it is not a one stop shop in the traditional sense, but a help-desk, since *HITRO.HR* itself still needs to comply with the formalities of the relevant institutions, but does so on behalf of the companies. The various stops in the process have not actually been taken away. Nonetheless, the initiative appears to speed up the overall process, it reduces the bureaucracy for the companies and it also reduces the risk of corruption since companies no longer have to be in direct contact with the government agencies involved in the registration process. It is estimated that , for the company, the number of stages in the overall company registration process are reduced from 12 to 4 and the total time needed from 3-4 weeks to only 5 days. It is a positive, practical solution to improve the situation quickly without the need to redraft the various pieces of legislation to fully reform the company registration procedure, although this should, however, remain the medium-term objective. The State Financial Agency (FINA) is acting as project co-ordinator and the four regional offices of FINA accommodate the *HITRO.HR* service (Zagreb, Rijeka, Split, Osijek). In Croatia, *trades and crafts* have access to a more expeditious procedure and starting in 2005, procedures have been further simplified (i.e. secondary school education is required for setting up a craft as opposed to a Masters Certificate) and the start up costs are reduced by more than a half

In **Serbia**, the *Agency for Business Registers* has been established and was operational from 1 January 2005, following the adoption on 21 May 2004 of the new Law on the Agency for Business Registers and the Law on Business Entities, which have both facilitated a quicker and cheaper start up system in Serbia. The Agency took over the authority for registering businesses from the commercial courts and local self-government bodies and will enable greater economy, better access to data and the formation of a centralised data base. Under optimum conditions registration-proper can take place within 2 days. Moreover, Serbia has adopted the law on e-signature, creating a legal framework which would allow online registration as a next step of reform. Whereas these are important steps forward for a company registration process which, in Serbia, was characterised by long bureaucratic delays, the post-registration procedure of 2 – 5 steps remains unaffected. However, the Business Registration Agency could gradually take over responsibility for handling those procedures as well and become a one-stop shop. Licensing systems in Serbia, as in most other countries, can still cause major delays.

In the **former Yugoslav Republic of Macedonia**, the *introduction of a one stop shop system*, involving a Central Register and a unique company number, has been delayed until the beginning of 2006. The system would integrate four out of the five current steps: submission of documents to the court, registration of the principal activity at the State Bureau of Statistics, obtaining a tax number and the opening of a bank account. Some elements of the required new legislation have not yet been adopted by the Government. Next year's Charter report will take stock of the actual launch of this system in the former Yugoslav Republic of Macedonia. The only remaining obligation on the entrepreneur would be the production of a stamp. On-line registration is not yet available.

In **Bosnia and Herzegovina**, an important step forward was made in July 2004 with the adoption of a *state Law on Registration of Legal Entities*, which aimed to streamline and harmonise the laws of the different entities on company registration, which had caused a disparity in start-up costs and procedure between the entities which govern the state of Bosnia and Herzegovina. Throughout 2005, the relevant laws of the two entities (Republika Sprska and the Federation of Bosnia and Herzegovina) and the District of Brčko needed to aligned to mirror the changes of the new state law, a process which was completed by June 2005. The state law however, which aims to harmonise the formalities and the procedural requirements in company registration across the state of Bosnia and Herzegovina, does not appear to have altered the real divergences between the entities and the district of Brčko in any significant way – the number of steps, time elapsed and the costs of registration still differ markedly. This may reflect the customary “implementation gap” of reform, deficiencies in secondary legislation adopted at the level of the entities and Brčko, political unwillingness to harmonise, or a combination of all three factors. In any event, Bosnia and Herzegovina does not yet have a single company registration system.

Albania made no progress in 2005 with the reform of a company registration system which is deemed slow and inefficient. Within the region, Albania is the country which is now falling behind the others in this respect. The Ministry of the Economy has set up a working group to undertake a study and propose a one stop shop system for 2006. The next Charter report will be an opportunity to asses Albania's progress.

Montenegro is ahead of other countries and entities in starting to look seriously at the post-registration process: the issuing of licenses. A *draft law on issuing business licenses* is under preparation, which should introduce a number of important improvements in this field which in Montenegro, as in other countries/entities, has still caused considerable delays after the

formal registration process is over. The law should simplify procedures, set clear deadlines for issuing of licenses, establish a one counter system for issuing all different licenses, rationalise the calculation of costs of licenses and establish a central register of licenses, which will facilitate the work of inspection services. A working group of 7 Miniseries, representatives of the Association of Municipalities (towns issue a number of licenses as well) and USAID experts prepared the draft law and finished working on 12 December 2004 when it submitted the draft to the Ministry of the Economy for the further legislative procedure. The Montenegro Business Alliance and the Union of the Employers are amongst the organisations that have delivered an opinion on the draft law. Once adopted, it will be tested in the municipality of Podgorica in 2006. On registration proper, Montenegro has a fairly efficient registration system, but still lacks online registration and a silence-is- consent principle.

In **Moldova**, where the State Registration Chamber operates as a one-stop-shop (registration proper, tax inspectorate, terminology centre and the national statistics office) actions were taken to *improve the post-registration procedure*. From 1 September 2005 economic agents registered at the State Registration Chamber have been entered automatically on the record of the relevant medical and social insurance services. A serious problem in Moldova remains the long list of authorisations, permits and licenses required to start up a company. A study “*on the permits system of Moldova*” was carried out which highlighted the need to reduce the number of licensed activities from 47 to 27. Also, at a regional level, the *one stop shop “Unique Plus On Line”* was created which merges the authorisations issued by five state bodies (Preventive Medicine Centre, Emergency Situations Division, Police Department, Tax Inspectorate and Mayoralty)

In **Kosovo**, the target to introduce on-line registration has, for a second consecutive year, not been achieved. Progress by the Central Office for Business Registration, which is enabled to process business registration in 1 day and is technically prepared for on-line registration, is hindered by the lack of an appropriate legal framework (e-signature act). It is now expected that the relevant Law on Electronic Signature will be passed by the end of 2005. As in other countries and entities of the region, licensing in Kosovo remains very problematic and expensive, with approval delays which can go up to 3 months.

Based on the national reports, the current delays in working days for company registration can be presented as follows¹⁰

¹⁰ The national reports also provide information on the costs of company registration but these could not be made comparable for the purposes of the current report (differences in GDP, calculation methods). Bosnia-Herzegovina lacks aggregate data in the national report.

Table 3. characteristics of company registration systems

| | Albania | Bosnia-Herzegovina ¹¹ | Croatia | Kosovo | Former Yugoslav Republic of Macedonia | Moldova | Montenegro | Serbia |
|--|---------|----------------------------------|--|--------|---------------------------------------|---|------------|-----------------|
| Registration proper: reported minimum and average time | 2-15 | 5 | 3-7 | 1-3 | 7-10 | One stop shop 1-10 days | 3-4 | 2-6 |
| Additional steps and procedures: minimum and average time | 5-15 | 7-20 | 1-2 | 1-2 | 5 | Average 20 | 1-2 | 3-15 |
| Number of current steps ¹² excluding licensing and registration of employees (insurance, labour office) | 9 | Different per entity | 1 ¹³ | 5 | 5 | 4 ¹⁴ | 5 | 4 ¹⁵ |
| Presence of one stop shop and number of steps it integrates | No | No | Yes, a proxy of a one stop shop – 5 steps. | No | No planned for 2006 | Yes- State Registration Chamber : 4 steps | No | In progress |

¹¹ The data for Bosnia-Herzegovina reflects the new law which sets a maximum processing time of five days for proper registration. The other data is based on the national report for Bosnia-Herzegovina which still reflects current differences between the constituent Entities of the country. For this table the lowest and highest values of those Entities's data have been taken into account so the result is only indicative, not precise.

¹² For comparison, one institution that an entrepreneur has to deal with is counted as one step.

¹³ The different steps in Croatia are legally 6 (public notary, commercial court/ court registry, national institute for statistics, tax administration office, bank) but HITRO can act as the only stop for entrepreneurs, leaving the public notary (registrations should be notarized) as the only other player entrepreneurs should contact. HITRO can also process applications to the pension fund and health insurance fund.

¹⁴ The "one stop shop" integrates the assignment of statistical codes, name verification, fiscal registration and registration proper. Outside of the system are procedures related to insurance, labour inspection and the opening of the bank account.

¹⁵ The Serbian Agency for Business Registration can now supply the statistical information number and it is planned that the ABR shall also be able to provide the tax registration number in the near future, i.e. the ABR is on its way to become a one stop shop.

| | | | | | | | | |
|------------------------------|----|----|-----|---------------|----|--|----|----------------------------------|
| Silence is consent principle | No | No | No. | Yes – 10 days | No | No but planned. In Cahul county a 5 day default period exists. | No | Yes – 5 days as of November 2005 |
| Online registration | No | No | No | No | No | No | No | No |

This table is based on the data provided in the governmental national Charter reports. It is fair to say that in many countries, entrepreneurs report longer delays than those which the government figures indicate.

In summary, a number of countries are making encouraging progress. However, most often, the post-registration process and licensing still remains open to improvement. Silence is consent is a principle which only applies in Serbia and Kosovo and indeed, company registration is one of the rare areas where Kosovo is doing quite well compared to the other countries and entities. The Albanian legislation (article 76 of the Administrative code) actually provides for the application of tacit approval (the principle licenses in Albania are excluded), but the principle, is, in practice, never applied.

One stop shop only operates in Moldova and a proxy of a one stop shop in Croatia, whereas both Serbia and the former Yugoslav Republic of Macedonia are heading in this direction. Albania and Bosnia and Herzegovina are very problematic countries where this area is concerned. Online registration does not exist anywhere in the region, with the exception of embryonic online registration systems in Croatia (for crafts) and Moldova.

3. BETTER LEGISLATION AND REGULATION

Actions recommended under the Charter:

- Screen new regulations to assess their impact on small enterprises and entrepreneurs. Simplify rules, wherever possible.
- Adopt user-friendly administrative documents.
- Consider the exemption of small enterprises from certain regulatory obligations.

The **former Yugoslav Republic of Macedonia** has not made progress with the introduction of regulatory impact assessments. However, a current World Bank project (BERIS) is *analysing the influence of legislation on the business environment*. The government is currently considering to introduce RIA as a follow-up to the project findings of the World Bank.

In **Bosnia and Herzegovina**, the main target for 2005, under this chapter, was the design and adoption of a *medium-term (2005-2007) state strategy for SME's* to address the virtual lack of a policy design and delivery capacity at the level of the national state. SEED (Southeast Europe Enterprise Development) provided technical assistance to the development of this strategy. The Ministry of Foreign Trade and Economic Relations set up a working group composed of public and private sector representatives of the two entities and the district of Brčko to accompany the project and to ensure ownership of the strategy. The working group has held four meetings over 2004 and 2005. At one of the working group meetings in Banja Luka (Republika Srpska) on 4 March 2005, both the European Commission and the OECD took part to provide constructive comments on the draft strategy and to press for its speedy adoption. The conclusion of the last working group meeting in Brčko, on 19 April 2005, was to submit the draft to public discussion in both entities and Brčko, after which the draft would be submitted to the Council of Ministers of Bosnia and Herzegovina for adoption. The adoption of the strategy has, however, not survived the political process and the specifics of the political architecture in Bosnia and Herzegovina. This was largely because one of the entities, the Republika Srpska, is reluctant to adopt a strategy which is perceived to provide the state of Bosnia and Herzegovina with more authority and capacity to design and co-ordinate SME policy which it believes would be in contradiction with the Dayton political

architecture of the country and detrimental to entity competencies in this field. At the last meeting of the working group, in June 2005, it was decided that the elaboration process of the strategy for SME's should be continued in the second half of 2005 and that joint solutions should be found for the reform of this sector and in accordance with the principles of the European Charter for Small Enterprises. The current situation in Bosnia and Herzegovina therefore remains very worrisome and the lack of a strategy and policy capacity will undermine the possibilities for the country to further proceed in the implementation of the European Charter for Small Enterprises. At the meeting of the working group in Banja Luka of 4 March 2005, the European Commission emphasised that the reinforcement of policy abilities at state level is not a zero-sum game and will not be to the detriment of built up policy capacities at the level of the entities and the district of Brčko. This message however, has not been passed and has not resolved the continuing policy stalemate in Bosnia and Herzegovina. The design and adoption of the medium-term strategy has, since then, also been enshrined in the new European Partnership for Bosnia and Herzegovina as a short term political priority for the country, adopted by the Commission on 9 November 2005.

In October 2004 the government of **Serbia** introduced mandatory *regulatory impact assessments (RIA)* of all proposed legislation and the rule book for the implementation of the RIA follows OECD recommendations on this instrument. It is an important step forward and the Regulatory Reform Council, set up by the government in 2003, has been mandated with the implementation of this instrument. A new *company law* was adopted and entered into force on 30 November 2004. This law regulates the rights and obligations of different types of companies. For limited liability companies the law introduced more flexibility on management formalities and reduced the minimum amount of equity. A new *Entrepreneurs Act* is under preparation, which aims to reduce administration between entrepreneurs and local self-government in the procedure for registering shops.

Progress was made in **Montenegro** with the implementation in 2005 of the new *Mortgage law*, adopted last year. As an indication, in the first two months of 2005, commercial banks have filed 73 requests for the registration of mortgages in the real estate registry. Montenegro is one of the few countries/entities with a new *e-business law*. Last year Montenegro also adopted the new *Law on Leasing*.

In **Moldova**, the government continued to implement the state regulatory reform aimed at reducing the administrative and regulatory burdens on enterprises. The Law No 424-XV of 16 December 2004 on the improvement of the legislative framework governing entrepreneurial activity was adopted and implemented. This formed the legal basis for the application of the *guillotine mechanism*, under which redundant, contradictory or otherwise inefficient regulation was rationalised or eliminated. Some 1130 regulations have so far been scrutinised by the Guillotine working groups. In addition, a *hot line* was set up which received about 200 calls from entrepreneurs regarding the administrative obstacles faced by businessmen. A list of chargeable services (for authorisations, certificates, orders and other documents) has been compiled and 70 % of them have been declared free of charge. Validity terms of authorisations were also extended to a 5 year period. The Guillotine mechanism has produced good interim results in Moldova and discussions are currently taking place on the possibility of establishing a permanent office in Moldova to assess the impact of regulations – the guillotine would thus be a precursor of the regulatory impact assessment (RIA). Moldova also adopted a new *law on leasing* on 28 April 2005.

Croatia introduced *regulatory impact assessments* as a pilot in 2004 and this principle has been implemented in 2005 when the Government Standing Orders Document came into force

in February 2005 which stipulates that each proposal for law or regulation from the government or parliament must include a report on the financial impact, impact on competition, state aid, society and environment.

In **Albania**, the government has given a policy response to the OECD study on the reduction of the informal economy, by establishing a steering committee on 11 November 2004 to draft and implement an *action plan on the reduction of the informal economy*. The Committee is chaired by the Ministry of Economy and composed of key stakeholders. The group identified 67 specific measures, which were adopted as a medium-term (2005-2007) action plan by the government on 21 April 2005. The Albanian national Charter report provides more detail on the plan. On 12 May 2005 Albania also adopted a new *Law on Leasing*, which should enable this financial instrument and the relevant banks and leasing companies to further develop.

In **Kosovo**, progress is slow on the completion of the legal infrastructure which relates to small businesses. The Law on Enterprise (structure of enterprises, management, liquidation procedures) and the Law on SME support (classification of SME's, actions and support mechanisms) have entered the adoption procedure but are not yet adopted. As a result, the planned medium term strategy on SME's is not in place. Adoption of the Law on crafts and a Law on foreign investment is also pending.

To sum up, Serbia and Croatia, possibly soon followed by the former Yugoslav Republic of Macedonia and Moldova, are venturing into regulatory impact assessments to reduce the burden of legislation and regulation on the business environment. Moldova deserves a special mention for the impressive work of the guillotine mechanism. The various countries and entities are putting in place the elements of a proper business-conducive regulatory framework – framework SME laws and company laws, laws on bankruptcy and mortgage, leasing laws, laws on e-signature and e-business, the reduction of regulatory burden, informal economy etc – over the past three years this field of the Charter registered many significant progress highlights. Very little, however, is done at the moment on regulatory exemptions or user friendly administrative documents. Also, Bosnia and Herzegovina remains a case of serious concern with the virtual absence of a proper policy design and regulatory mechanism at national state level.

4. AVAILABILITY OF SKILLS

Actions recommended under the Charter:

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

This area of the Charter has inbuilt connections to Charter areas 1 (education and training for entrepreneurship) and 9 (where business support systems are concerned).

Reporting concentrates on the efforts made by the public employment authorities or SME consultancy services and, to a lesser extent, the broader training provider market.

Public employment and training services represent the key provider of trade skills to meet market needs (**Serbia, Bosnia and Herzegovina, Montenegro, Kosovo, Moldova, Croatia**). In many instances the services are supported by international donors. A number of countries

make specific reference to key sectors training provision with tourism and hospitality registered for particular focus in **Croatia, Moldova and Montenegro**.

More interestingly, however, is the evidence that countries are giving particular attention to *self-employment and start-ups* (**Moldova, Serbia, Kosovo and Bosnia and Herzegovina**). Additionally, some 2005 reports indicate new emphasis being given to training geared toward enhancing enterprise performance and governance issues. **Serbia; the former Yugoslav Republic of Macedonia and Moldova**, for example, highlight training offer to *promote international business cooperation, access to European markets and improving export potential*; while **Bosnia Herzegovina** has given specific attention to *training on taxation* for small enterprises.

A number of countries are making good efforts to promote *advisory services at regional and local level* primarily through SME agency networks (**Croatia, Serbia, Bosnia Herzegovina, Montenegro**) with **Kosovo** and **the former Yugoslav Republic of Macedonia** in particular, prompting market demand for both training and consultancy by way of *voucher schemes*.

Quality assurance systems for training and training needs assessments receive little attention in the region; in this context, **Albania** deserves a mention for its efforts to develop professional standards and a broader qualification system for the business providers in the region.

Ad hoc arrangements to determine business training needs will certainly go some way towards creating a better understanding of the training market (e.g. **Bosnia and Herzegovina** reports on a *round-table dialogue* in the Brčko region to ascertain enterprise training needs). **Kosovo's** plans to establish a more systematic training needs assessment framework for small enterprises is a good example while small business *cluster development and associated sector-specific training* in **Croatia** is further good practice.

Finally, the EBRD's *Turn-Around Management/ Business Advisory Services (TAM/BAS) programme*¹⁶, supports SMEs with development potential, but which are facing problems in the period prior to, or following, privatisation. The BAS component is successful in aiding the development of a *local consultancy market*, in particular, in **Serbia, Montenegro and the former Yugoslav Republic of Macedonia**. The programme also started this year in **Moldova**.

To conclude, public employment and SME support organisations are the key service providers meeting the training and consultancy needs of small businesses in the Western Balkans and Moldova. Work-based learning remains undeveloped. Sector or regionally-based clusters of small businesses could be considered to promote training access and affordability. Development of data on training within, and for, enterprises warrants consideration. Quality assurance for SME training providers remains an important factor to be addressed in most countries.

¹⁶ www.ebrd.com/apply/skills/tam/about/main.htm

Improving online access

Actions recommended under the Charter:

- Encourage public authorities to increase their electronic communication with the small business sector, permitting companies to receive advice, make applications, file tax returns or obtain simple information on-line.

In general, online access, as promulgated by the Charter, is virtually non-existent in Moldova and the countries of the Western Balkans. **Croatia** is the only country that is gradually pulling ahead, with a specific SME web portal under construction and online access systematically programmed (although not yet realised) in government strategies. The Croatian Ministry of Finance is setting up on-line access to the Tax Administration, which plans to set up an *e-tax system and e-VAT by 2007*. Currently there are two SME *webportals* under construction, one, of the Croatian Chamber of Economy (BIZNET¹⁷) and another, set up by the SME Policy Centre (CEPOR) as part of the Entrepreneurial Centre in Osijek¹⁸ - the Ministry of the Economy, Labour and Entrepreneurship needs, however, to take appropriate initiatives to avoid and reduce overlap and improve co-ordination.

The national report of **the former Yugoslav Republic of Macedonia** reflects an increasing use of internet and web pages by companies and a growing number of government documentation is now available in electronic format. However, strictly speaking, there is still no inter-active on line access; e-commerce and the use of credit and debit bank cards over internet are still in their infancy. One positive development is the creation of a national association of IT companies (*MASIT*¹⁹) which assists in the further promulgation of IT services. The UNDP has been active in pushing the information society in the country, with the elaboration of a National Strategy for Information Society Development and the establishment of IT Centres in 20 municipalities.

The Ministry of Science and Environmental Protection of **Serbia**, supported by UNDP, initiated the design of an *Information Technology Society Strategy* in February 2005. This strategy will define a concrete framework for the promotion of on-line access within the state administration and of e-business. So far, there is growing one-way communication, very limited two way communication (asking questions by internet is possible on the tax administration website) and online services are still in their infancy.

In **Moldova** on-line communication is still hindered by an underdeveloped technical infrastructure, a lack of tools for the implementation of the legal framework and high costs of services. Internet access is developing in the capital, Chisinau, but not in the outer regions of the country. The government is trying to address this by opening public internet access points in 4 regions of the country. A number of organisations of relevance to SME's, such as the Chamber of Commerce and the central Licensing Chamber are intensifying internet based information and opening forums with entrepreneurs on their websites. A business portal is under development as part of the state regulatory reform policy but is so far limited to informing entrepreneurs (and the wider public) on regulatory reform. In 2005, the information system ASYCUDA World was implemented – an integrated system for the management of

¹⁷ www.hgk.hr

¹⁸ www.poduzetnistvo.org

¹⁹ www.masit.org.uk

customs transactions. The system will link the central authority to customs offices and posts, as well as to economic agents and custom brokers, ensuring the on-line transfer and verification of documents.

In **Albania**, there has been some progress with the further development of internet services, but interactive online access for companies is still not possible. The UNDP and the European Commission support the *GovNet* project for the development of an electronic network (intranet and extranet) to exchange information between government institutions and between the government and the public. The SME Agency of Albania is now connected to the SEEBIZ net which hosts the embryonic *SME portal*²⁰ the Agency wanted to develop. This network is developed by SEED²¹ and part of a regional network/portal to which most countries in the region are connected (Albania, Bosnia and Herzegovina, former Yugoslav Republic of Macedonia and Serbia and Montenegro).

In **Montenegro**, all relevant SME related websites are information websites with a possibility for asking questions. There is, as yet, no online interactive use. A pilot project *e-business website* has started with the objective to create and maintain a virtual helpdesk for Montenegrin enterprises who wish to modernise their operations and start e-business. There will be a possibility to ask questions and exchange information with other visitors.

In both **Bosnia and Herzegovina and Kosovo**, this Charter area is underdeveloped and no significant progress was booked in 2005. In Bosnia and Herzegovina there is some progress under the policy remit of the constituent entities – in particular, Republika Srpska where, by applying the new Law on Registration of Business Subject, the application for the Registry can also be filed electronically once it is possible to verify the electronic signature. It is the only entity where an e-signature law has been adopted.

In all countries, the *Euro Info Correspondence Centres*²² are playing a constructive role in offering web-based information to companies. In various countries, donor organisations play an equally example-setting and pioneering role. The *Soros Foundation* is one of them, with small business sites in countries such as **Albania**²³ and **Moldova**²⁴.

²⁰ www. Seebiz.net.al

²¹ <http://www2.ifc.org/seed/>

²² http://europa.eu.int/comm/enterprise/networks/eic/eic_eicc.html

²³ The Albanian Business Information Centre www.albic.net

²⁴ In co-operation with the Moldovan-American Centre for Private Initiative: www.smallbiz.md

| Table 4. Development of on-line access | | | | |
|---|----------------------|--|--|---|
| | E signature act | Specific government or agency service and information website (“portal”) for small companies ²⁵ | Companies can request information or advice by email | Interactive online access (applications, tax returns etc) |
| Albania | no | no | limited | no |
| Bosnia-Herzegovina | partly ²⁶ | no ²⁷ | limited | no |
| Croatia | yes | yes | yes ²⁸ | complete online access programmed before 2007 |
| Kosovo | no | no | limited | no |
| Former Yugoslav Republic of Macedonia | yes | no | limited | no |
| Moldova | yes | under construction | limited | no |
| Montenegro | yes | planned ²⁹ | limited | no |
| Serbia | yes | limited ³⁰ | limited | no |

²⁵ Not counted are purely promotional sites of the agencies themselves, or sites with simple passive listings of weblinks. A portal would normally function as a gateway directing entrepreneurs to other web-based information resources. The SEEBiz net, a useful regional donor-financed SME site, is not counted in this table but is present in all countries with the exception of Croatia.

²⁶ E signature laws adopted at the level of Republika Srpska, but not at state level, nor in the other parts of Bosnia-Herzegovina

²⁷ Limited general information on the Entities, but not at state level and mostly not targeted at small companies

²⁸ The Ministry of Economy has an interactive Q & A for entrepreneurs

²⁹ The website of the SME Agency will be transformed into a portal

³⁰ The website of the SME Agency already has lists of relevant websites but no real guidance/portal function

In conclusion, whilst the internet is growing in popularity and policy makers and entrepreneurs alike are learning to use it to their advantage, there is no actual on-line access as a speedy and efficient way to facilitate relations between the public and private sectors and to ease the compliance costs of bureaucracy for the entrepreneurs.

5. GETTING MORE OUT OF THE SINGLE MARKET

Actions recommended under the Charter:

- Pursue reforms aiming at the completion in the EU of a true internal market, user-friendly for small business, in critical areas for development of small businesses, including electronic commerce, telecommunications, utilities, public procurement and cross-border payment systems.
- Apply European and national competition rules to make sure that small businesses have every chance to enter new markets and compete on fair terms.

This section applies only, to a limited extent, to the countries in question as they do not form part of the EU internal market, although the pre-accession strategy unfolded over the countries, starting with Croatia and the former Yugoslav Republic of Macedonia as candidate countries, will make this Charter area progressively more relevant over time. Specific obligations in this field apply under the Stabilisation and Association Agreements (Croatia and former Republic of Macedonia, negotiations nearing conclusion with Albania, have started with both Serbia and Montenegro and Bosnia and Herzegovina in the second half of 2005). For the purpose of this reporting exercise, the Commission has asked reporting countries to concentrate on measures aimed at making small companies more competitive.

The **former Yugoslav Republic of Macedonia** has undertaken a number of initiatives to assist companies entering foreign markets and to increase competitiveness. Promotion campaigns, fairs, compliance with export and quality standards and bilateral “match making” arrangements with a number of countries (Italy, Switzerland, Norway, Germany) are part of the strategy. A new initiative is the “*Sun of the Year*” competition to identify the best Macedonian product. Three *trade and investment offices* have recently been set up in Serbia, Russia and Italy to attract direct investment.

In **Croatia** a growing importance is given to the promotion of competitiveness in the activities of the Ministry of Economy, Labour and Entrepreneurship and institutions supporting SME’s. This includes the harmonisation of technical regulations with the EU and subsidies to innovations and their commercialisation, the protection of intellectual property, participation of SME’s in trade fairs, new product development and support to encourage SME’s to make better use of science as a resource for product development. Under the European Commission’s Phare 2006 programme a number of these activities and related capacity building measures are likely to receive significant support.

SIEPA, the Investments and Export Promotion Agency of **Serbia** has been successful in driving an agenda of improving competitiveness and market access for Serbian companies, in particular through the *SEMDAS and SILBAS programmes*: the former is mainly a marketing promotion project for Serbian products and the latter is a programme to enhance international business links for Serbian companies. Serbia also organises an annual “*Exporter of the Year*” award. The Serbian Enterprise Development Project (SEDP) is a USAID funded programme

tasked with improving the market competitiveness in six industry sectors where Serbia has a potential advantage: fruit products, tourism, furniture, pharmaceutical research, ICT and apparel. During 2004, the *Fund for Insurance and Crediting Foreign Trade Activities* (SMECA) was established, which provides export oriented companies with insurance cover for export orders, funding of working capital for the production of export goods etc.

The “*Made in Montenegro*” product campaign and a *television series* about Montenegrina products continue to raise awareness about the necessity to develop brands and standards for products for **Montenegro**. In addition, the programme *Improvement of Competitive Abilities of Domestic Companies* has, between September 2004 to September 2005, disbursed 5,5 Million Euros in loans and delivered additional consulting services to companies in the agriculture, wood processing and tourism industry to increase the competitive edge of these companies.

The market access potentials of **Kosovo**, troubled by the unresolved status and efforts to boost competitiveness, are at an understandably low level. Some success has been achieved with the signing of a bilateral free trade agreement with the former Yugoslav Republic of Macedonia in 2005. Following the example of other countries in the region, a media campaign on local products (“*Made in Kosovo*”) was launched last year. Kosovo has also started organising local business fairs with foreign participation. The promotion and sale of products on foreign markets has also been facilitated by the generation of GTIN numbers (the “*bar code*”) for Kosovo products.

In **Albania** the activities of the Export Promotion programme are now boosted by the *Trade Liberalisation and Export Promotion Programme* (July 2004-June 2006), financed by the European Commission (CARDS) and the UNDP. The programme includes capacity building in relevant Ministries and Agencies, improvements in the legislative environment for further trade development, WTO compliance, free trade agreements, export- and FDI promotion. The Stabilisation and Association Agreement with Albania is likely to be signed in 2006, which will effectively liberalise trade and consolidate market opportunities.

There is no policy to promote competitiveness and market access potential of companies at state level in **Bosnia and Herzegovina**. There are a number of scattered and fairly insignificant initiatives at the entities level and Brčko, such as an USAID project in the Federation of Bosnia and Herzegovina to promote competitiveness of the wood sector through a cluster approach. Initial work on the introduction of ISO standards and EC markings is under way.

In **Moldova**, the World Bank initiated the project on *enhancing competitiveness*, granting technical assistance and investment for consolidation and boosting competitiveness of Moldovan companies through a revival of the business environment, development of a modern framework on metrology, standards, testing and quality.

Euro Info Correspondence Centres (EICC) are established in all countries and entities of the Western Balkans (but not in Moldova) and provide information on market opportunities.

In conclusion, a number of countries have started to look seriously at the promotion of competitiveness and market access, by putting both strategies and promotion programmes in place, as well as the development of specific support measures and incentives. Both Kosovo and Bosnia and Herzegovina are problematic where this area is concerned.

6. TAXATION AND FINANCIAL MATTERS

Actions recommended under the Charter:

- Adapt tax systems to reward success, encourage start-ups, favour small business expansion and job creation, and facilitate the creation of and succession in small enterprises. Apply best practice to taxation and to personal performance incentives.
- Improve the relationship between the banking system and small enterprises by creating appropriate access conditions to credit and to venture capital.
- Improve access to the Structural Funds (*not relevant for the countries of the Western Balkans nor Moldova*)

Taxation

In the **former Yugoslav Republic of Macedonia** and **Kosovo**, all enterprises are subject to the same taxation i.e. no incentives or exemptions for small companies. There have been no new tax measures to foster SME's.

Albania stood out in last year's report as a country with a tax regime which was very unfavourable to SME's. The new fiscal package of 2005 has somewhat improved that situation. Taxpayers no longer need to re-register every year but only once when the company is established and this reduces bureaucracy and compliance costs. Excise duties on a number of products have been abolished. Simplified profit tax on small companies has been reduced from 4 to 3 %. However, a crucially negative factor in Albanian taxation, the upfront (before actual start of business) payment of profit taxes remains unaltered. It is currently being discussed by the new Albanian government as an issue to be possibly resolved in the tax package of 2006.

In **Croatia**, the sales, income and profit taxes do include measures for tax incentives, but these are for specific geographical areas or to promote certain social objectives (recruiting unemployed and disabled etc). As reported in last year's Charter report, micro subjects (trades, craftsmen, self-employed) have an option to choose a lump sum taxation to reduce compliance costs of unwieldy procedures.

The *Corporate Income Tax Act* was revised in **Serbia** in 2004 and as of 1 August 2004 for companies, and from 1 January 2005 for entrepreneurs performing independent operations. The rate has been decreased from 14 % to 10 % to stimulate economic activity. Also, *tax credits* to the amount of 80 % of the value of investment in capital assets have been introduced for taxpayers from 16 manufacturing activities (for example agriculture, fishing, textile, metal etc). Nonetheless, like all countries in the region, Serbia does not have a specific tax incentive for SME start-ups.

In 2004, amendments were introduced in the Law on Personal Income Tax of **Montenegro**, which provides some additional *tax relief* for investments of entrepreneurs who perform an independent activity as well as for the employment of new persons. *Employment contribution rates* for pensions, disability and health insurance have also gone down by 15 % in total in the new Law on Changes and Amendments of the Law on Pension and Disability Insurance; and the Law on Health Insurance. Finally, at the end of 2004, the Law on *Company Income Tax*

were introduced which lowered the tax rate to 9 % and introduced tax relief for investment in securities and for the employment of new persons.

Moldova has developed a number of initiatives to use taxation as an instrument for business incentives, on which last year's Charter report offers more detail. Some of these initiatives have been taken further, including exemptions on investment in fixed assets and on small imports/exports within VAT. The *Law on invention patents* was amended (28 July 2005) and introduced tax exemptions for patented activities for a 5 year term.

In **Bosnia and Herzegovina** there are no tax incentives for small companies who, to the contrary, often face a plethora of tax rates from different layers of government. One exception is the district of Brčko, where the *Omnibus law* is now under consideration to improve the business and investment environment in the district. This law, currently under revision, includes a number of fiscal incentives and exemptions to promote investment by companies.

In summary, there are no specific tax incentives directed at facilitating the start up and development of small companies as a single category. However, we can see a trend to bring tax rates down and to introduce generic tax relief measures to stimulate investment and recruitment of employees.

Finance

The national report of the **former Yugoslav Republic of Macedonia** reflects an increased lending activity by commercial banks to small companies, a reduction of interest rates and lower collateral requirements. There are up to twelve donor-supported credit lines which still help to address the underperformance of the market where lending to small companies is concerned. One bank, and a number of savings houses, provide micro-credit. The advantage, in particular, lies in the speedy decision approvals (within 24 hours) which is helpful when companies face solvency problems. The country has two guarantee funds, one of Swedish origin, but these funds are registered as NGO's as there is no suitable legal status under current legislation in the former Yugoslav Republic of Macedonia. The preparation of a *state guarantee fund*, announced over the last two years, have now been accelerated. The Macedonian Bank for Development Promotion (MBDP) is ready to launch the fund, the government has approved the financing (4,5 million Euro) but a number of small legal amendments need to be introduced for the MBDP to be properly mandated. It is expected that the first guarantees can be issued in January 2006. In **Kosovo**, such a fund is on the drawing board but potential funds for the scheme are blocked.

Moldova has conducted a cycle of *round tables on microfinance* in the context of the International Year of Microcredit as proclaimed by the UN, and a *guide on financing opportunities* for entrepreneurship has been distributed by the government in the Moldovan business community. The vast majority of non-banking financial institutions in Moldova are Savings and Credit Associations operating exclusively in rural areas. Three microfinancing organizations and a number of donor supported (World Bank, USAID and others) credit lines are also operating in the country. During 2004-2005 the national guarantee fund was replenished by the state budget, but only marginally so. In February 2005, the *Interbank guarantee society* was formed to further enhance loan guarantee development.

In **Croatia**, both the commercial market for loans to small companies and the state supported loan mechanisms are increasingly successful in responding to companies demands. In effect, the government, at the bilateral meeting held in Zagreb on 27 September, acknowledged the

need to review some of the state supported credit schemes as a response to a better performing commercial banking sector. The *Croatian Small Business Agency (HAMAG)* issues credit guarantees and mutual guarantee funds, but last year's result of 45 guarantees is not satisfactory. Those meagre results are related to a lack of co-operation with some of the bigger banks in Croatia, capacity building needs in HAMAG and, still, the small number of bankable business ideas by SME's. The SME Policy Centre (CEPOR) has organised a world wide survey on experience with venture capital and presented recommendations to the Croatian government in a round table *Investing Patient Capital*. Venture capital is not significantly developed in Croatia and the government is urged to take steps to facilitate the development and growth of these resources on the financial market. The *Croatian Bank for Reconstruction and Development (HBOR)* is also an important actor on that market and has succeeded in opening a new office branch in Pula, with a second one planned for Rijeka in 2006. The HBOR implements a programme of investment in company start up capital.

The financial sector in **Serbia** is steadily improving. The restructuring and privatisation in the banking sector is progressing. In parallel, the Serbian government and international donors have put in place a number of credit lines and guarantee funds to address shortcomings in the SME lending capacity of the banking sector. The national Serbian report offers a detailed description. The *Development Fund* of the Republic of Serbia has started delivering a broader array of credits and is, since 2004, also delivering credits for production and catering activities of entrepreneurs and independent shops. In addition, a *state guarantee fund* became operational as of July 2004 and has, up to March 2005, issued 1050 guarantees with a value of 8,5 Million Euro. The *National Bank* of Serbia has, with support from donor funds (EU, EIB, KfW), channelled funds to bolster the credit capacity of selected commercial banks – the three separate funds have a total capacity of more than 100 Million Euro. A number of banks and non-banking financial institutions offer micro credit.

The national report of **Montenegro** reflects a continuing success in the delivery of two credit lines managed under the aegis of the Bureau of Employment and used to promote the creation of new jobs and self-employment, both of which have significantly contributed to the development of business start ups. In addition, the Development Fund of Montenegro is also directly crediting companies. There is no state guarantee fund nor significant venture capital.

In **Bosnia and Herzegovina** international donors are supporting a number of credit lines for SME's and micro credit organisations are active. However, there is virtually no venture capital nor business angels. With the exception of a guarantee fund in the district of Brčko and in Mostar, there are no credit guarantee or mutual guarantee funds in Bosnia and Herzegovina.

Long delays and uncertainty characterise the setting up in **Albania** of the *state loan guarantee fund*, which has been publicly announced by the government for two years but has, despite the allocation of a € 30 million fund by the Italian government, still not been launched. The Albanian government now needs to urgently address this issue and consider abandoning this specific scheme which appears to have already lost credibility before its actual launch. The banking sector itself is developing slowly and a number of foreign banks are developing specific credits and services for SME's, but the financial market in Albania is also further boosted by donor supported credit lines (particularly the Small Business Credit Assistance Project/USAID and the UNOPS/PASARP fund operating mainly in Shkodra, Vlora and Durres with a local/regional development emphasis). There are 8 micro financing institutions in Albania. More detail is available in the Albanian national report.

In conclusion, this is an area where from one year to the next gradual progress can be noted in terms of a slowly developing commercial sector, a widening scope of financial instruments to address market failures and an increasing use of both the commercial and the public or donor supported funds. In a case like Croatia, the situation is reaching the point where the delivery of state supported direct crediting schemes needs to be re-examined in the light of a more performing private banking sector. National guarantee funds, promoted by the Charter are active in Serbia and Croatia and one is expected to be launched in the former Yugoslav Republic of Macedonia. The Albanian fund has experienced very long delays and is becoming controversial before its actual launch. The relevant fund in Moldova is too small and requires a serious replenishment. Kosovo and Bosnia and Herzegovina remain problematic. Venture capital is virtually non-existent in the region, although developing in Croatia.

7. STRENGTHEN THE TECHNOLOGICAL CAPACITY OF SMALL ENTERPRISES

Actions recommended under the Charter:

- Strengthen programmes aimed at promoting technology dissemination towards small enterprises as well as the capacity of small business to identify, select and adapt technologies.
- Foster technology co-operation and sharing among different company sizes and particularly between European small enterprises, develop more effective research programmes focussed on the commercial application of knowledge and technology, and develop and adapt quality and certification systems to small enterprises.
- Support actions at national and regional levels aimed at developing inter-firm clusters and networks, enhance pan-European co-operation between small enterprises using information technologies, spread best practice via co-operative agreements, and support co-operation between small enterprises in order to improve their capabilities to enter pan-European markets and to extend their activities in third country markets.

In the **former Yugoslav Republic of Macedonia** a small number of government or donor sponsored activities are underway, as reported in last year's report – 3 technology transfer centres are operating and in Bitola, the *Foundation Technology Park* was established. During 2005, the Ministry of Education and Science organised an *annual competition* to select companies which will receive support to co-finance development and research projects. The selection procedure is currently underway. The areas for support are defined in the national *Law on Supporting and Assisting Technological Development*. Technology transfer is still limited due to a low intake of FDI, lack of local expertise and financial support mechanisms. During the bilateral meeting in Skopje the conclusion was also drawn that the country lacks a national technology strategy and agency, which could perform a catalyst and facilitator role.

Serbia is one of the countries starting to address the challenges of competitiveness and innovation in a more systematic and pro-active manner. Currently, the *National Innovation Audit* and the *National Innovation Strategy* are being produced in the Ministry of Science and Environmental Protection. The plans include the setting up of a high-level Innovation Task Force (ITF) which held its first meeting in October 2005. The government has also inaugurated the *Best Technological Innovation Contest 2005* amongst entrepreneurs in Serbia, to raise awareness of (and award) innovation in companies. Winning enterprises will also be awarded with favourable credits from the banks sponsoring the contest. In addition, some

components of the EU funded SME development programme include the *training and accreditation of innovation consultants*. At present however, the Republic of Serbia does not have science/technology parks, but a feasibility study for STP's in Serbia is underway.

In **Bosnia and Herzegovina** technology transfer mechanisms are limited to initial work on clusters. However, in the district of Brčko, an ambitious *innovation and technology triangle Brcko-Bijeljina-Tuzla* is part of the district's 2002-2006 economic development strategy. It would link the educational infrastructure of the three towns to their industrial sectors. The project has nonetheless so far not been implemented.

The Directorate for the Development of SME's of **Montenegro** has, in cooperation with GTZ, prepared the planned (but delayed) *strategy for the opening of business incubators, technology parks and innovation centres*, with which Montenegro is not well endowed. The strategy was adopted and the short-term (December 2005) objectives included the development of at least one business incubator and at least one technology park). However a lack of funds disables the implementation of the strategy and the short term objectives.

In **Moldova** the *Agency for Innovation and Technology Transfer* was set up in 2004 (Parliament Decision 279-XV of 15 July 2004). It should start promoting and facilitating technology transfer and co-operation between the spheres of science, innovation and the business community. A national *Trophy* for Innovation and Creativity is also awarded annually. Moldova has only one technology park, but a law for the creation of an additional innovation centre is currently being drafted.

Albania concentrates on the development of technical standards and certificates and the development of five USAID supported industry clusters as a way to lower the barriers towards the development and intake of technology.

The Ministry of Economy, Labour and Entrepreneurship in **Croatia** implements a project "*Introducing quality and technical regulations systems*" which, whilst aiming to encourage Croatian companies to adopt European quality and product standards, also provides incentives for the introduction of new technologies. Croatia has a host of *business/technology parks*, the details of which are stipulated in the Croatian national report.

In summary, an area where countries and entities are putting policies and instruments in place to facilitate the development of technology and its intake by companies. In 2005, Serbia is the country seen to be pressing on seriously in this field. There is a host of project ideas in the collection of national reports which could set good examples for others to follow. Kosovo and Bosnia and Herzegovina are problematic in this area, but there is no sign of serious pushing in this field in Albania and Montenegro either.

8. SUCCESSFUL E-BUSINESS MODELS AND TOP-CLASS BUSINESS SUPPORT

Actions recommended under the Charter:

- Encourage small enterprises to apply best practice and adopt successful business models that enable them to flourish in the new economy.
- Develop information and business support systems, networks and services which are easy to access and understand and relevant to the needs of business.

E-business

There is no real e-business to any significant extent in any of the countries or entities of the Western Balkans. The previous 2004 report already singled out some of the main causes of the underdevelopment of this sector. Bosnia and Herzegovina, Kosovo and Albania have not yet adopted an e-signature act. **Serbia**, this year, joined the group of countries that have done so.

In **Moldova**, whilst the legislative framework for e-signature and e-business was adopted in 2004, the effective implementation is not yet possible pending the development of an appropriate technical infrastructure. E-business acts have also been passed in **Croatia** and **Montenegro** this year, but not yet in the other countries. However, the legal framework is only one pre-condition for e-business – the technological infrastructure and the lack of incentives and experience on the side of the entrepreneurs pose an obstacle to the effective development of e-business. Moreover, the introduction of this instrument immediately raises issues of security and data protection which need to be tackled. Overall, e-business has not yet taken flight in this region.

Business support systems

This section should be read in conjunction with the training part of area 4 of the Charter and will mainly concentrate on institutional issues (agencies) whereas training and consultancy services are dealt with under the scope of area 4.

In most countries the establishment of business support centres is primarily driven by donor funded projects and issues of sustainability are evidently rising to the surface in most countries. At the same time, the growth of some economies will increasingly provide the agencies with a larger potential client base. Highlights of some recent developments of the preceding twelve months include:

- In **Moldova**, the Business Advisory Service of the *EBRD (TAM/BAS)* was started up in 2005 and the 2005 Bilateral meeting on the Charter in Moldova presented an opportunity for the EBRD team to present itself to the SME policy stakeholders present at the meeting. This scheme has already successfully operated in the countries of the Western Balkans. Moldova wishes to further develop cluster methodology in the country and has prepared analytical reports on the options for clusters in the construction sector and the sector of fruit and vegetables
- The implementation of the Managed Work Space programme has started in **Kosovo** with the setting up of a *business park in Mitrovica*. A similar project is foreseen in Drenas. Through media advertisements, the Ministry of Industry and

Trade has announced a tender to select a municipality to host the first business incubators in Kosovo – three proposals have been selected (in Decani, Gjilani and Shtime). The UNDP has started a project to launch *two municipal business (information) centres*, in Shtime and Skenderaj. With the help of USAID, clusters for wood processing, dairy, poultry farming and road construction and construction materials are currently developed (*Kosovo Business and Cluster Support project*)

- In **Croatia**, the Entrepreneurship Centre in *Osijek* now provides *information by SMS* to entrepreneurs on how to run a business. Likewise, a *Franchise Centre* and a *Family Business Forum* have been set up here.
- On 19 May 2005, the *first business incubator* in **Serbia** started operating in Knjazevac. In October 2004, the *ENTRANSE* programme was launched with the support of the Norwegian government which foresees the setting up of a second business incubator in Nis. In 2005 the government of Serbia has also breathed new life into *cluster development* in the country, with the launch of a pilot project on cluster development. A call for proposals will be open to allocate budgetary resources to all interested groups of enterprises or development institutions with clustering programmes which need an extra boost to come to fruition. The call was launched on 12 September 2005.

| Table 5. Indicative overview of business support services | | | | |
|--|---|---------------------------------------|------------------------------------|--------------------------------------|
| | Local/regional business support centres | Business incubators | Clusters | Business/technology parks |
| Albania | 63 centres ³¹ | 1 incubator | 5 clusters ³² | none |
| Bosnia-Herzegovina | 16 centres ³³ | 6 incubators ³⁴ | 2 clusters ³⁵ | none ³⁶ |
| Croatia | 33 centres ³⁷ | 16 incubators | 3 clusters ³⁸ | 4 parks ³⁹ |
| Kosovo | 9 centres ⁴⁰ | 1 in initial phase, 2 others foreseen | 5 clusters initiated ⁴¹ | 1 in initial phase, 1 other foreseen |

³¹ 50 business support centres, 10 regional development agencies and 3 local development agencies.

³² In tourism, meat processing, herbs & spices, leather goods and media

³³ 5 new regional development agencies have recently been set up under the EU supported regional development programme (EU-RED). The number, taken from the BIH national report, should be taken as indicative as it contradicts earlier figures from the OECD and earlier Commission Charter reports.

³⁴ 4 in the Federation of Bosnia-Herzegovina (Zepce, Mostar, Zenica and Gradacac, 2 in the Republika Sprska (Madrica and Topola – agricultural production only) and, interestingly, neither an incubator nor a cluster is established in the district of Brčko which, in other Charter areas, often has a small advantage over the entities. A very small furniture cluster in Republika Sprska (7 firms) is not included in the table.

³⁵ On woods and on automobile parts and another is planned on knitwear in Srbac.

³⁶ Two are planned in Zenica and Banja Luka.

³⁷ Of which 6 regional development agencies. Various centres have dual or multiple functions, therefore the classification in this table should be taken as indicative.

³⁸ Wood processing and leather and a metal processing cluster is developing

³⁹ In Rijeka, Zagreb, Split and Osijek

⁴⁰ 5 regional enterprise agencies and 4 business support centres

| | | | | |
|--|--------------------------|--------------|--------------------------|--------------------|
| Former Yugoslav Republic of Macedonia | 20 centres ⁴² | 7 incubators | 5 clusters ⁴³ | none ⁴⁴ |
| Moldova | 15 centres | 5 incubators | 1 cluster ⁴⁵ | 1 park |
| Montenegro | 7 centres | none | none | none |
| Serbia | 29 centres ⁴⁶ | 1 incubator | 3 clusters ⁴⁷ | none ⁴⁸ |

Source: National reports on the Charter.

In summary, whilst e-business can be seen to be virtually non-existent in the region, the development of other business support agencies and services has become a rich and varied field in the region. Clearly, some countries or entities have generic local/regional support centres but lack some of the more sophisticated support institutions, and in particular, Montenegro. Serbia, with a first incubator in 2005, 3 clusters in fairly traditional industrial fields and no business/technology parks despite long standing policy intentions to develop these, should also move ahead in a more determined way in this area. This is a field where Croatia is clearly in the lead.

9. DEVELOP STRONGER, MORE EFFECTIVE REPRESENTATION OF SMALL ENTERPRISES AT UNION AND NATIONAL LEVEL

Actions recommended under the Charter:

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

Small business advocacy is a facet which is steadily developing in all countries.

Tripartite social dialogue, in the strict sense, only exists in **Croatia, Serbia and the former Yugoslav Republic of Macedonia**, but issues remain of how well SME's are represented and, when represented, whether their opinions are taken on board in policy making. In both countries, the Employers Association (HUP) in Croatia and the Chambers of Commerce of Serbia have a specific association of SME's which advocates the interests of those companies in tripartite social dialogue. In **Croatia**, representatives of the Chambers and employers associations can participate in parliamentary Committees. A further positive development in

⁴¹ The USAID Kosovo Cluster and Business Support programme is developing clusters in wood processing, dairy processing, poultry farming, road construction and construction materials.

⁴² 5 regional enterprise support centres (RESC), 3 Enterprise Support Agencies (ESA) and the Prilep Regional Enterprise Development Agency (PREDA). In addition, there are 13 Local Economic Development Bureaux supported by the Association of Local Self-Government

⁴³ 5 clusters are being developed in wine, lamb and cheese, tourism, ICT.

⁴⁴ One is planned (feasibility study undertaken for the University of Bitola). In addition, the GTZ Transfer of Technology project covers four technology transfer centres (TTC) in Skopje and Bitola. These aim to stimulate co-operation between RTD and entrepreneurs and raise awareness.

⁴⁵ wine

⁴⁶ 13 regular local/regional business centres and, 16 business centres of the National Employment Service operate in various municipalities

⁴⁷ In fruit and fruit juices, furniture and textile. In addition, a task force for the setting up of a cluster in the automotive sector was established in the second half of 2004.

⁴⁸ 3 parks are planned. A feasibility study on STP's in Serbia is underway.

Croatia has been the organisation by HUP and the SME Association of the first Croatian *SME Congress* on 30 November 2004. The association has also initiated a cycle of *working lunches* between businessmen and government officials to open up a more informal channel of government-business dialogue and co-operation. In Croatia, the SME Policy Centre (CEPOR) is a *think-tank*, but also advocates the interests of the SME sector.

In **Serbia**, the Law on Social and Economic Council was enacted in November 2004 and, as a result, the *National Social and Economic Council* was set up on 28 March 2005. The objective is to facilitate agreements between social partners. The modification of the Serbian Chamber of Commerce organisation, criticised in previous Charter reports for the complexity of its organisation, is underway. The Association of Entrepreneurs has launched an initiative for the setting up of a specific *Crafts Chamber* which, in Croatia, is a significant lobby organisation. On 15 April 2005, the Ministry of Economy has drafted an *issues-list*, in conjunction with the Association of Entrepreneurs and the Chamber of Commerce, which addresses the main shortcomings of the Serbian business climate for the entrepreneurs in Serbia. The issues –list, which focused on the grey economy and taxation issues, was then disseminated within the Serbian public administration to raise awareness and to identify areas where legislative amendments would be warranted. This is an informal, ad-hoc form of dialogue which would merit to be replaced by a formal, regulated dialogue approach.

In the **former Yugoslav Republic of Macedonia**, the Economic and Social Council acts as tripartite advisory body with representatives of the Association of Employers. A noteworthy development has been the adoption in December 2004 of the new *Law on the Chamber of Commerce*, which ended the compulsory membership requirement. In addition, the *Macedonian Association of Chambers of Commerce (MACC)* (not to be confused with the Chamber of Commerce) has been set up to satisfy the needs of entrepreneurs who felt ill-served by the existing Chamber and this has introduced a new, competitive dynamic in business advocacy. An initiative has been started to establish a sustainable SME forum to promote and organise consultation between government and SME representatives.

In **Albania** some progress has been made to strengthen SME advocacy and representation. The *Business Advisory Council*, often criticised for being too passive and not representative enough, has stepped up some of its activities – a communication channel was established to inform members of draft legislation and a number of specialist committees were set up. In 2005, ten new laws were discussed in the BAC, including the new fiscal package, as well as a number of reports. Overall, 32 of 71 proposals from the business community were taken over by the government.

At the end of 2004, a *co-operation agreement* was signed in **Montenegro** between the parliament, Employers Union, Centre for Entrepreneurship, the Institute for Strategic Studies and the Montenegro Business Alliance with the aim of improving public-private co-operation. This agreement enables business associations to be involved in discussions on draft legislation, give recommendations etc. This type of co-operation and consultation appears to take place regularly but on case-by-case basis without a specialised accredited and institutionalised forum or advisory council, as in some other countries. However, the small size (600.000 inhabitants) appears to accommodate non-institutionalised consultation rather well.

In **Moldova**, the *Alliance for Business Development* was set up in November 2004 by 10 associations of small enterprises, in an effort to enhance advocacy of their interests vis-à-vis the Moldovan government. The tripartite Economic Council, set up by the Prime Ministers

Office and representing the interests of the government; employers and employees, has become more pro-active in addressing business environment issues and has organised a national forum on the investment environment in 2005.

In **Bosnia and Herzegovina**, there is very limited formal consultation with the business communities at the level of the entities, whereas the district of Brčko established on 6 September 2004 an Economic–Social council where government dialogues with , inter alia, the Chamber of Commerce. At the level of the national state of Bosnia-Herzegovina, there is however no formal channel of business representation. The strategy mentioned under chapter addressed this vacuum, but the adoption of this strategy has been blocked in the political process in the country.

In conclusion, business advocacy and dialogue of government with business is an area where the situation is improving; new lobby organisations are developing, others expanding their ray of activities and governments are putting in place instruments, of a formal or informal nature, to enhance dialogue with business representatives. What is required is that this process continues, that the sector of small companies is assisted by a strong representative organisation or network of organisations and that government puts in place mechanisms to ensure that dialogue moves from informal meetings to formal mechanisms to receive opinions and amendments on and initiatives for draft legislation and regulation.

PART III – CONCLUSIONS AND RECOMMENDATIONS

The Charter process is well under way in all countries and entities concerned and a regional network of national co-ordinators has been established, which meets regularly in the region. Elements of peer-pressure are clearly working, with countries wishing to close performance gaps with neighbouring countries in the region. Charter area 2 is a fine example of that and has allowed, over a period of three years, almost the entire region to make headway in this area and modernise the company registration system. The development of other tools, such as guarantee funds, entrepreneurship education and initiatives to boost competitiveness are other examples. Two current examples can be mentioned where a country or entity clearly falls behind and will be moved onward through the pressure of the regional group. In Albania, the company registration system has now fallen behind the group and the new Albanian government is making the modernisation of company registration a prime target for 2006. Montenegro is behind the group where the development of sophisticated business support systems (incubators, clusters, technology parks) is concerned and has now put in place a strategy to address this. This peer pressure is working now and is impelling the region, as a whole, to move forward in various Charter areas and that is one of the important values of the process, which, in the second phase of the process, should be harvested in an even more explicit manner through the production of precise performance indicators and yardsticks per Charter field and the production of league tables and score boards as and when appropriate. The Charter is therefore playing a constructive role, allowing governments to take stock of national policies, to discuss and amend these with stakeholders and to plan new policies and to set new objectives in an annual, cyclical process.

Countries in the region are increasingly interested in good practice, policy advice and technical assistance from EU Member States in the areas covered by the Charter. In the near future, the integration of the Western Balkan countries into the new Community programme for entrepreneurship should allow to accomplish this. Both the CARDS and TACIS programmes can be useful instruments to provide support to implementation of the targets set

under the Charter process, subject to the regular planning procedures of both programmes. The Taix/Twinning instruments can likewise be useful instruments and, at the Kosovo regional meeting of April 2005 a special session was dedicated to the promotion of these instruments.

The national co-ordinators of the Charter often need to rely on ad-hoc contributions for the Charter report from other ministries and stakeholders. A true “mainstreaming” of the Charter within the whole of the national administration is not yet sufficiently accomplished. Some co-ordinators are attempting to set up permanent multi-stakeholder working groups for the Charter and all countries and entities are advised to follow such examples.

A similar partnership challenge is faced outside of the Government administrations, in particular with regard to the business community on the one hand, and the donor community on the other. Both should be more closely involved in the annual Charter cycles – the business community in spelling out the needs of the SME sector, and the donor community in the design of support programmes to address these. The European Charter for Small Enterprises presents a very good opportunity to engage in a broader consultation with stakeholders and to provide more coherence in policy formulation and donor programme delivery. This challenge is not yet fully met.

In general, one can carefully conclude that Croatia and Serbia are currently leading the regional group in addressing the broad sweep of Charter areas in a systematic way, putting both policy strategies in place, replacing and renewing legislation and regulation and developing specific technical support mechanisms. The quality of managing the process (bilateral meetings and national reports) is also very good in both countries, perhaps in Serbia systematically so and in Croatia increasingly so. One would have expected the former Yugoslav Republic of Macedonia to be in this lead group, but slow progress of reform over the last three years in areas such as company registration, regulatory impact assessments, guarantee funds and others, would justify a place just behind the two leaders. The quality of the reports and the bilateral meetings is systematically very good.

A middle group is led by Montenegro and includes Albania and Moldova, which are countries with, on the substance, clear strengths in some areas but also clear weaknesses in others. The quality of reports and the bilateral meetings has, from the start, been good. Bilateral meetings and the process of contributing to the reporting exercise has increasingly become more inclusive in Albania and Moldova. In Montenegro, the small size of the country explains that a relative small group of principal stakeholders can be seen to contribute to the process, however a push to widen the circle of contributors may be warranted.

Kosovo and Bosnia and Herzegovina remain problematic in the Charter process. The substance of what the Charter aims to accomplish progresses very slowly for reasons specific to both cases. In Kosovo the financial and organisational possibilities remain limited due to the political situation in the area. At the same time, Kosovo is amongst the staunchest supporters of the process and the bilateral meeting is characterised as a very large and inclusive process. Likewise, the disappointing progress in Bosnia and Herzegovina is explained by its specific political situation, where the two constitutional entities and Brčko are the prime movers in SME policies and the national co-ordinator acts as liaison officer to the Commission, without any real policy instruments at his own disposal. The competencies of the national state in this field are insignificant and, to a large extent, frozen in the political process.

Overall, the process has been introduced and implemented in a very smooth manner and progress is clearly noted in a number of areas, partly due to the credit of the political (peer) pressure vessel which the Charter has become. By adopting the Belgrade Declaration in October 2005, the region has indicated a wish to continue this process. The European Commission, in its Communication of January 2006, has confirmed its intention to continue the process as the appropriate policy response to the Declaration and the success of the European Charter for Small Enterprises in the last three years.

ANNEX 1

BELGRADE DECLARATION 26 OCTOBER 2005

European Charter for Small Enterprises

2005 Regional Meeting for Western Balkans and Moldova

Declaration on Future of the Charter Process

The European Charter for Small Enterprises is the catalyst through which the Western Balkan countries and Moldova work closely together and with the European Commission in order to harness the full potential of our small and medium-sized enterprises.

Small enterprises are the backbone of the European economy and a major driver for growth, competitiveness, employment and innovation. They are also a force for European integration through many of their activities, which transcend national boundaries. The Western Balkan countries and Moldova are committed to the creation of the best possible environment for small business and entrepreneurship.

Through the implementation of the Charter principles, the Western Balkan countries and Moldova cooperate closely in transforming the environment for small enterprises through measures such as: removing legislative and administrative barriers, improving access to finance, facilitating cheaper and faster business 'start-up', provision of business support, and training services, strengthening innovation and technological capacity and facilitating more effective representation of the views and priorities of the small business sector.

The Western Balkan countries and Moldova acknowledge the positive benefits and experience of working together in the implementation of the Charter principles and remain committed to continuing and reinforcing this partnership approach with the common aim of achieving greater economic dynamism and growth, resulting in more employment and prosperity for all our peoples.

Moreover, the Western Balkan countries and Moldova view the Charter process as an important vehicle for achieving true international competitiveness for each of our economies and as a stepping stone to full EU membership.

The governments of the Western Balkan countries and Moldova wish to convey to the European Commission our continuing interest in working together with the Commission in the implementation of the European Charter for Small Enterprises.