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**COMMISSION STAFF WORKING DOCUMENT**

**REPORT ON THE IMPLEMENTATION OF THE EUROPEAN CHARTER FOR  
SMALL ENTERPRISES IN THE COUNTRIES OF THE WESTERN BALKANS**

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### REPORT ON THE IMPLEMENTATION OF THE EUROPEAN CHARTER FOR SMALL ENTERPRISES IN THE COUNTRIES OF THE WESTERN BALKANS

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## PART I – INTRODUCTION AND EXECUTIVE SUMMARY

### The introduction of the European Charter for Small Enterprises in the Western Balkans

The countries of the Western Balkans (Albania, Bosnia and Herzegovina, Croatia, former Yugoslav Republic of Macedonia, Serbia and Montenegro) have endorsed the European Charter for Small Enterprises at the European Union - Western Balkans Summit of Thessaloniki (Greece) on 21 June 2003.

Following recommendations made by the European Commission in its second annual report on the Stabilisation and Association process for South Eastern Europe<sup>1</sup> and its recent Communication “The Western Balkans and European Integration”<sup>2</sup>, the Heads of State & Government of the region have committed their countries to the 10 principles and the implementation of the Charter. Through the work of the United Nations Mission in Kosovo (UNMIK), Kosovo is also covered by the scheme.

The Thessaloniki summit is a landmark stage in the process of aligning the countries in the Western Balkans to good practice in enterprise policy in the wider Europe. Whilst co-operation between the EU and the region is in place for reform measures such as trade liberalisation, privatisation, regulatory reform and foreign investment promotion, a clear framework for working together on enterprise development has so far been lacking. The European Charter for Small Enterprises is conceived as providing such a framework, which should place indigenous economic development higher on the political agenda. It will help to develop a business environment that allows local entrepreneurs to fill the gaps left by a receding and reforming state sector, and seize the opportunities provided by the reform process.

The Commission has discussed the countries' adoption of the Charter in a meeting of Charter co-ordinators in the Western Balkans held in Brussels on 28 March 2003. The former Yugoslav Republic of Macedonia has also hosted a second preparatory meeting of all Charter co-ordinators in the Western Balkans on 4 June 2003 in Skopje, to discuss the reporting process on the Charter.

To launch this process, the Commission sent out a detailed questionnaire to the countries in the Western Balkans, similar to the one used for the Candidate Countries and aimed at assessing the countries' progress in all the ten areas of the Charter. The questionnaire served as a guide for drawing up national reports on the state of implementation of the Charter.

In these national reports, reporting countries were asked to:

1. Describe the state of the small business environment in their country/ entity so as to allow the **identification of good practice** through cross-comparison of the different reports. (*Section 1 of the questionnaire*)
2. Rank the areas of the Charter according to different criteria, i.e. which areas they consider of most importance for their specific country/ entity, where they believe to be most/least successful, etc. By pinpointing the strong and weak points of countries,

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<sup>1</sup> [http://europa.eu.int/comm/external\\_relations/see/sap/rep2/index.htm](http://europa.eu.int/comm/external_relations/see/sap/rep2/index.htm)

<sup>2</sup> [http://europa.eu.int/comm/external\\_relations/see/2003.pdf](http://europa.eu.int/comm/external_relations/see/2003.pdf)

match-making and a steady development of **peer review mechanisms** can gradually start to take shape (*Section 2 of the questionnaire*)

3. Identify a small number of voluntary targets and **benchmarks** in each report (*Section 3 of the questionnaire*).

The questionnaire was therefore both retrospective and prospective: it inquired about progress made in the preceding 12 months, but also aimed to map out the plans for the coming 12 months. The latter part can therefore, in the following year, become a tool to measure progress made and to analyse causes for possible delays. The Charter process can then become a flying wheel spurring on progress in this policy field.

A first series of bilateral meetings in the region, to which key enterprise policy stakeholders had been invited, was then organised by the co-ordinators to discuss the draft of the respective national reports. These meetings, which have mobilised in all some 300 enterprise policy stakeholders in the region, were scheduled as followed:

Serbia and Montenegro <sup>3</sup>	9 and 10 July
Croatia	17 July
former Yugoslav Republic of Macedonia	18 July
Albania	9 September
Bosnia-Herzegovina	24 September

The finalised national reports were submitted to the Commission in October 2003 and published by the Commission on internet<sup>4</sup> These reports are a self-appreciation by the countries concerned and do not necessarily express the opinion of the Commission.

In view of the specific situation in Serbia and Montenegro, separate reports have been drawn up for Serbia, Montenegro and Kosovo - the first two under a co-ordinating responsibility at the state level Bureau for European Integration, the latter one under auspices of the United Nations Interim Administration – Pillar IV. In the current report by the Commission, separate information is therefore presented on Serbia, Montenegro and Kosovo. This should not be interpreted as any form of recognition of the current (or assertion on the future) status of the three constituent entities.

In the case of Bosnia-Herzegovina, a single national report integrates information from the three constituent entities of the country – the Federation of Bosnia-Herzegovina (FBiH), the Republika Srpska (RS) and the District of Brcko (DB). In the current Commission report this information is usually presented in an integrated manner covering the whole country (including in the charts where non-weighted averages of the three entities are presented), but there are a few exceptions where specific information on the entities allows better understanding of the actual situation in the country.

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<sup>3</sup> Under auspices of the United Nations Interim Administration in Kosovo, a separate meeting was held in Kosovo on 11 September 2003.

<sup>4</sup> website: [http://europa.eu.int/comm/enterprise/enterprise\\_policy/charter/charter-2004\\_balkan.htm](http://europa.eu.int/comm/enterprise/enterprise_policy/charter/charter-2004_balkan.htm)

The name of the former Yugoslav Republic of Macedonia is abbreviated as fYRoM in the charts for technical reasons only and this does not imply any recognition of the abbreviation whatsoever.

The European Training Foundation (ETF) in Turin has organised a third meeting of Charter co-ordinators in Turin on 1 December 2003, to discuss a draft of the current report and to start a more in-depth review of some of the Charter areas, particularly areas 1 and 4 which deal with education, training and human resource development.

Generally, the introduction of the European Charter for Small Enterprises in the Western Balkans has been very smooth and successful, which is largely due to the effective way the initiative has been picked up by policy makers in the region, who have often perceived the Charter as a tool to push small enterprise policy higher on the national agenda.

### **Main trends and conclusions**

Some overall impressions can be derived from how the countries ranked, according to four different criteria, the ten areas of the charter on a scale of 1 (“lowest rank”) to 10 (“highest rank”). These Charts (1 to 10) are inserted in the different Chapters of the current report.

A first observation can be that the whole area of ICT and its relation to entrepreneurship, as articulated under Charter areas 5 (on-line access), 9 (e-business models, amongst other issues) and to some extent area 2 (cheaper and faster start up – online registration), is largely uncharted territory where the Western Balkans is concerned. Not much is existing in the different countries in terms of a legal framework, proper hardware, skills and perceived benefits, and not much policy importance is attributed either. This area is probably seen as a “luxury” given the current state of small enterprise development and may only rise on the policy agenda in the coming years. Croatia can be seen to be already entering this stage, as it announces considerable government action in this area in the coming 12 months.

The areas where most progress is made are Charter areas 4 (availability of skills) and again area 9 (Business support) where non-ICT related matters are concerned. Most countries can boast the establishment of business support agencies and a range of training programmes for entrepreneurs and/or about entrepreneurship. However, these soft measures often appear to be donor-supported and donor-dominated and there are questions as to the sustainability and proper co-ordination of such agencies and programmes.

A closer look at the individual Charter areas reveals interesting information about - and differences between the countries (Charts 1 to 14 in the report).

First of all, where education & training for entrepreneurship is concerned – Charter area 1. This is an area where past Charter reports on Member States and candidate countries have noted significant development and encouraged more action. The Lisbon summit also recognised entrepreneurship as a new basic skill in the knowledge based society. In the Western Balkans, only average importance is attributed to this facet and most governments believe that education and training are not very high on the list of desiderata in the business community. There are nonetheless very stark differences between a country like the former Yugoslav Republic of Macedonia, which places it at the bottom of the list of priorities and future government action, and Albania, where it ends on top.

The second Charter area of cheaper & faster start-up is recognised as one of the priorities for the business community by all countries concerned.

Better legislation and regulation (Charter area 3) is an area where we find most agreement as to the importance of the area. In all countries, it is perceived as being very important for the business community and all countries foresee considerable policy action in the coming 2 months, with Croatia a bit less pronounced on this front.

Market access issues as defined under Charter area 6, do not score high in the countries. This may find its cause in the fact that this area, articulated as “getting more out of the single market” is strictly speaking not entirely relevant for the region. However, in Serbia, the business community is believed to attach a lot of importance to market access issues and government action in this field is likewise high on the list of priorities. Croatia, currently waiting to see its EU Membership application granted, pulls in second place.

Not surprisingly, Charter area 7 (Taxation and Financial Matters) is an area of which all countries believe it is the biggest concern for the business community. Most countries also attach very high priority to government action in this field, with the exception of Croatia. This is probably consistent with the fact that market conditions for credit have much improved in Croatia over the last years, compared with other countries, and that the government sees its own role in this field as diminishing.

Croatia also appears to be in a different league when it comes to Charter area 8 (Technological capacity). In all countries but Croatia, the business community is perceived as not attaching priority to this field and government action plans are at the bottom of the priority listings. However, in Croatia it is branded as a top priority, both in the perceived business community needs as well as in government policy plans.

Charter area 10 (Representation of enterprises) provides an interesting picture. Many countries tend to suggest that the business community attaches a fairly low priority to this aspect. This does not necessarily reflect negligence of the needs of companies to be heard by government. In fact, a surprising feature of the Western Balkans is that business advocacy is already, to some extent, an accepted and regulated practice and most countries have reserved a place for the business community on the policy tables.

All countries have seized the opportunity of the Charter process to articulate targets and objectives. These objectives / targets are voluntary and self-imposed and reflect the prioritisation in and by the country/ entity – they are not imposed by the European Commission, although the bilateral meetings have been used to influence the choices by the countries to some extent. The European Commission will now monitor if and how these targets are implemented in the 2004 cycle and will scrutinise compliance with EU state aid rules in doing so.

**These 41 targets** are distributed as follows over the countries and charter areas:

	Albania	Bosnia- Herzegovina	Croatia	fYRoM	Serbia	Montenegro	Kosovo	total
1	1				1	2		4
2		1	4	1	2	1	1	10
3	1	1		1	3		1	7
4				1		1	1	3
5						1		1
6						1		1
7	2	2		1		2		7
8			1			2	1	4
9			1	1		1		3
10	1							1
total	5	4	6	5	6	11	4	41

Most new legislative and other measures in the Western Balkans thus appear to be announced in the fields of cheaper and faster start ups, better legislation and regulation, and in the fields of taxation and financial matters.

Not all targets are equally clear and tangible, and not all provide major leaps forward, but in its entirety the broad set of these targets is very encouraging for the concrete role that the Charter process is set to play in the region. It is a very good start.

In the following Chapters, a more detailed appreciation is given on the implementation of the principles of the Charter in the region.

## **PART II: WHAT HAS BEEN ACHIEVED: SUMMARY OF NATIONAL REPORTS AND COMMISSION'S ACTION**

### **1. EDUCATION AND TRAINING FOR ENTREPRENEURSHIP**

#### **Actions recommended according to 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.
- Develop appropriate training schemes for managers in small enterprises.

Entrepreneurship education is not widely spread in the Western Balkans. The international donor supported Junior Achievement/ Young Enterprise (JA/YE) programmes do provide courses on entrepreneurship in Croatia, Serbia, Montenegro and the former Yugoslav Republic of Macedonia, but these are optional and extracurricular. These are fairly successful programmes and the range of schools and vocational training establishments taking part is extending. In Croatia for instance, it will be introduced in 30 secondary schools in 2003/04 after a trial phase in 2002/03 with only 10 schools. These countries should now consider how the experiences of these programmes (as well as the Norwegian Business Innovation and German Business Administrator programme in the case of Serbia) could be mainstreamed into the curriculum of secondary education.

In effect, in the former Yugoslav Republic of Macedonia 35 % of high schools fall under a current educational reform programme which includes the introduction of entrepreneurship in the compulsory curriculum in the first and second year of secondary education. It is an optional subject for graduation examinations. Moreover, in this country, the Junior Achievement programme covers large segments of primary education as well (18.000 pupils in 45 elementary schools). Croatia will, in 2003/04, also extend the programme to primary education, starting with 10 schools only.

Other countries (Albania, Bosnia-Herzegovina, Kosovo) cannot be seen to be developing distinct initiatives of a similar scope, although entrepreneurship is a compulsory subject in the Breko District within Bosnia –Herzegovina. In Kosovo, entrepreneurship has been proposed as optional in the 2001 educational policy orientations, but the terms of reference for the course contents are pending. Within Kosovo, there are discussions on the licensing of private schools to fill the perceived vacuum of entrepreneurship education.

Where vocational training is concerned, entrepreneurship is embedded in the compulsory part of vocational training in Croatia (courses lasting 3 to 4 years). Croatia also has a special teacher training programme for junior companies management. Usually, vocational schools are already considerably oriented towards entrepreneurship, as is the case of Albania in branches like banking, agro-business, hotels and tourism.



Generally, the age at which pupils get a deliberate exposure to entrepreneurship is around the age when secondary education starts – between 14 and 18 years. Only in the former Yugoslav Republic of Macedonia the explicit exposure takes place in primary education in the age range of 6 to 7 years.

Regarding University level education, there are graduate courses/ diplomas on entrepreneurship in the former Yugoslav Republic of Macedonia , Montenegro (but no titles) and Kosovo. Serbia has graduate courses in private educational establishments as well as post graduate courses. Croatia has private and public undergraduate courses and public postgraduate courses.

Albania has no specific titles but there are some relevant programmes (business administration, management). Bosnia-Herzegovina has no significant University programmes on entrepreneurship.

The lessons learned on education & training for entrepreneurship include:

- the need for flexibility in the education system to better mirror the emerging needs of business
- skills of the teachers need to be examined carefully – entrepreneurship requires training rather than lecturing and the skill is acquired rather than taught
- an informal market of education/training in this field has evolved – but there is a lack of standards, of information on the programme and the providers, and there are no appropriate tests to certify and valorise the acquired knowledge or skills.

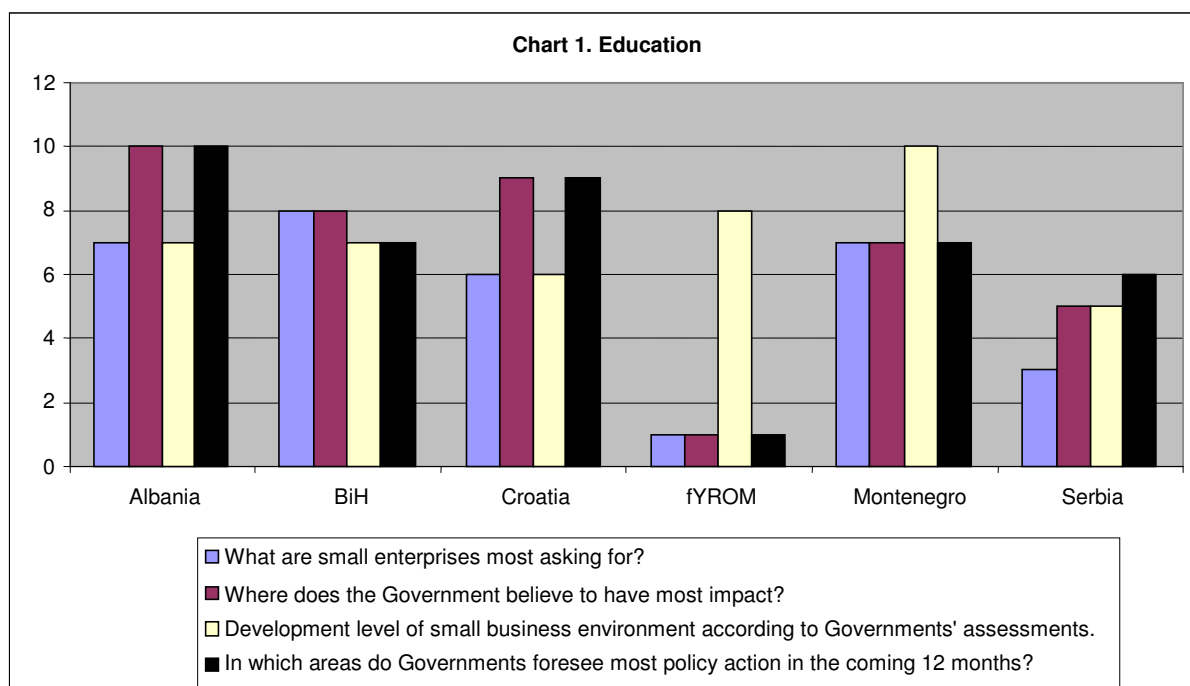
Outside of the remit of formal education and training, there are other initiatives to stimulate entrepreneurship:

- in all countries, networks of local/regional business centres provide training courses to entrepreneurs or protagonists of entrepreneurship
- television programmes promoting notions and good practice of entrepreneurship are very popular, particularly in Serbia which has developed a lively culture of such programmes
- magazines, fairs, exhibitions, round tables and debates are also a common feature in most countries.

Both Croatia and Montenegro organise national competitions to select the best entrepreneurs and/or business ideas. Serbia has staged, in May 2003, a public campaign “Biznis mali – sta mu fali” (small business – there’s nothing wrong with it) which included a road show in different parts of the republic to raise the level of public awareness about entrepreneurship. Croatia has installed free-of-charge information telephones in 19 entrepreneurship centres, to answer queries from entrepreneurs.

Finally, where the training of managers of existing small companies is concerned, there are, again, many donor supported initiatives in the various countries. Both in Montenegro (through the Turn Around Management/ Business Advisory Services TAM/BAS) as well as in the former Yugoslav Republic of Macedonia (Human Resource Development Fund) a dedicated effort is made to develop a local, national business consultancy market in a field which is often still dominated by international consultants.

The relative importance of this area of the Charter is perceived as follows:



For the coming period, the following is proposed in terms of new measures, targets and benchmarks:

**Albania:**

(1) Development of a national training programme to enhance the internationalisation of small companies and their access to EU markets (2004)

**Montenegro:**

(2) Implementation of a special training programme for enhancing business knowledge for 1.000 trainees (01.05.2004)

(3) Establishing entrepreneurship (entrepreneurship clubs) as an optional subject in primary education in 5 pilot schools (30.06.2004)

**Serbia:**

(4) Establishing entrepreneurship as an experimental subject in secondary schools in Serbia Compulsory in the 3<sup>rd</sup> or final year of 2004/2005 secondary education in agro processing. Two additional extracurricular programmes of the JA/YE programme in the 2003/2004 school year.

## 2. CHEAPER AND FASTER START-UP

### Actions recommended according to 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.

Company registration time in the Western Balkans is, on average, not all together worse from what one finds in some Member States and candidate countries. Montenegro is particularly expeditious with a maximum delay of 4 days and a “silent approval” when the four days pass without a decision by the commercial court where registration takes place. Montenegro has recently introduced a thorough reform of company registration procedures and re-registration has doubled the number of registered entrepreneurs in the course of a year. Likewise, in the former Yugoslav Republic of Macedonia company registration should take place between 3 and 8 days if the application meets agreed standards/ criteria.

Serbia appears to have a particular challenge when it comes to company registration, with an assessed average of 53 days of company registration time.

The delays start to become more serious when all procedures (customs, tax, statistical office, labour and health aspects) are taken into account. Even in a country like Croatia this can go up to 4 months. Moreover, for most countries, the really serious delays take place when it comes to licensing (buildings, facilities) at municipal level.

The costs of company registration are in the range of € 7 in Kosovo to € 330 in Croatia. Additional costs are related to licensing, which can add considerably to the price tag of a starting company.

	<b>Registration time in days</b>	<b>Total procedural time in days excluding licensing</b>	<b>Registration costs (excl deposit initial capital) in Euro</b>	<b>Total costs in Euro (excl deposit of initial capital)</b>
Albania	Estimated time 5 - 7 days	18 days	€ 11 for Albanian companies  € 36,7 for foreign companies	Additional tax registration fee € 0,73  Licensing can vary according to types/ sectors from € 22 to € 3676
Bosnia-Herzegovina	-  Exception is Brčko District where a legal deadline of 8 days applies	30 - 31 days  In District Brčko all can be accomplished in 15 days		€ 400 (FBiH)  € 650 (DB)  € 1250 (RS)
Croatia	Maximum 3 weeks	2 weeks to 4 months if application is	€ 330 for companies	€500 companies and co-operatives

		correct. Varies from one court to another		€ 160 for crafts (general expenses plus minor additional fees depending on the category of activity)
	<b>Registration time in days</b>	<b>Total procedural time in days excluding licensing</b>	<b>Registration costs (excl deposit initial capital) in Euro</b>	<b>Total costs in Euro (excl deposit of initial capital)</b>
former Yugoslav Republic of Macedonia	Minimum 3 days Legal maximum 8 days if application is correct	48 days	-	Between € 100 - € 300
Montenegro	Within 4 days – after 4 days a silent approval		€ 18, 30	€ 37  Licensing can take from € 350 to € 900, differs per municipality/ sector
Serbia	Impossible to assess – too many differences between courts and court has no legal deadlines to respect  The assessed average is 53 days		€ 37 court fees and € 38 for advertising in the official Gazette	€ 173 – estimated average  Sole proprietors only € 3,5 to € 6
UNMIK (Kosovo)	Within 10 days		€ 7 - 22	€ 7 - 22

In some countries, in particular in Croatia and the former Yugoslav Republic of Macedonia, it is quicker and cheaper to register a crafts/handicraft firm. For some entrepreneurs, there is an incentive to register as such, rather than going the longer and more expensive route of company registration.

The steps and agencies involved in full and complete company registration are usually the following five:

- (1) registration proper: generally the court register
- (2) taxation issues (non existence of prior tax obligations, delivery of tax number and certificate): taxation office or department
- (3) customs (number and approval) by the customs administration/ministry of foreign trade
- (4) statistical number for company registration by the Department for statistics
- (5) social/labour issues (pensions and health insurance fund, employee registration certificates on occupational safety): usually local employment office or similar agency.

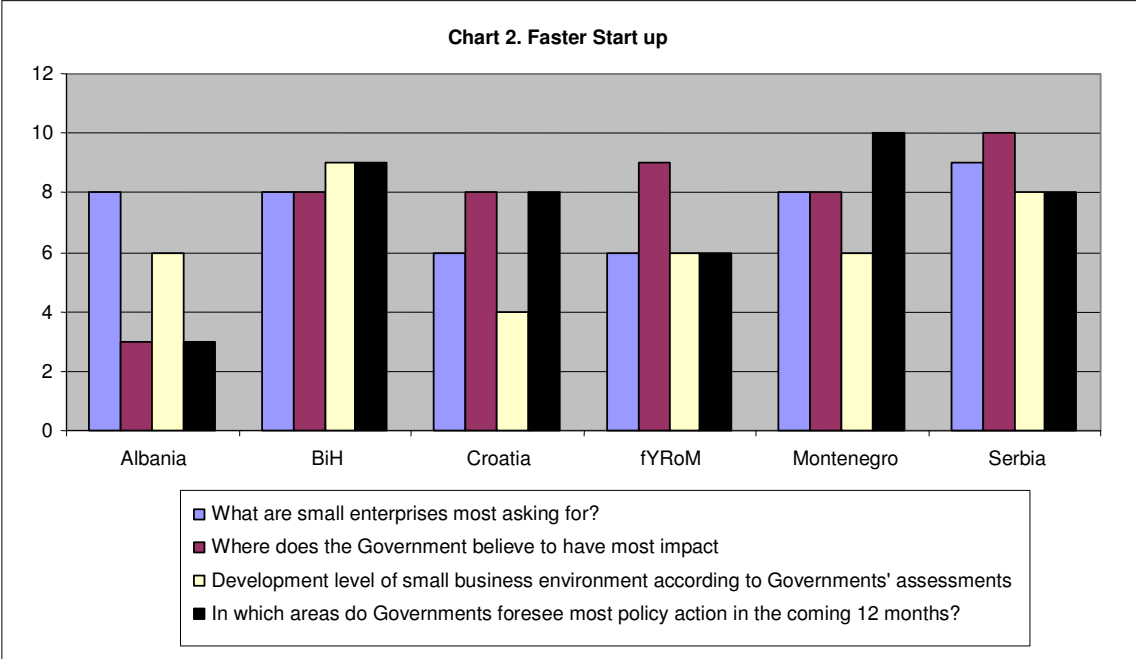
The delivery of permits/licenses thereafter involves the municipal administration, as well as line Ministries in some cases.

There are some tentative plans to experiment with one-stop shops for business registration (see targets). In Kosovo a special agency for business registration has been set up to integrate some of the steps involved in starting up. However the interaction with the tax office remains a problem.

In none of the countries there are possibilities for online registration (in many Member States and candidate countries it is not yet possible either, nor is strictly speaking part of EU acquis).

In addition to these procedures for business registration, companies are subject to mandatory membership of the Chamber of Commerce, with the exception of the former Yugoslav Republic of Macedonia and the Brcko District in Bosnia-Herzegovina, where membership is set to become optional. Kosovo also has mandatory membership, which has however not been implemented.

The relative importance of this area of the Charter is perceived as follows:



For the coming period, the following is proposed in terms of new measures, targets and benchmarks:

**Bosnia- Herzegovina:**

(5) reduce the costs of a start up to € 500 maximum and the time needed to 20 days (September 2004)

**Croatia:**

(6) provide matching funds with local government to ensure the provision of credit to 100 start ups which fail to ensure bank credits due to insufficient collateral (September 2004)

(7) increase the number of registered companies from 161.270 to 164.430 (September 2004)

(8) increase the number of employees from 704.980 to 741.600, mainly through a recruitment drive in the crafts sector

(9) introduce on line registration for crafts (Feb 2004)

**former Yugoslav Republic of Macedonia:**

(10) simplify the registration documentation/ folder and publish a user friendly guide for starters (March 2004)

**Montenegro:**

(11) realisation of the pilot project “business barriers” in 3 municipalities reducing to 10 days the delay for issuing business licenses. (01.05.2004)

**Serbia:**

(12) reform business registration regulations, concentrating registration formalities in an independent Business Registration Agency, which will complete registration formalities within 5 days. Relevant law to be passed in Spring 2004

(13) introduction of on-line registration (September 2004)

**Kosovo:**

(14) introduce on line registration and thus reduce registration time from 10 days to 1 day.

### 3. BETTER LEGISLATION AND REGULATION

#### **Actions recommended according to 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.

In the last three years, all countries in the Western Balkans have introduced new and modern bankruptcy legislation, often with technical assistance of donors and modelled on good practice in Member States. Serbia faces a challenge here since last amendments date back to 1996 and the need for new legislation is recognised. Bosnia-Herzegovina needs to ensure that bankruptcy legislation introduced at the level of the three entities is harmonised and that it provides legal rights and obligations irrespective of the physical location of debtors, creditors, owners and employees.

The international FIAS (Foreign Investment Assistance Service – IFC/World Bank) study has identified many barriers to investment particularly in Croatia, the former Yugoslav Republic of Macedonia and Albania and action plans are currently addressing some of the perceived shortcomings in the business environment in those countries. Laws which need to be simplified or withdrawn, are being identified. These need to be followed up in a rigorous manner and there are conflicting signs as to whether this is actually the case.

Legislation that has recently been put forward concerns taxation, customs, accounting, VAT, company law, FDI and relevant labour laws. There is a significant throughput of legislative measures to be noted in most countries which are addressing the need to have a proper legal framework for small companies to function in. Issues of simplification and user friendliness of documentation are dealt with in lesser extent. No significant and explicit effort can be discerned from the national reports.

The issue of improving the business environment is also reflected in the recently drafted Poverty Reduction Strategy Paper (PRSP) for Bosnia-Herzegovina. Despite this awareness about difficulties with the business environment there has been little to any implementation of recommendations. For this reason the Office of the High Representative (Mr Ashdown) has initiated the ‘Bulldozer Committee’ to identify major roadblocks for doing business and to present this as a package of reforms to be adopted by the newly formed governments in the first quarter of 2003. The process of identifying road blocks has been to use a demand driven approach and involve as many business intermediaries such as the Confederation of Employers and business associations in the process. This has had the added benefit of strengthening these intermediaries in business advocacy.

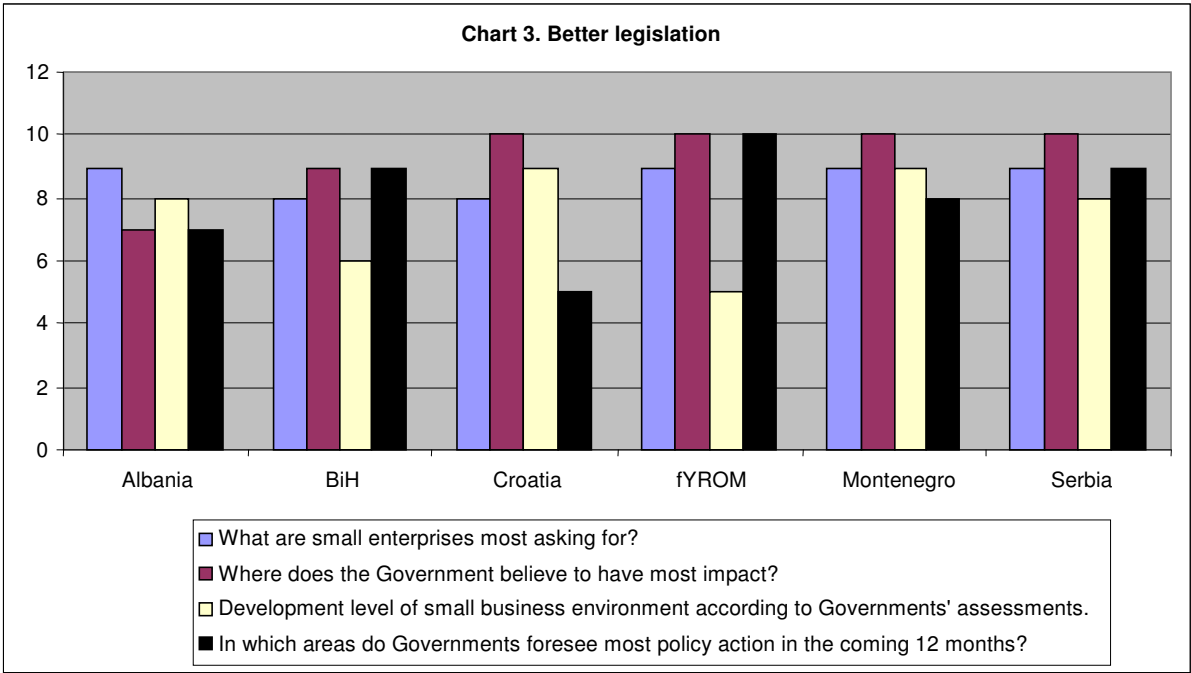
Within several Member States and some candidate countries, the effects of legislation on the business environment are systematically evaluated, through Regular Impact Assessments (RIA’s). There is little evidence of similar screening taking place in the Western Balkans. There is some screening taking place in Montenegro and the former Yugoslav Republic of Macedonia, but these lack a focus on small business in the latter and they are ad-hoc in the former. In 2003, Serbia has set up the Council for Economic System Regulatory Reforms, which covers the provision of prior opinions on draft laws and the assessment of impact of

draft regulations on the economic system. Croatia for its part is working on the introduction of RIAs by 2004.

Finally, the only regulatory exemptions which small companies enjoy in the Western Balkans are in the sphere of accounting and bookkeeping, where small companies can opt for simplified systems. This is the case in Croatia, Montenegro, Albania and the former Yugoslav Republic of Macedonia. Serbia, however, is set to introduce it in January 2004.

An encouraging feature of the Western Balkans is that some countries are quite progressive in organising business advocacy and encouraging the regular involvement of the business community in the legislative process. This is dealt with in more detail under Charter area 10.

The relative importance of this area of the Charter is perceived as follows:



For the coming period, the following is proposed in terms of new measures, targets and benchmarks:

**Albania:**

(15) implementation of the FIAS-induced national action plan, adopted by the government, to remove investment barriers. (September 2004)

**Bosnia- Herzegovina:**

(16) harmonisation of state/Entity laws regulating the sector of small and medium sized enterprises. This includes definitions, policy orientation and role of institutions

**former Yugoslav Republic of Macedonia:**

(17) publication of 4 user friendly guides on regulations and standards of relevance for a company: on construction (premises, utilities, health / safety, environment protection), labour legislation, sanitary/safety requirements and technical conditions/equipment)



**Serbia:**

(18) new bankruptcy law

(19) finalise legislative procedure on other relevant laws – in particular company law, and e-signature law as well as the registration law mentioned under area 2

(20) Council of Regulatory Reform will assume a proactive role to ensure a systematic inclusion of the Serbian business community in the policy and law making process

**Kosovo:**

(21) introduction of new laws on competition, SME's, Investment and Chambers of Commerce.

**4. AVAILABILITY OF SKILLS****Actions recommended according to 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 section of the Charter was only dealt with in limited detail, because of its general scope and its apparent overlap with Charter area 1.

The most striking feature of the national reports is the dominance of the international donor community in designing and delivering training programmes which address perceived skill deficits. Local or regional delivery of the courses is ensured through networks of local business support centres or development agencies. There are many successes to be reported, but the reports also reflect concerns (particularly in the reports from Kosovo, Bosnia-Herzegovina and the former Yugoslav Republic of Macedonia) about the proper co-ordination, focus and impact of these programmes. There is also a recognised risk that some programmes may include a potential to distort the relatively fragile market of local consultancy and training services. This is the reason why, in the former Yugoslav Republic of Macedonia, the EC supported Human Resource Development Fund is expected to nurture the development of a pool of first class consultants and trainers specialised in company work on restructuring and strategic management. Admittedly, some donors are aware of the effect that they may have on distorting local potential and have themselves become pro-active in addressing the issue – the TAM/BAS programme mentioned in Charter area 1 is one example.

It is clear that entrepreneurs need to be made aware of the real training needs which they do have. A survey “Barriers to Doing Business” carried out in Montenegro in 2003 reveals that 80 % of the questioned firms do not consider employee skills a problem for their company.

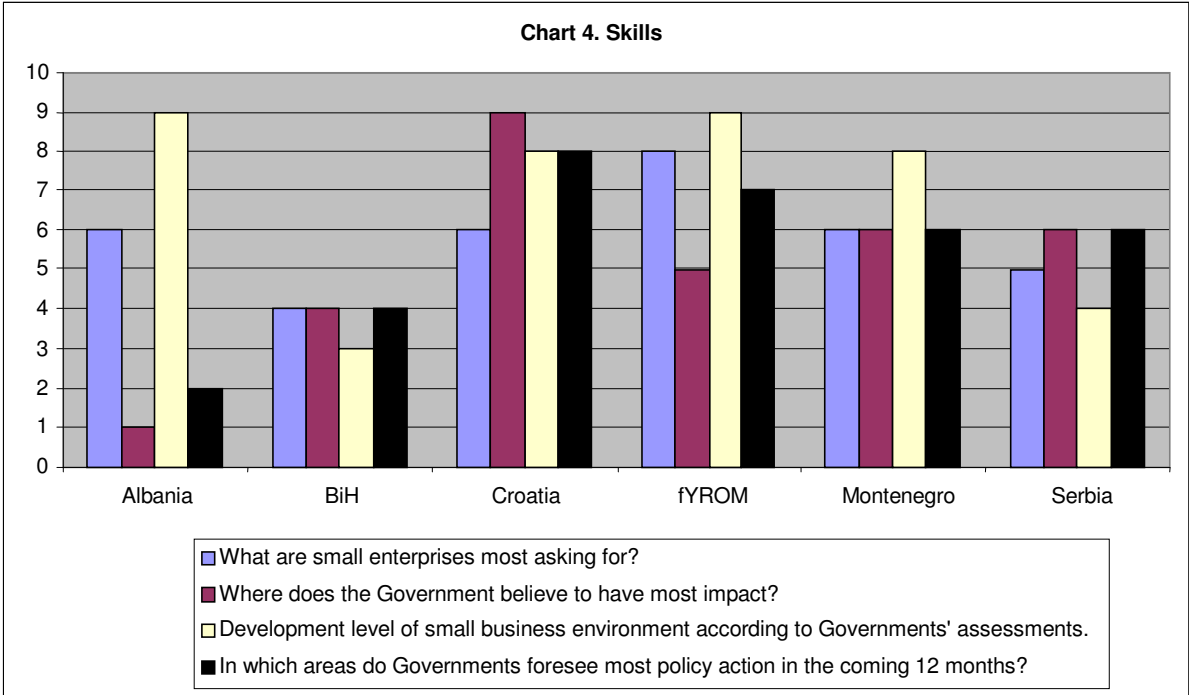
In Croatia, the government, as well as Chambers of Commerce, of Crafts and the Employers Association, now conduct surveys to identify the skill development needs of entrepreneurs.

In Serbia, the view is taken that future training efforts need to satisfy a particular and concrete headline objective of increasing the number of successful start-ups in the republic.

In Albania, the European Training Foundation has piloted a successful programme to increase capacities of the managers of small companies. It achieved good results in pilot regions and could be replicated in other regions.

In Bosnia-Herzegovina (in particular the FBiH) the creation of a local consultancy network for SME's is a noteworthy fact.

The relative importance of this area of the Charter is perceived as follows:



For the coming period, the following is proposed in terms of new measures, targets and benchmarks:

**former Yugoslav Republic of Macedonia:**

(22) implement training programme enhancing business skills for 300 trainees. On the basis of experiences with this programme benchmarks of good training practice will be designed as a basis for future training interventions by the government in favour of small companies

**Montenegro:**

(23) add 1 additional regional business centre to the existing network of 6 business centres (end 2003)

**Kosovo:**

(24) establishment of a voucher system for business training and counselling.

## 5. IMPROVING ONLINE ACCESS

### **Actions recommended according to 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.

An e-signature law has only been passed in Croatia and the former Yugoslav Republic of Macedonia.

There is a very low level of computer and internet use in most countries, with the exception of Croatia, which has seen a rise to 28,5 % in the last year (1 million of a population of approx 4,5 million). In Montenegro, internet use is estimated at 15 % and in Serbia and the former Yugoslav Republic of Macedonia internet use is estimated to be around 4 to 5 %. No reliable information is available on the other countries, but it is likely to be lower still.

Websites are being set up in all countries, but these are by and large one-directional. Apart from advice by e-mail, there is no on-line communication for enterprises with the public sector (making applications, filling out forms, tax returns etc). In most countries, this is obviously conditioned by the absence of e-signature legislation.

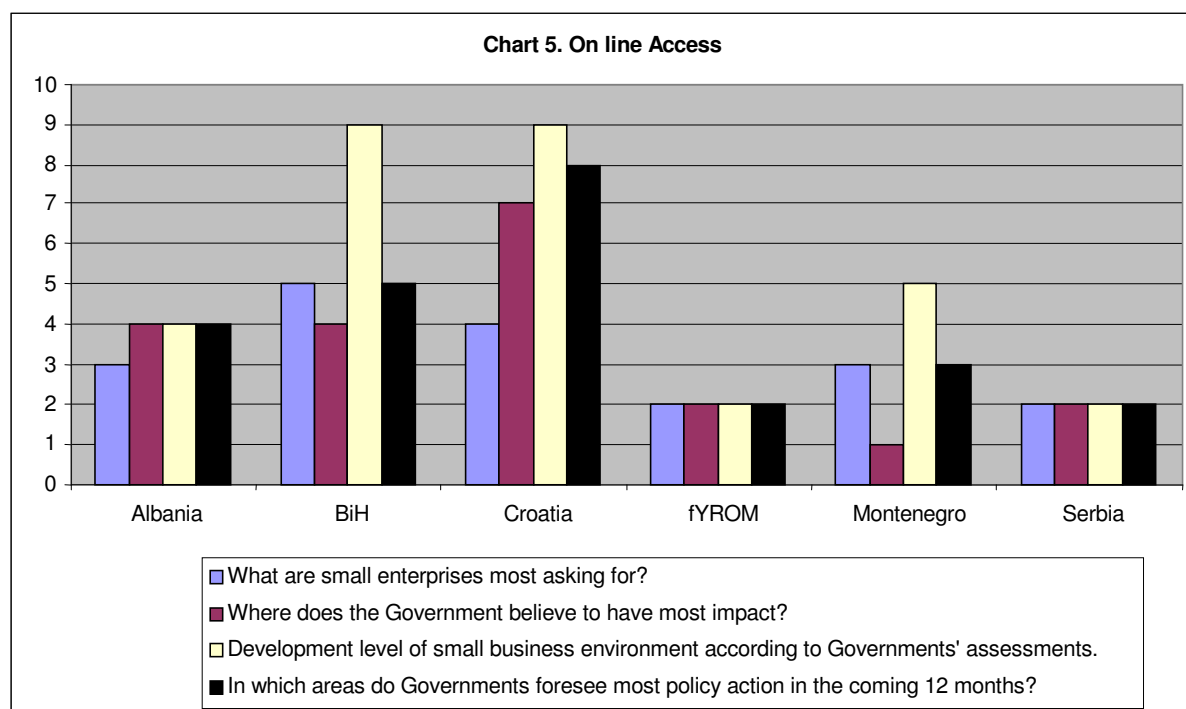
Others factors which are perceived as a barrier to improving online access:

- costs perceived as higher than the potential benefits
- lack of ICT education, training and knowledge
- underdeveloped telecommunication infrastructure (some countries only)
- data security concerns.

Currently, Montenegro faces the particular issue of a de-facto monopoly of one internet provider.

The e-government framework policy initiatives in Croatia and the former Yugoslav Republic of Macedonia are aimed to help the country and the public sector in particular to “go digital”. Similar aspirations are articulated in the Serbian SME strategy (2003-2008) and in 2003 a special Agency for the Development of Internet and Informatics was set up, which should develop a broad ICT policy toolbox and help develop e-business. Likewise, Albania has drafted a National ICT strategy. There are no significant framework initiatives in Kosovo and Bosnia-Herzegovina.

The relative importance of this area of the Charter is perceived as follows:



For the coming period, the following is proposed in terms of new measures, targets and benchmarks:

**Montenegro:**

(25) setting up of a dedicated government website to facilitate communication with the private sector (01.09.2003).

**6. GETTING MORE OUT OF THE SINGLE MARKET**

**Actions recommended according to 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 of the Charter was not dealt with in an extensive way because it is strictly speaking only of relevance for those countries where a regime of trade liberalisation and rapprochement to the EU single market mechanisms is on the agenda. Only Croatia and the former Yugoslav Republic of Macedonia have signed Stabilisation and Association Agreements with the EU which introduce this dimension in the relationships with these countries. Although these SAA's are not yet in force, the Interim Agreements, which cover trade related aspects, have effectively entered into force and they have provided a sense of urgency to the country's efforts to gear up the economy and small companies for competition

on the EU internal market. Such an agreement is currently also negotiated with Albania. For Bosnia-Herzegovina negotiations for such an agreement may start in 2004 if certain basic conditions are met<sup>5</sup> The Commission is currently drafting a feasibility study on Serbia and Montenegro. A functioning internal market (which is foreseen in the Constitutional Charter of Serbia and Montenegro) is critical for the establishment of contractual relations with the EU.

In the former Yugoslav Republic of Macedonia, the government is making efforts to help small companies seize the offered opportunity and a specific fund provides co-financing for entrepreneurs to meet standards and/or take part in trade fairs. Business advisory services (BAS) co finances the fees for consultancy services to introduce advanced management systems and help meet ISO, HACCP standards. Various donor supported projects have been launched to increase competitiveness. The Macedonian Bank for Development Promotion supports exports.

Croatia has a Loan Programmes for Export by SMEs, and there is government co-financing available for participation of companies at fairs and exhibitions. There is also financial support for certification with the aim of breaking into new markets (ISO, HACCP, HRN etc). The Croatian Bank for Reconstruction and Development also supports export (loans, insurances) Information and training on exporting and foreign markets is provided by the Chambers of Commerce and the EICC (within the Chamber). The Chamber of Commerce also boasts a Centre for Quality, which aims to improve management systems.

Other countries are becoming interested in issues of competitiveness. Montenegro is starting to examine which sectors should be prioritised and where competitive advantages may lie.

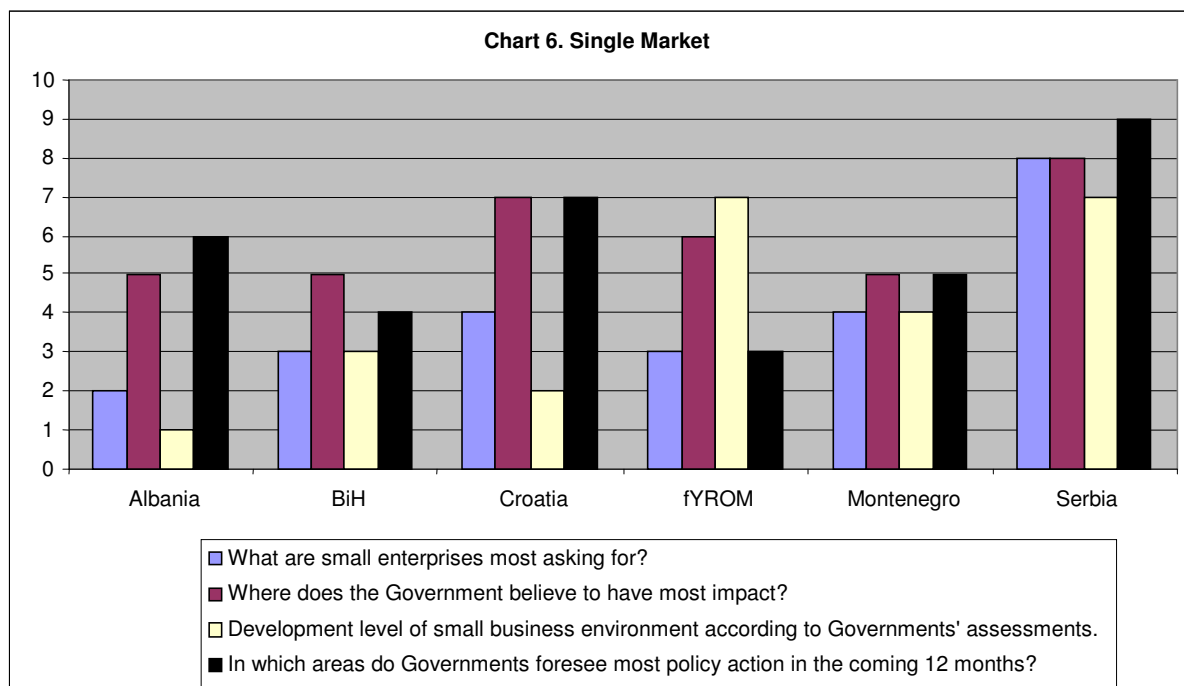
Serbia has a number of donor supported projects to improve the competitiveness of firms. In April 2003 the National Summit on Competitiveness was held, during which the National Council for Competitiveness was established, comprising 29 people from business, public administration and civil society. The Council is designed to provide leadership to and ensure the implementation of a national competitiveness campaign.

In Bosnia-Herzegovina some initial training of small companies takes place with a view to obtaining quality certificates for exporting to the EU single market.

The relative importance of this area of the Charter is perceived as follows:

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<sup>5</sup> COM (2003) 692 of 18 November 2003: Report of the Commission to the Council on the readiness of Bosnia-Herzegovina to negotiate a SAA with the EU



For the coming period, the following is proposed in terms of new measures, targets and benchmarks:

**Montenegro:**

(26) realisation of a pilot project providing support to 30 small companies in increasing their competitiveness (01.05.2004).

**7. TAXATION AND FINANCIAL MATTERS**

**Actions recommended according to 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.

**Taxation**

Where tax exemptions/reductions are concerned, Bosnia-Herzegovina is a rare frontrunner in the Western Balkans, with a global profit tax exemption for all companies of 100 % in the first year, 70 % in the second year and 30 % in the third year. All Entities have the same law.

In the former Yugoslav Republic of Macedonia, there are limited tax credits in the start up phase, but only for special cases (in underdeveloped areas, expenditure in environmental protection) and without special treatment of small enterprises. Small firms can however opt not to register for VAT and there is a full tax exemption on reinvested profit up to € 100.000.

Montenegro and Croatia also have tax exemptions for companies which are established in deprived areas (post war areas of special concern in the case of Croatia) but there are no generic exemptions for small companies. In addition, Croatia boasts some tax exemptions in the sphere of local taxation and, like Serbia, tax reductions on the salaries of newly recruited employees so as to boost employment creation. In a similar vein, social contributions on salaries of formerly unemployed people are reimbursed in the former Yugoslav Republic of Macedonia. Croatia also has accelerated depreciation of assets for SME's as well as tax credits for R&D expenditure by SME's.

In Serbia, there are also tax credits for small companies' investment in fixed assets, limited to 40 % of the investment and 70 % of the profit tax charged in that year.

In Albania, small companies with a turnover below € 59.259 (8 million Leks) are subject to a fixed annual payment replacing VAT and corporate profit tax obligations. Whilst advocated as a simplification, it is criticised by agents in the business community who view it as an unwelcome immediate tax burden from the moment of start up.

In Kosovo SMEs with a turnover under € 50 000 do not pay VAT. There are no other significant exemptions but the tax system is said to be kept simple to reduce compliance costs.

There are limited efforts to reduce tax compliance costs and foster user-friendly taxation formalities.

In Croatia crafts can pay lump-sum income tax instead of keeping business records. In a similar vein, small firms in Montenegro (yearly income under € 18.000) have the possibility to pay tax in approximate amounts (lump sums) and they can opt not to pay VAT.

In 2002, Serbia has introduced a new tax procedure and tax administration law which rationalises and groups into one place all statutory procedures incorporated in distinct tax laws.

In Albania small companies are allowed simplified accounting systems.

### **Access to finance**

Commercial banking interest rates are estimated to be in the range of 2 to 20 % per annum (former Yugoslav Republic of Macedonia 12 – 17 %, Croatia: 4 to 11 %, Montenegro: up to 18 %. Serbia: 10 to 12 % Kosovo 13-16 % , Albania 15-20 %) The situation has particularly improved the last two years in Croatia, where access to bank credits has ceased to be a major SME policy issue.

In the former Yugoslav Republic of Macedonia, there is a significant number of donor supported credit lines. Bank lending is said to be improving, but many argue that criteria are still difficult to meet for most small companies. They are mostly still perceived as risky customers, particularly start ups.

Montenegro has recently established its first micro-credit bank. There are several donor supported training projects attempting to make bank employees more SME friendly and, vice versa, SME's more bank friendly by offering support to the drafting of proper "bankable" business plans.

In Serbia the situation is still largely unfavourable. Loans are usually short term with high interest rates and unfavourable conditions: security instruments (pledges, mortgages) can

often not be obtained by the small companies. The recent establishment of a micro finance bank could help compensate for current market imperfections.

Albania is also still at a low point but it is perceived as improving and even as promising according to USAID participants at the bilateral of 9 September 2003. The access to collateral is the main problem which is related to the absence, in Albania, of proper legislation on land-ownership. Albania can nonetheless boast 7 non-banking institutions which are providing micro credits and 13 commercial banks are seen to be providing loans to SMEs, albeit under difficult conditions. There has been a tendency for financial institutions to concentrate in the capital of Tirana but they have recently started spreading out.

In Bosnia-Herzegovina, credits are mostly unfavourable (interest rates, terms, collateral). Privatisation of banks and reform efforts are however improving the picture. Support to start ups is rare. The District of Brcko is again an exception in the overall picture, with considerable growth towards 17 commercial banks and 4 micro credit organisations.

Kosovo is still dogged by high risk perceptions. There are serious difficulties relating to collateral. A March 2003 survey of 300 firms indicated that only 27 % use bank loans and that these cover on average only 30 % of the funding needs.

In order to improve access to bank lending, several countries have their first experiences with guarantee funds.

The longest experience can be recorded in Croatia, where the Agency for SME's (HAMAG) has been issuing guarantees since its establishment in 1995 accumulating to 3400 guarantees with a value of € 87 million at a default rate of 1,6 % only.

The former Yugoslav Republic of Macedonia can report a recently introduced small donor supported loan (max € 20.000) guarantee fund, with an initial capitalisation of € 600.000. If and when successful, a larger Government - and donor supported fund is envisaged. To this effect, a Law on Public Guarantee Fund for SME's is planned to be submitted to Parliament in Autumn 2003. An EC supported Micro Credit Line (MCL, € 12.000.000) also operates in the country, with a built-in guarantee component covering 50 % of the risk exposure.

Serbia adopted a Guarantee Fund Law in May 2003 which is expected to issue its first guarantees in December 2003.

Current guarantee instruments in Albania and Bosnia-Herzegovina only cover political and war risks. Albania is planning and negotiating a comprehensive guarantee fund with Italian financial support.

There are currently no guarantee funds in Kosovo and Montenegro.

Non-traditional financial instruments (venture capital, business angels, etc) are very rare in the Western Balkans. They do not exist to any significant extent in Serbia, Montenegro, Kosovo, Albania and Bosnia-Herzegovina.

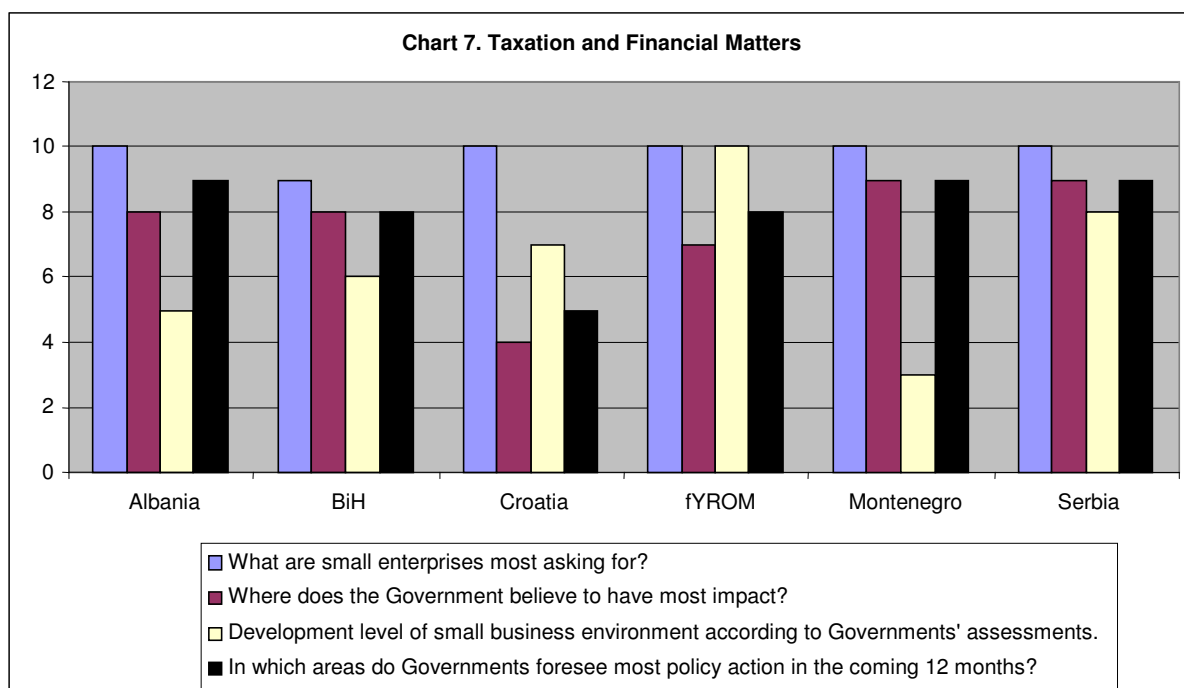
The former Yugoslav Republic of Macedonia has an international equity fund (SEAF) but it is not targeting small companies. Otherwise there is currently no particular interest for venture capital in the business community.

Croatia has 4 venture capital funds but these cover a limited number of technologically advanced companies. The co-ownership issues inherent to venture capital funds create



reluctance in companies to consider applying to such funds. The business angels philosophy lacks a national network to help realise the idea.

The relative importance of this area of the Charter is perceived as follows:



For the coming period, the following is proposed in terms of new measures, targets and benchmarks:

**Albania:**

(27) establishment of a loan guarantee fund (€ 30 million with support of the Italian government) (2004)

(28) further expansion of the micro credit scheme through improved co-ordination with international donors (2004)

**Bosnia- Herzegovina:**

(29) cancellation of double taxation throughout BiH territory, cancellation of obligatory Chamber membership (01.01.2004)

(30) cancellation of obligatory annual name protection fees of companies

**former Yugoslav Republic of Macedonia:**

(31) to establish sets of measures to increase the utilisation of existing credit lines by small companies by 10 % above the current trend. Measures include training of entrepreneurs towards bankable investment projects, and the establishment of a national guarantee fund

**Montenegro:**

(32) legalisation of 20.000 job positions through a reduction of tax and social contributions on

salaries to the level of 20 % of gross salary (01.05.2004)

(33) national review of all taxes and articulation of a government proposal for tax reduction (01.05.2004).

## **8. STRENGTHEN THE TECHNOLOGICAL CAPACITY OF SMALL ENTERPRISES**

### **Actions recommended according to 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.

Technology parcs exist to a limited extent. Croatia and the former Yugoslav Republic of Macedonia each have 4 of them, in the latter case established on University campuses in the country. There are feasibility studies for three parcs in Serbia along corridor 10 (Belgrade, Nis and Novi Sad) and an additional one in the former Yugoslav Republic of Macedonia (Bitola). There are attempts of forming technological parcs in Bosnia-Herzegovina (Zenica-Doboj canton, Una-Sana Canton in FBiH).

There are some institutional initiatives to facilitate technology transfer processes.

The Croatian Innovation Technology Development programme (HITRA) under the Science & Technology Ministry is a dedicated effort to set up technology transfer instruments and institutions and to support the process with various financial and non-financial stimuli. The Ministry for Crafts and SME's has launched two projects: the New Technology Project, a loan instrument to support technology intake in firms, and the Innovations Development Programme for the promotion of new products and innovations, which provides support for patent protection, building prototypes and promotion of innovations.

In Serbia this policy dimension is included in the strategy documents of both the SME Agency and the Science & Technology Ministry. But only initial steps (strategy documents, feasibility studies) towards concrete programmes and measures are taken. It nonetheless has significance because there is a recognition that the state has a role to play and should financially support development activities of companies, particularly innovative SME's. Various programmes have been defined as part of an integrated approach linking innovation at the level of institutions, industry, the regional level and the development of innovation centres and science/technology parks.

Albania has created the TIPS (Technology Information Promotion Service) Office. It aims to facilitate match making between demand and supply for technology. 500.000 SMEs are linked to the network in 2001 and an estimated 20 businesses per annum are assisted in technology purchase and more than 100 acquire information on technology. In Albania, the customs law includes a reduced 2 % tariff for the import of technology as an incentive to acquire imported technological know-how.

Montenegro, Bosnia-Herzegovina and Kosovo still have some catching-up to do in developing a more systematic approach to the question of technology transfer. The former Yugoslav Republic of Macedonia has some donor supported (Germany, Norway) pilots on technology transfer but these are in their infancy.

Obstacles to a dedicated technology transfer effort are:

- managerial, technical and innovative capabilities are still modest
- awareness is low both within academic and entrepreneurial circles
- FDI is low, which is usually one of the main forms of actual transfer of know-how
- home-grown technology is hampered by limited venture capital
- lack of time to invest in the process on the side of small companies
- lack of financial resources to buy technology
- unregulated way of financing research, lack of input in choices and priorities on the side of entrepreneurs.

Where clusters are concerned, there is experience in Serbia and the former Yugoslav Republic of Macedonia. In the latter, USAID is fostering a clustering approach in different sectors (construction, food production, tourism etc) and there is Italian support for a footwear cluster in Kumanovo. In Serbia donor supported programmes on Serbian competitiveness have developed mutual confidence between firms, non-reliance on government and they have raised levels of knowledge about common issues and challenges in sectors. Two main industrial clusters have been created in the sectors of fruit (17 representative companies out of a total of 800) and furniture & construction (12 representative companies out of a total of 800) materials. At the level of local communities, there are clusters in their infancy in the textile, poultry meat, plum producers and decorative plants.

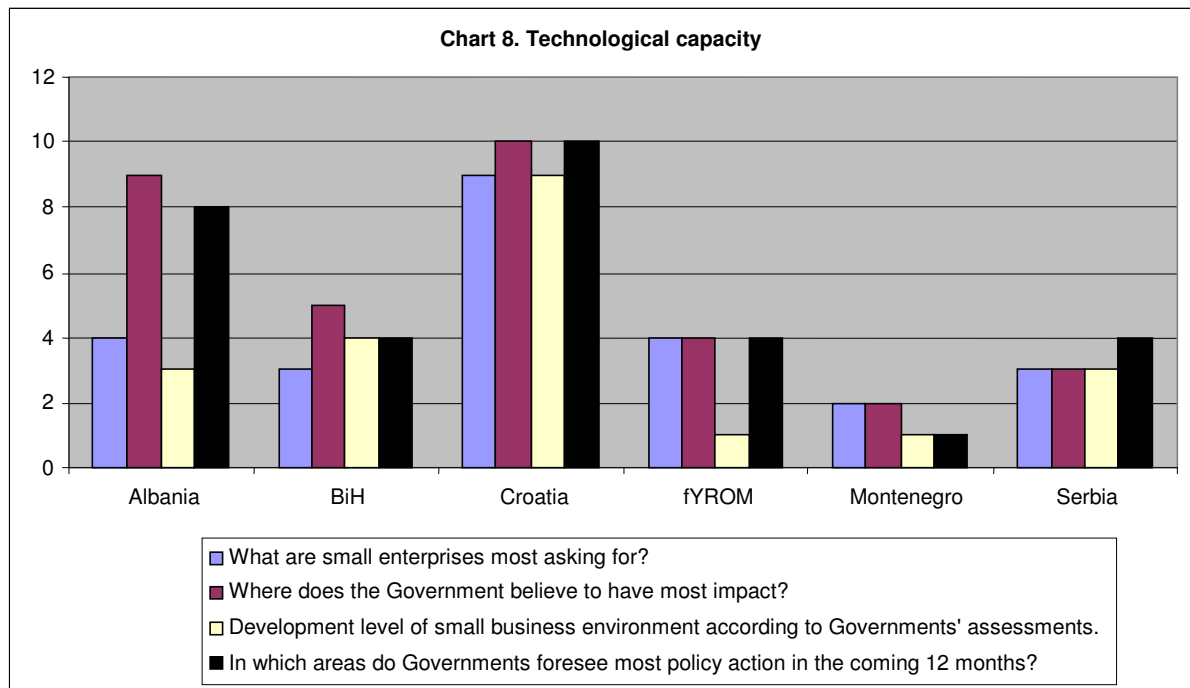
Croatia is becoming more engaged in this field. A public tender has recently been issued to promote clustering – it provides grants between € 400 and € 10.000 to encourage clustering activities covering costs items as business plans, studies, joint market approaches, development of ICT and databases to facilitate clustering etc.

There are no initiatives of a similar scope in Montenegro, Albania and Bosnia-Herzegovina, but in the last country plans do exist to develop clusters in the agribusiness, tourism and wood industry. Policy makers in Montenegro have expressed interest in the development of clusters in the sectors of primary agriculture production, processing industry, tourism, trade.

Barriers in this field are:

- distrust between entrepreneurs requires a change of the mind set towards co-operation
- perceived lack of potentially competitive products which would form an incentive for companies to work together
- lack of a business tradition in this area and therefore a lack of good practice
- lack of a well defined government programme to encourage this type of activity.

The relative importance of this area of the Charter is perceived as follows:



For the coming period, the following is proposed in terms of new measures, targets and benchmarks:

**Croatia:**

(34) increase the number of ISO certified subjects from 250 to 350 (September 2004)

**Montenegro:**

(35) design of a distinct strategy to open up at least 1 technology parc, 1 business incubator and 1 innovation centre in Montenegro (01.05.2004)

(36) conduit of the project “application of technology in the development of SME’s” leading to an increased intake of technology in small companies (01.06.2004)

**Kosovo:**

(37) start up of a business incubator programme and an operational Investment Promotion Agency.

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

### Actions recommended according to 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.

As observed under Charter area 5, the degree to which e-government and e-business have developed in the Western Balkans is very limited, but some governments have set out strategies and articulated intentions to start filling up the gaps.

A business support infrastructure has started developing in all countries. All have national SME Agencies (2001 Serbia, 2000 Montenegro, 2003 Albania but not yet fully operational, 2003 in the former Yugoslav Republic of Macedonia, replacing an earlier now defunct agency). The Croatian Agency for Small Business (HAMAG) is considered as national SME Agency but in practice limits itself to financial instruments to SMEs. In Kosovo, 5 regional enterprise agencies have been set up as well as one central agency co-ordinating the regional ones. Bosnia-Herzegovina does not have a similar state level agency.

Euro Info Correspondence Centres (EICC) have been set up in Croatia, Serbia, Montenegro, Kosovo and Bosnia-Herzegovina. The relevant tender for the former Yugoslav Republic of Macedonia has been finalised. There is not yet a plan to establish an EICC in Albania.

Most countries have developed local/regional business centres which have usually been donor supported (with the exception of Croatia where they have been largely self-financed) and now face questions of sustainability. Business incubators are less common, but there are a great number of them (18) in Croatia.

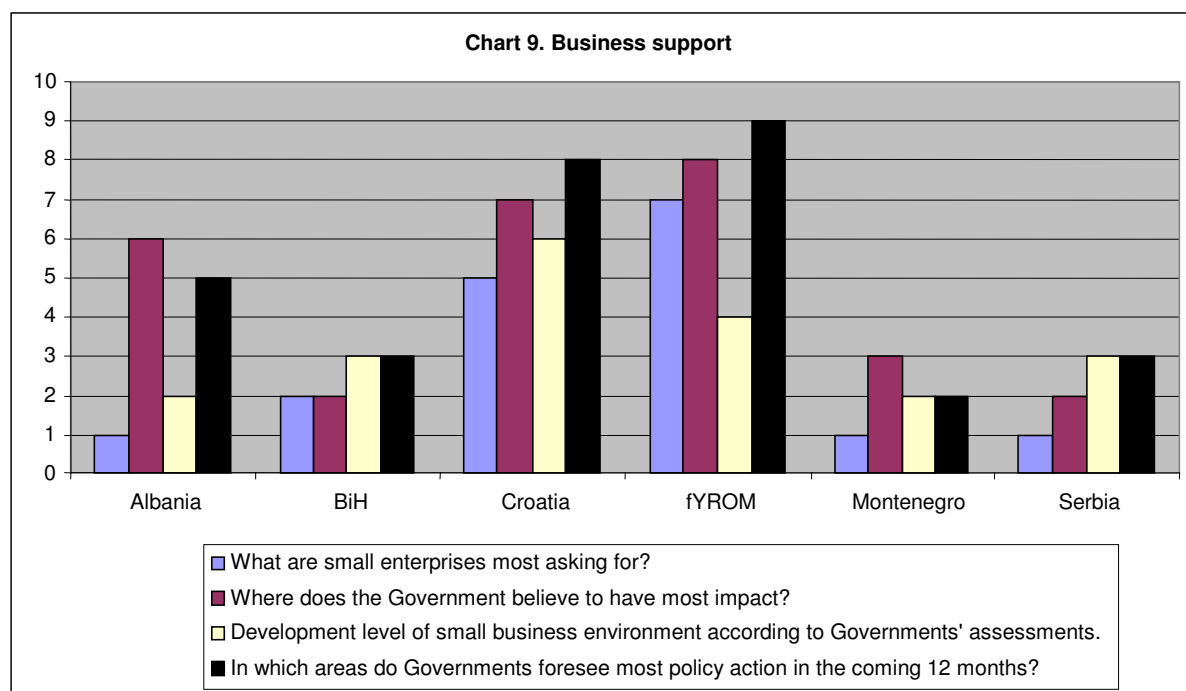
A private sector market for business consultancy is under development but often limited to the capitals and having difficulty providing more sophisticated support services. The Serbian national Charter report calls for a national accreditation scheme for business consultants, which would improve the quality level and increase transparency of such services.

The uptake of business services is still limited. Main obstacles are believed to be short-termism of entrepreneurs and a reluctance to pay for “intangible” services. A survey on the (non-) use of services in Croatia reveals that the services on offer were not what companies wanted (23 %), were too expensive (21 %). In 21 % of the cases, no fruitful contact with consultants was ever established.

In the former Yugoslav Republic of Macedonia, the national SME strategy recognises the need for a new national body to develop and implement programmes which, inter alia, develop the skills base in small companies through BSS.

In Serbia, the Service Support Scheme (SSS) has been started up to support the development of the service provider or independent business consultant network, which should make it possible for SME's in Serbia to get the same level and quality of expertise as in the EU countries.

The relative importance of this area of the Charter is perceived as follows:



For the coming period, the following is proposed in terms of new measures, targets and benchmarks:

**Croatia:**

(38) execution of an e-learning pilot project introducing e-learning in 30 small companies

**former Yugoslav Republic of Macedonia:**

(39) establishment of a fully operational EICC (July 2004)

**Montenegro:**

(40) adoption of the e-signature and e-business laws (01.04.2004)

**10. DEVELOP STRONGER, MORE EFFECTIVE REPRESENTATION OF SMALL ENTERPRISES' INTERESTS AT UNION AND NATIONAL LEVEL**

**Actions recommended according to the Charter:**

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

An interesting feature of the Western Balkans is that some countries are quite progressive in organising business advocacy and encouraging the regular involvement of the business community in the legislative process. The former Yugoslav Republic of Macedonia (National Entrepreneurship and Competitiveness Council), Serbia (SME Advisory Board), Albania (Business Advisory Council) and Kosovo (SME consultative council) have set up forums where business representatives can voice opinions on policy issues and draft legislation

affecting the business community. The constitution of Montenegro recognises the rights of NGO's including the Chambers of Commerce to propose legislation, which the Chambers can do in Serbia as well. In Croatia the Chambers of Commerce & Crafts even have representatives in the working bodies of the Croatian Parliament.

Bosnia-Herzegovina has dialogue with the business community, but lacks a structured and formalised form of consultation, comparable to these initiatives in the other countries.

In all countries the main voice of entrepreneurs is the Chambers of Commerce movement, but there are conflicting signs as regards their capacity to represent small companies on par with big companies. Two years ago the Chamber in the former Yugoslav Republic of Macedonia introduced a separate body to address needs of small companies, but few enterprises actively participate in its works. In Croatia, the Chamber has a similarly unassuming SME sector, but Croatia also has a distinct and prominent Chamber for Crafts with a membership of 100.000 companies.

Montenegro has, apart from the national Chamber of Commerce, also a number of special business associations such as the Montenegrin Business Association (MBA 160 members representing 8000 employees) which is considered the leading voice of business in Montenegro, with branch offices in seven towns. Likewise, Albania has a significant business partner in the Union of Industrialists and Investors.

In Serbia there are two distinct entities within the Chamber movement: the organisation of entrepreneurs and an organisation of SME's. The way relations are structured in the Serbian Chambers movement is recognised as rather unwieldy and in need of reform. Only 1 % of entrepreneurs realise their interests through the Chambers in Serbia.

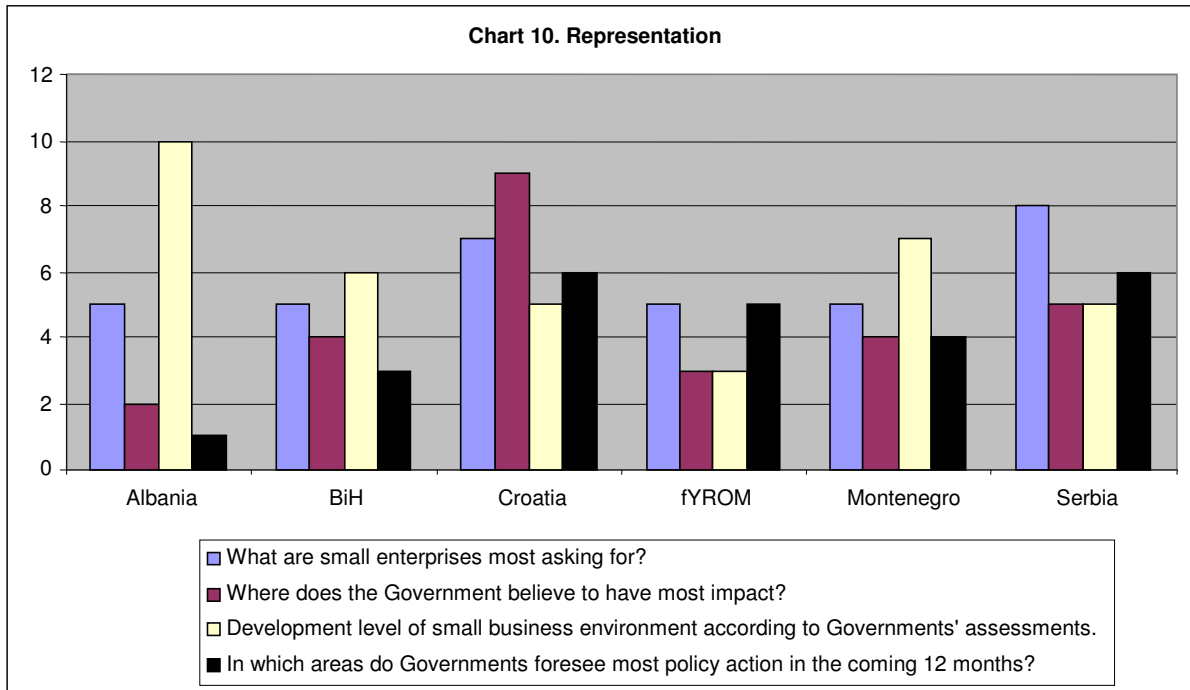
Bosnia-Herzegovina has Chambers of Commerce at the level of the Entities and even at cantonal level within the FBiH, but appears to lack a state wide Chamber of Commerce, just as it lacks a national SME organisation/ foundation.

Most countries also have organisations with a limited geographic or sectoral scope, but these are usually not included in consultation processes. Kosovo has a separate association of female entrepreneurs.

When it comes to social dialogue strictly speaking, only in Serbia and Croatia can an explicit tripartite social dialogue be seen to take shape. SME representatives take part, either directly or through the Chambers and/or the employers associations, in the relevant co-operation and dialogue mechanisms with government ministries.

Within the other countries, there is only ad-hoc involvement of employers associations and labour unions.

The relative importance of this area of the Charter is perceived as follows:



For the coming period, the following is proposed in terms of new measures, targets and benchmarks:

**Albania:**

(41) Increase the effectiveness of the Business Advisory Council – preparation of a specific programme to realise this.



## **EUROPEAN COMMISSION'S ACTION IN FAVOUR OF SMALL ENTERPRISES IN THE COUNTRIES OF THE WESTERN BALKANS**

EU aid to the Western Balkans aims at long-term structured assistance and partnership building. Economic development is one major factor in this assistance.

Along with the programmes focused on infrastructure reconstruction, institutional and legislative development reinforcement of the rule of law and democracy, the EU has implemented major programmes for the economic development, with the development of trade and of the private sector as major components. These, together with general economic reform, are fundamental for speeding up the transition to a free market economy, the reinforcement of civil society and combating poverty.

The EU is already the most important trading partner for the countries in the region and has opened its markets to them without requiring reciprocal free trading rights. More than 80% of the exports from the region enter the Union duty-free - concessions worth over € 100 million per year.

Trade - and predominantly trade with the EU - grew in 2001 and the first half of 2002. EU imports have increased by 40% since September 1999, and as local firms learn to use more fully the EU trade facilities, and establish wider contacts and new distribution channels, trade should rise further.

From 2002 to 2004, the EU provides, through the CARDS programme, assistance to the Western Balkans for a global value of more than € 2 billion. A large share of the CARDS assistance (more than 20 %) to the countries of the region in this period is allocated under the heading "economic development" which includes measures to reinforce the private and financial sector, facilitate trade, develop local infrastructure, strengthen social cohesion and the investment climate and promote economic development. In addition, € 245 million of macro financial assistance has been committed for the 2002-2004 period contributing to securing a macroeconomic environment susceptible to economic development.

In the field of measures to support economic growth and development of the private actions, EU assistance has focused on the following areas:

- develop policies in co-ordination with the governments to support the development of human resources in the private sector.
- assistance to export of goods
- rehabilitation of local economic infrastructures
- improvement in property registration
- development of Free Zones
- intellectual property policy enforcement
- training programmes focused on skill-raising for business managers, quality control measurement.

The European Union has adopted a differentiated approach with the countries of Western Balkans in order to provide a tailor made assistance which answer to the most urgent needs of the different countries.

### **PART III – CONCLUSIONS AND RECOMMENDATIONS**

At the last meeting in Turin on 1 December 2003, the national co-ordinators expressed overall satisfaction with the process and argued for a launch of the next annual process broadly on the basis of the same methodology and parameters as this year.

The Charter process allowed every country and its main SME policy protagonists to have a look in the mirror and self-assess strong and weak points in the evolving business environment. It also allowed to draw in policy makers from the other line ministries and thus enhance inter-ministerial dialogue and partnership in the countries.

The scope and profile of most of the bilateral meetings organised in 2003 were appropriate, but some countries could still upgrade the bilateral. There is in particular a need for more direct business participation in these meetings. The bilaterals for 2004 could primarily focus on ensuring that the 2003 plans and benchmarks have been achieved and on the consequent planning of targets for 2005.

The EU technical and financial assistance programme for the region, CARDS, could usefully base its future interventions in the SME sector on the national reports on the Charter.

Finally, there may be a need for all countries to access an impartial measurement instrument, such as the global entrepreneurship monitor process of the London Business School.

**ANNEX**

**Chart 11. What are small enterprises most asking for?**

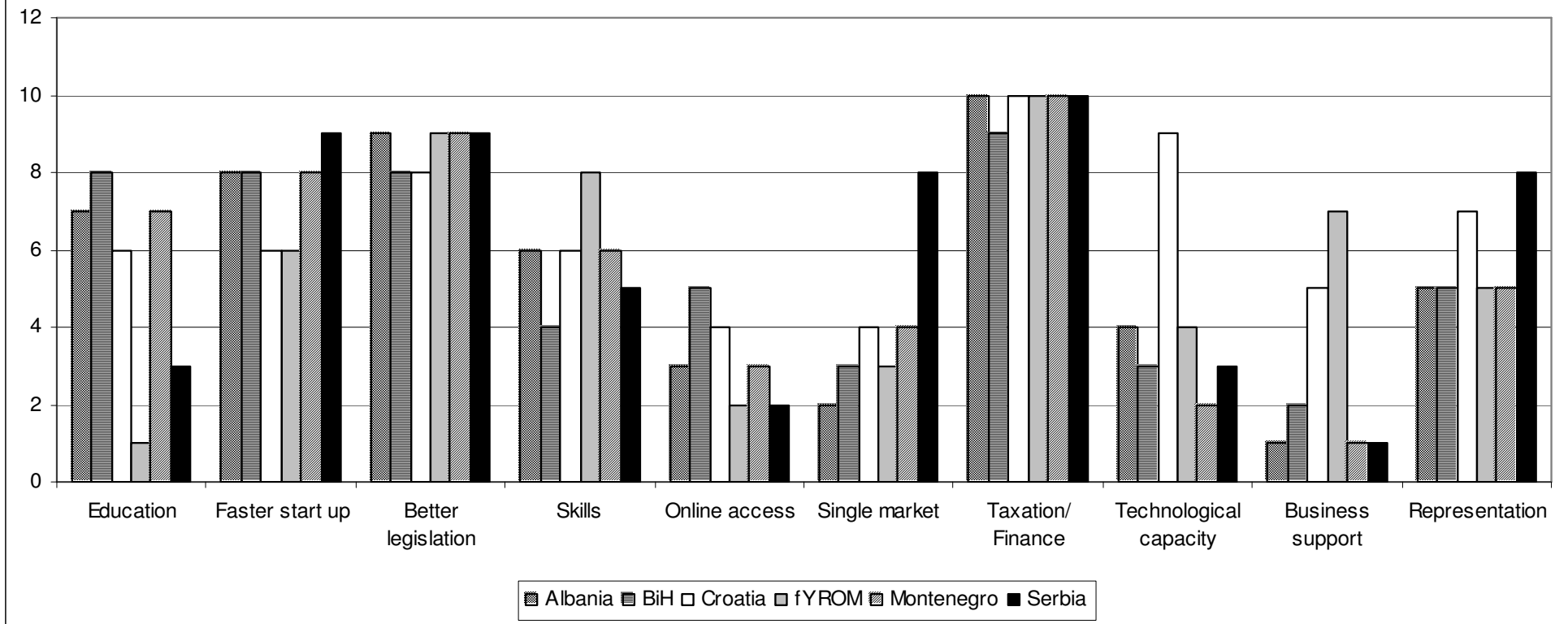
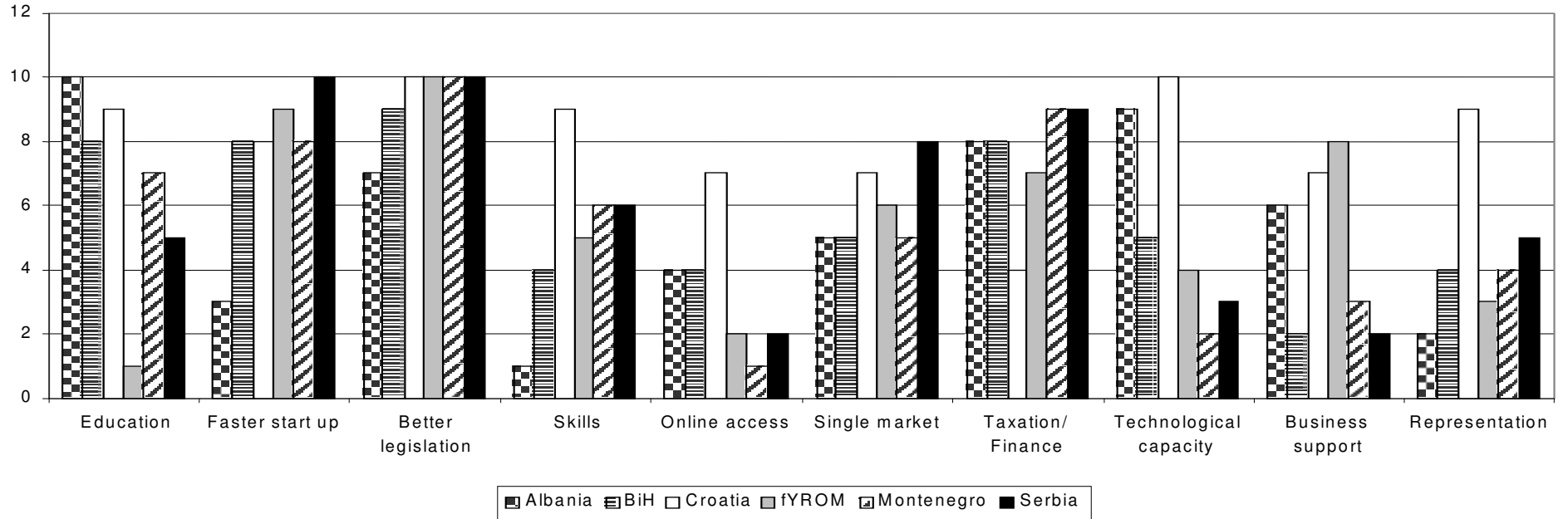
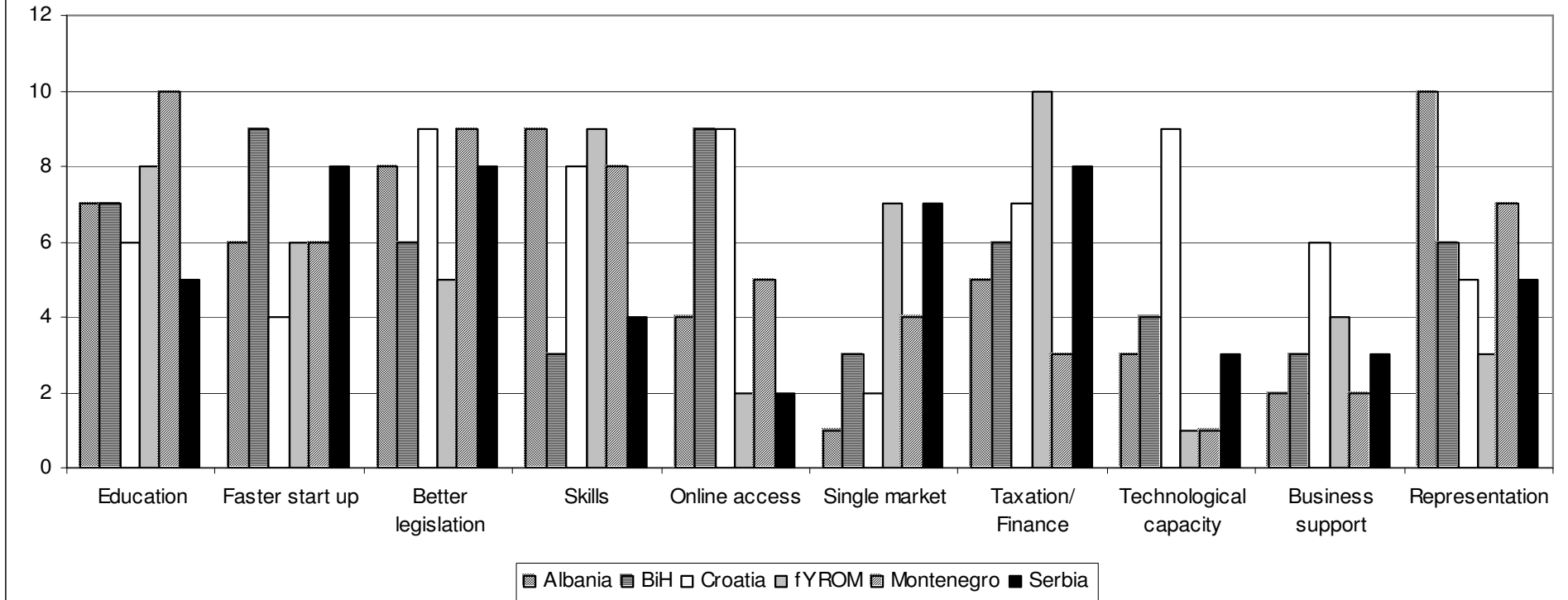


Chart 12. Where does the Government believe to have most impact?



**Chart 13. Development level of small business environment according to Governments' assessments**



**Chart 14. In which areas do Governments foresee most policy action in the coming 12 months?**

