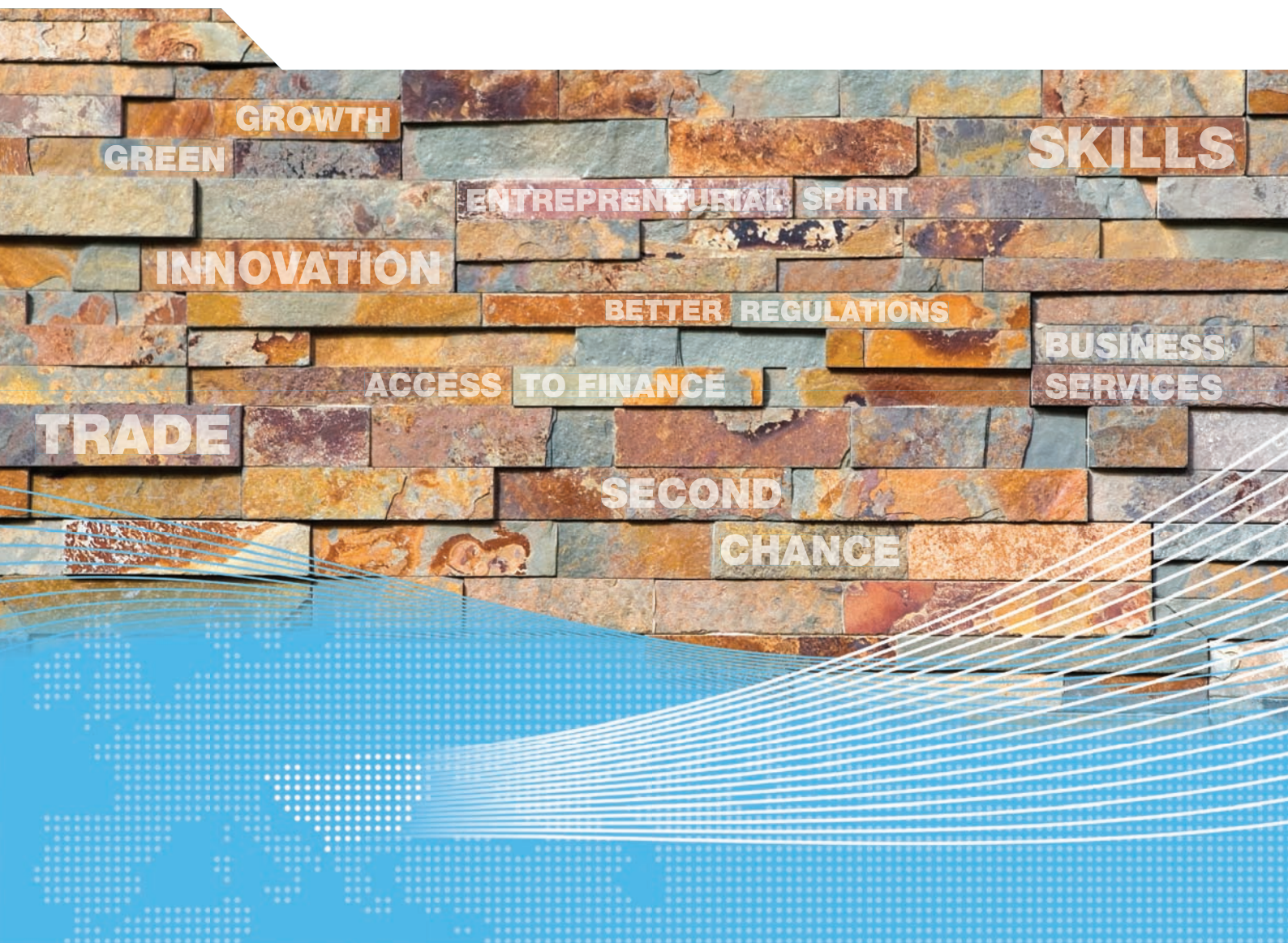




SME Policy Index

Western Balkans and Turkey 2012

**PROGRESS IN THE IMPLEMENTATION
OF THE SMALL BUSINESS ACT FOR EUROPE**



SME Policy Index: Western Balkans and Turkey 2012

PROGRESS IN THE IMPLEMENTATION
OF THE SMALL BUSINESS ACT
FOR EUROPE



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Organisation profiles

Organisation for Economic Co-operation and Development (OECD), Investment Compact for South East Europe

The OECD Investment Compact for South East Europe (SEE), launched in 2000, helps governments of the region to improve their investment climate and foster private sector development. Its members include Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Former Yugoslav Republic of Macedonia, the Republic of Moldova, Montenegro, Romania and Serbia, with Kosovo* as an observer.

Using the OECD methods of policy dialogue and peer learning, the Investment Compact brings together representatives from SEE to exchange good practices and to use OECD tools and instruments in a way that is tailored to the needs of the SEE economies and helps them move closer to internationally recognised standards. The Investment Compact also conducts assessments of SEE investment climates based on the OECD Policy Framework for Investment, designs strategies to help governments set priorities for reform, and supports their implementation. The programme's work is co-ordinated by the SEE Investment Committee and its strategic objectives and actions are endorsed by SEE leaders at ministerial conferences.

European Commission, Directorate-General for Enterprise and Industry

DG Enterprise and Industry is tasked with ensuring a well-run internal market for goods and promoting the competitiveness of EU enterprise, thereby making major contributions to the implementation of the Lisbon Growth and Jobs Strategy. DG Enterprise and Industry pays particular attention to the needs of manufacturing industries and small and medium-sized enterprises: it manages programmes to encourage entrepreneurship and innovation and ensures that Community legislation takes proper account of their concerns.

The DG Enterprise and Industry objectives are to:

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

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence. Hereafter referred as Kosovo.

DG Enterprise and Industry accomplishes its tasks in several ways. It has developed expertise in economic analysis. It manages regulation in the commercial sectors for which it is responsible. It has a budget to support specific actions. And it supports the continual scrutiny of member states' enterprise policies through the open method of co-ordination.

European Training Foundation

The European Training Foundation (ETF) is a specialised EU agency that supports 31 partner countries to harness the potential of their human capital through the reform of education, training and labour market systems in the context of the EU's external relations policy. The ETF's vision is to make vocational education and training in the partner countries a driver for lifelong learning and sustainable development, with a special focus on competitiveness and social cohesion.

The ETF's added-value comes from its neutral, non-commercial and unique established knowledge base consisting of expertise in human capital development and its links to employment. This includes expertise in adapting the approaches to human capital development in the EU to the context of the partner countries supporting the development of home-grown solutions.

European Bank for Reconstruction and Development

The EBRD is an international financial institution that supports projects from central Europe to central Asia. Investing primarily in private sector clients whose needs cannot be fully met by the market, the Bank fosters transition towards open and democratic market economies. In all its operations the EBRD follows the highest standards of corporate governance and sustainable development. Owned by 63 countries and 2 intergovernmental institutions, the EBRD maintains a close political dialogue with governments, authorities and representatives of civil society to promote its goals.

During 2011 the Bank responded to a call from its shareholders for an expansion of the mandate to include the southern and eastern Mediterranean (SEMED) region. This is part of the international community's support for the emerging Arab democracies. In 2012 the Bank will implement its expansion and initiate its investments in the SEMED region, subject to shareholders' ratification.

The Central European Initiative

The Central European Initiative (CEI) is a regional forum for co-operation and consultation which promotes collaboration at political, economic and cultural level in central and Eastern Europe. Founded in 1989, the CEI now counts 18 member states. Since its inception, the Initiative's main aim has been to support transition countries in the process of integration with the European Union.

In 1992 Italy signed an Agreement with the EBRD on the establishment of a CEI Fund at the EBRD to assist the Bank's countries of operation in central and Eastern Europe in their economic and social transformation process. Managed by the Office for the CEI Fund at the EBRD, the Fund, towards which the Italian government has solely made a total contribution of EUR 36.5 million, mainly provides grant-type assistance for specific components of Technical Co-operation (TC) projects and it co-finances projects in the framework of the CEI Know-How Exchange Programme (KEP).

Foreword

Small and medium-sized enterprises (SMEs) are an important driver for job creation and economic growth in the Western Balkans and Turkey. However, the global financial crisis and the subsequent sovereign debt crisis in the euro zone has hit SMEs in the region hard, restricting bank lending, eroding consumer demand, foreign direct investment, remittances and international capital inflows. To support SME development and stimulate growth, governments from Albania, Bosnia and Herzegovina, Croatia, Kosovo, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia and Turkey are undertaking extensive reforms to enhance productivity, human capital and company level performance.

The SME Policy Index: Western Balkans and Turkey 2012 – Progress in the Implementation of the Small Business Act for Europe gives policymakers a framework to assess national SME policies. The report helps identify strengths and weaknesses in policy design and implementation, compare experiences and performance, set priorities and measure convergence towards implementation of the policy principles promoted by the Small Business Act for Europe. It also benchmarks the region's progress against similar assessments carried out in 2006 and 2009 and, for the first time, includes Turkey.

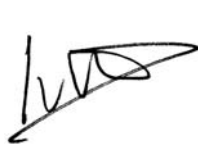
The report notes that since 2009 the region has converged toward EU SME standards and made further progress in improving the general business environment through regulatory reform and administrative simplification, streamlined company registration procedures, and increased access to finance for firms. However, these policies should be complemented by specific mechanisms to further promote technology diffusion, human capital developments, the provision of SME support services, women's entrepreneurship, and to enable SMEs to benefit from green growth opportunities.

By engaging government institutions and the private sector as well as non-governmental organisations, training providers and other stakeholders since 2006, this third assessment process has generated continued momentum to support SME development in the region.

This publication is the result of a joint effort between the OECD, the European Commission, the European Training Foundation and the European Bank for Reconstruction and Development together with the national Small Business Act co-ordinators from the EU pre-accession region. We look forward to continuing this close and fruitful co-operation on SME policies in favour of growth, jobs and social cohesion in the Western Balkans and Turkey.



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The work was led by Antonio Fanelli, Anita Richter and Jakob Fexer (OECD DAF/PSD), Volker Genetzky (European Commission, DG ENTR), Anthony Gribben (ETF), Anita Taci and Beatriz Perez Timermans (EBRD).

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Abbreviations

AEFI	Agency for Export Insurance and Financing (Serbia)
AIDA	Albanian Investment Development Agency
APPRM	Agency for Promotion of Entrepreneurship (the Former Yugoslav Republic of Macedonia)
ASO	Ankara Chamber of Industry (Turkey)
ATO	Ankara Chamber of Commerce (Turkey)
ALB	Albania
ARTI	Agency for Research, Technology and Innovation (Albania)
BAC	Business Advisory Council (Albania)
BAN	Business angel network
BEEPS IV	Business Environment and Enterprise Performance Survey
BICRO	Business and Innovation Centre of Croatia
BIH	Bosnia and Herzegovina
CAB	Conformity assessment body
CBK	Central Bank of Kosovo
CGI	Chamber of Commerce and Industry
CEDEFOP	European Centre for the Development of Vocational Training
CEFTA	Central European Free Trade Agreement
CEN	European Committee for Standardization
CENELEC	European Committee for Electrotechnical Standardization
CFT	Chamber of Foreign Trade (Bosnia and Herzegovina)
CMB	Capital Markets Board (Turkey)
CPI	Corruption Perceptions Index
CRRU	Comprehensive Regulatory Review Unit (Serbia)
DCA	Development Credit Authority (Kosovo)
DELNI	Department for Employment and Learning (Northern Ireland)
EA	European Co-operation for Accreditation
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECF	Economic Co-operation Funds (Croatia)
ECM	Emerging Companies Market (Turkey)
EEN	Enterprise Europe Network
EIICM	European Information and Innovation Centre of Montenegro
EL	Entrepreneurial learning
EMAS	European Eco-Management and Audit Scheme
EMS	Environmental Management Systems
ENER	National Electronic Register of Regulations (the Former Yugoslav Republic of Macedonia)
EPPC	Electronic Public Procurement Classifieds (Croatia)

ESC	Economic and Social Council (Bosnia and Herzegovina)
ETSI	European Telecoms Standards Institute
ETF	European Training Foundation
EU	European Union
EURAMET	European Association of National Metrology Institutes
E4E	Education for Entrepreneurship (Croatia)
FINA	Croatia's Financial Agency
FBiH	Federation of Bosnia and Herzegovina
FDI	Foreign direct investment
FINA	Financial Agency (Croatia)
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GNI	Gross national income
HAMAG	Croatian Agency for SMEs
HITRO	National e-Government Agency (Croatia)
HRK	Croatian Kuna
HRV	Croatia
IARM	Institute of Accreditation of the Republic of Macedonia
ICRO	Croatian Research and Development Programme
ICT	Information and communication technology
IDEAS	Investment Development and Export Advancement Support (the Former Yugoslav Republic of Macedonia)
IDF	Investment and Development Fund of Montenegro
IFC	International Finance Corporation
ILO	International Labour Organisation
IOSCO	International Organization of Securities Commissions
IPO	Initial public offering
IPR	Intellectual property rights
IPAK	Investment Promotion Agency (Kosovo)
ISBAP	Initiative to Build Scientific and Technological Co-operation Networks and Platforms (Turkey)
ISCED	International Standardisation Classification of Education
ISRM	Institute of Standardisation of the Republic of Macedonia
KCIS	Kosovo Credit Information Service
KGF	Credit Guarantee Fund (Turkey)
KKB	Credit Bureau (Turkey)
KOS	Kosovo
KOSGEB	Small and Medium Enterprises Development Organization (Turkey)
LDCA	Local Development Capacity Assessment
LEED	Local Economic and Employment Development
M&E	Monitoring and evaluation
MAC	The Former Yugoslav Republic of Macedonia
MBPR	Macedonian Bank for Development Promotion
ME	Ministry of Entrepreneurship and Crafts (Croatia)
MEKSA	Foundation for the Promotion of Vocational Training and Small Industry (Turkey)
MELE	Ministry of Economy, Labour and Entrepreneurship (Croatia)

MERSIS	Central Registry Recording System (Turkey)
METE	Ministry of Economy, Trade and Energy (Albania)
MFI	Microfinance institution
MIX	Microfinance Information Exchange
MLA	European Accreditation Multilateral Agreement
MNE	Montenegro
MoE	Ministry of Economy (the Former Yugoslav Republic of Macedonia, Turkey)
MoERD	Ministry of Economy and Regional Development (Serbia)
MoFTER	Ministry for Foreign Trade and Economic Relations (Bosnia and Herzegovina)
MoSIT	Ministry of Science, Industry and Technology (Turkey)
MSME	Micro, small and medium enterprises
NARD	National Agency for Regional Development (Serbia)
NBS	National Bank of Serbia
NGO	Non-governmental organisation
NPL	Non-performing loans
OIB	Single personal identification number (Croatia)
ORRIA	Office for Regulatory Reform and Impact Assessment (Serbia)
OSS	One-stop shop
PARE	Partnership for Advancing Reforms in the Economy (Bosnia and Herzegovina)
PE	Private equity
PPC	Public-private consultation
PPP	Public-private partnerships
R&D	Research and development
RARS	Republic Agency for the Development of SME (Bosnia and Herzegovina)
RCI	Regional Competitiveness Initiative
RIA	Regulatory impact analysis
RS	Republika Srpska
SAA	Stabilisation and Association Agreement
SBA	Small Business Act for Europe
SBRA	Serbian Business Register Agency
SEE	South-eastern Europe
SEECCL	South East European Centre for Entrepreneurial Learning
SEMED	Southern and eastern Mediterranean region
SHE-ERA	Kosovo Women's Entrepreneurship Association
SIEPA	Serbian Investment and Export Promotion Agency
SIPO	State Intellectual Property Office (Croatia)
SME	Small and medium enterprises
SMESA	SME Support Agency (Kosovo)
SPS	Sanitary and phytosanitary standards
SRB	Serbia
TC	Technical co-operation
TESK	Confederation of Turkish Craftsmen and Tradesmen
TNA	Training needs analysis
TOBB	The Union of Chambers and Commodity Exchanges of Turkey
TOSYOV	Self-Employed and Professionals Foundation of Turkey
TSE	Turkish Standards Institution
TTGV	Technology Development Foundation

TUBITAK	The Scientific and Technological Research Council of Turkey
TUR	Turkey
TURKONFED	Turkish Enterprise and Business Confederation
TurkStat	Turkish Statistical Institute
TUSKON	Confederation of Businessmen and Industrialists of Turkey
UNDP	United Nations Development Programme
UNESCO	United Nations Education, Scientific and Cultural Organisation
UNEVOC	United Nations Centre for Vocational education and Training
USAID	United States Agency for International Development
VAT	Value added tax
VC	Venture capital
VET	Vocational education and training
WB	World Bank
WBT	Western Balkans and Turkey
WIPO	World Intellectual Property Organisation
WTO	World Trade Organization
YOIKK	Coordination Council for the Improvement of Investment Environment (Turkey)
YÖK	Council of Higher Education (Turkey)
y-o-y	year-on-year

Executive summary

This report has been jointly produced by the European Commission, the European Bank for Reconstruction and Development (EBRD), the European Training Foundation (ETF) and the Organisation for Economic Co-operation and Development (OECD) with the objective of assessing the convergence of SME policy towards EU good practices (as defined within the Small Business Act for Europe) in eight pre-accession economies: Albania, Bosnia and Herzegovina, Croatia, Kosovo, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia, and Turkey. In addition to benchmarking and monitoring SME policy progress in the Western Balkans and Turkey, the report provides policymakers with concrete recommendations to move forward and accelerate convergence towards EU policy standards.

This assessment was conducted in 2011 and covers the policy changes from 2009 to 2011. It was conducted at a time when SME policy was receiving growing attention from policymakers. SMEs account for the largest share of total value added in these economies, while their contribution to total employment in the private sector ranges from 61% to 81%. When the global crisis hit the region – abruptly putting an end to a prolonged period of economic growth – many governments introduced measures specifically targeting SMEs to help them overcome bank credit restrictions and the drop in domestic and external demand. Despite growing budget restrictions, this trend persisted in the recovery phase, highlighting how governments increasingly perceive the SME sector as a driver of growth.

This study follows two previous assessments carried out in 2007 and 2009. While there is a high degree of comparability with these previous assessments, a few important changes were introduced in the 2012 edition. The Small Business Act for Europe (SBA) replaced the European Charter for Small Enterprises as the assessment framework of the report. The SBA has a wider scope, encompassing new policy areas such as women's entrepreneurship, bankruptcy procedures, public procurement and green growth. The report also marks the first time that Turkey has participated in the assessment, which now covers eight out of the nine EU pre-accession economies.* It is therefore only possible to make comparisons with previous assessments for the Western Balkans.

The policy approach underpinning the SBA assessment is that SME policy consists of a mix of horizontal and targeted policies. Horizontal policies are defined as policies intended to improve the operational environment for all enterprises, such as regulatory simplification and improvement in the regulatory framework for access to finance. Targeted measures aim at specific segments of the enterprise population, such as innovative enterprises, start-ups or export-oriented enterprises. Government action should focus as a priority on the improvement of the general operational environment and introduce targeted measures

* Iceland is not assessed in this framework.

mainly to address co-ordination and market failures. The report assesses the performance of government SME policy based on a common set of indicators that takes into considerations both policy components.

Key conclusions of the Small Business Act assessment

Western Balkan economies have converged closer to EU SME policy practices and standards since the 2009 assessment

Overall, the report shows that economies have converged closer to EU SME policy practices and standards over the last three years. The Western Balkan economies have recorded moderate progress in several areas, including the institutional framework for SME policy, regulatory reform and administrative simplification, company registration, entrepreneurial learning and business start-up processes as well as the legal and regulatory framework for access to finance. They have made marked progress in skills development and export promotion. On the other hand, on average, their performance on the provision of SME support services slightly deteriorated, while women's entrepreneurship represents a new policy challenge.

The pace of convergence has slowed down and progress has been uneven across the region

The report reveals that the pace of convergence towards EU SME policy has slowed down as the crisis shifted government attention from structural reform to short-term support measures. Progress has been uneven across the region, generally reflecting varying levels of economic development and advancement in the EU accession process. Differing rates of progress also result from public institutions' uneven capacity to elaborate and effectively implement policies towards the SME sector in a consistent and co-ordinated way.

Croatia, Serbia and Turkey lead the way...

Croatia, Serbia and Turkey are characterised by an advanced degree of policy convergence with EU SME policy practices and standards, scoring above the regional average in most dimensions. This is consistent with their higher levels of development and progress in the EU accession process.

Croatia, already the best performer in the two previous assessments, shows the highest level of policy convergence and tops the pre-accession group on women's entrepreneurship. However, progress since the last assessment has been incremental at best, with the highest scores obtained in the policy areas covered by the EU *acquis*.

Serbia has made good progress, albeit in most cases incremental, across a wide range of policy dimensions. It undertook a significant restructuring of its SME policy, moving towards a high level of regionalisation. It has engaged in the process of redesigning its main SME policy tools – for instance merging the Development Fund and the Guarantee Fund – and made progress in implementing innovation-support measures. In addition, it established a good partnership and strategy on entrepreneurial learning.

Turkey, included in the assessment for the first time, has succeeded in developing a sound and well-structured SME policy, supported by a range of well-established institutions, covering all the key policy dimensions of the SBA. Turkey recorded a relatively strong performance on the implementation of targeted policies and measures supporting human capital, innovation, access to finance, export promotion, access to information and business services. However, it demonstrated relatively weaker performance regarding horizontal policies aimed at improving the broader enterprise operational environment, as the pace of business environment reforms slowed down and the regulatory burden on small enterprises remains relatively heavy.

... Followed by Albania, the Former Yugoslav Republic of Macedonia and Montenegro...

Albania, the Former Yugoslav Republic of Macedonia and Montenegro have reached a generally good level of policy convergence, but the implementation of SME policy has been uneven across policy dimensions. All three economies perform well on the implementation of horizontal policies, particularly in the areas of company registration, regulatory reform and access to finance. Nevertheless, gaps remain in the implementation of targeted policies and innovation-support measures for SMEs which are still at an early stage of development.

Albania has put in place an advanced system of company registration, including a one-stop shop, the use of a single registration number and the introduction of on-line registration. It has also made progress in entrepreneurial learning and enterprise skills as well as implementing regulatory reform, with the establishment of a one-stop system for issuing licenses and permits. However, the availability of SME support services remains limited as AlbInvest was dismantled and replaced by the Albanian Investment Development Agency, which is in the process of re-organising its SME support activities.

The **Former Yugoslav Republic of Macedonia** has further improved its company registration and business start-up process, in line with advanced international practices. It has also expanded the range of e-government services and introduced regulatory impact analysis (RIA) on new legislation. However, the provision of information and support services to SMEs is comparatively limited and mainly targeted at start-ups established by the unemployed. Innovation support remains at an early stage of development as the government is still in the process of drafting its new Innovation Strategy although it has made good progress on entrepreneurial learning where policy co-ordination and partnership is well-developed.

Montenegro has also incrementally improved its performance regarding company registration, the business start-up process and regulatory reform. On average, however, its level of policy implementation is lower than in Albania and the Former Yugoslav Republic of Macedonia. Montenegro still suffers from policy gaps in the areas of innovation and SME support services while good progress in entrepreneurial learning noted in the 2009 assessment has since waned.

... But Bosnia and Herzegovina and Kosovo are still lagging behind the rest of the region.

Bosnia and Herzegovina and Kosovo recorded below regional average performance in most of the policy dimensions, indicating a limited level of policy convergence and the persistence of significant gaps in policy implementation. Nevertheless, both economies showed some progress since the 2009 report in the policy dimensions of entrepreneurial learning and enterprise skills.

In **Bosnia and Herzegovina** the lack of consensus between the Federation of Bosnia and Herzegovina and the Republika Srpska still prevents the development of a coherent SME policy framework at the state level and the effective co-ordination and harmonisation of policies at the entity level. The SME Development Strategy, although completed, has not been endorsed at the state level and the formally established SME consultative committee, bringing together all the key actors in SME policy, is still not yet fully operational. The lack of a coherent policy framework means positive policy experiences, for instance with incubators, clusters and innovation-support programmes, are not being transferred from the local to the state level. There have been promising developments in entrepreneurial learning with cross-entity strategy building and strategy approval by the new state government. More generally, the report shows that the gap between Bosnia and Herzegovina and the other EU pre-accession economies has widened since the last assessment.

Kosovo has made progress in completing its policy framework for SME support, with the approval of a new SME development strategy. The business registration and start-up process is relatively efficient and a fairly successful system of public-private consultations has been put in place. The level of policy development in most of the other areas is still low, however, and heavily dependent on donor assistance. Momentum established in the area of entrepreneurial learning and noted in the 2009 assessment has slackened although training and quality assurance in skills promotion have improved.

The report is structured in two parts. Part I compares the level and quality of SME policy development in the participating economies across the ten dimensions of the Small Business Act. Part II consists of reviews for each of the eight economies, assessing their progress in implementing the Small Business Act and identifying a number of economy-specific policy priorities. A summary of the key findings and scores as well as a description of the methodology of the SME Policy Index 2012 are described upfront.

The way forward

Over the medium term the Western Balkan region is expected to continue to face challenging economic conditions, while Turkey has to prepare itself for a soft landing after its recent period of accelerated economic expansion. There is a risk that short-term considerations to support the economy may divert attention from pursuing more structural reform and slow down the process of EU policy convergence.

While progress has been made in the improvement of the operational climate, particularly in some of the Western Balkan economies such as Croatia, Serbia and the Former Yugoslav Republic of Macedonia, further efforts are required to reduce administrative barriers, upgrade skills, eliminate unfair competition from informal enterprises, upgrade the regulatory and legislative framework for access to finance, and improve the responsiveness

of the public administration to SMEs needs. Turkey's priority should be the further improvement of the operational environment. It risks undermining the efficiency of its wide range of SME support measures by a heavy administrative burden and inefficient public administration, which affects the performance of all enterprises.

Those economies that have made substantial progress in establishing SME policy institutions and introducing a set of targeted measures (Croatia, Serbia and Turkey), should improve their monitoring and impact evaluation capacity. As an increasing amount of resources are channelled to support the SME sector, it is important that those resources are properly allocated and that objectives are met.

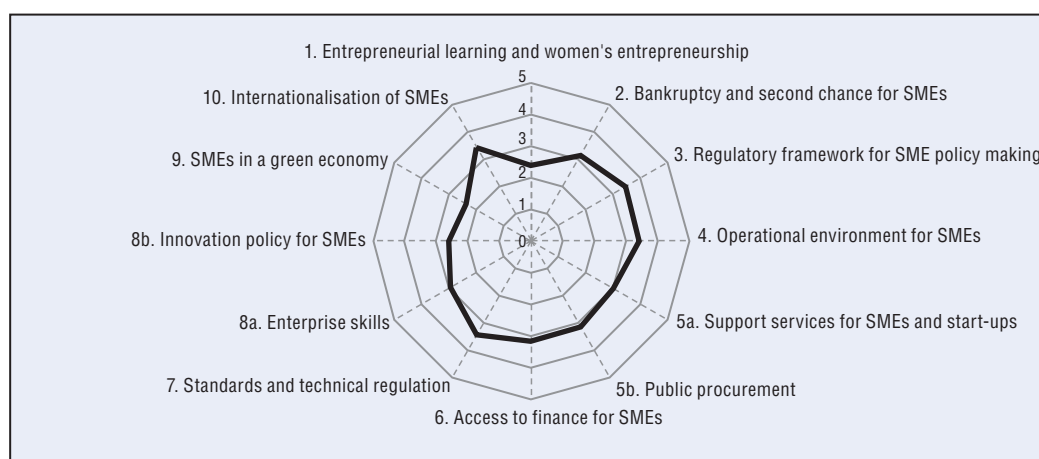
Those economies belonging to the second group (Albania, the Former Yugoslav Republic of Macedonia and Montenegro) should continue to build their institutions and improve their implementation capacity, focusing in particular on strengthening their SME development agencies and other government agencies providing support to SMEs, such as export promotion and innovation agencies. They should also explore developing joint actions with private sector organisations and starting to introduce monitoring and impact evaluation measures. This is the best way to ensure that scarce resources are properly allocated and spent.

The final group, made up of Bosnia and Herzegovina and Kosovo, should first at all clarify their SME policy strategic directions. Kosovo has already made a significant step by approving its first SME development strategy, currently in the initial phase of implementation. Bosnia and Herzegovina is still in the final endorsement phase and there is still no consensus over SME policy direction among all stakeholders at state and entity level. Government action should focus on institutional building and policy co-ordination, including the donor community, which still plays an important role in supporting entrepreneurship promotion and entrepreneurship. The operational environment in both economies remains challenging. When it comes to decision making about SME policy planning, governments should look first at programmes maximising the improvement of business conditions for all enterprises. They should consider carefully conditions for the introduction of more targeted measures, taking into account capacity and financial constraints.

Key findings of the Small Business Act assessment

The following section provides an overview of key findings of the Small Business Act (SBA) assessment across all ten dimensions at the regional level. Part I provides a detailed analysis and cross-border comparison by sub-dimension. Part II profiles each of the EU pre-accession economies.

Figure 0.1. **SBA results for the EU pre-accession region**



Notes: All policy dimensions are measured based on a set of relevant indicators with an SME focus. All final scores have been calculated based on a set of weighted indicators relevant for SME policy development within each dimension (see Annex C). Indicators are structured around five levels of policy reform, with 1 being the weakest and 5 being the strongest. The policy development path for each indicator is typically structured as follows: Level 1: there is no framework (law, institution, project, initiative, etc.) in place to cover the area concerned; Level 2: there is a draft or pilot framework, and there are some signs of government activity to address the area concerned; Level 3: a solid framework is in place for this specific policy area; Level 4: as for Level 3 plus some concrete indications of effective implementation of the framework; Level 5: as for Level 4 plus some significant record of concrete and effective policy implementation of the framework. This level comes closest to good practices identified as a result of the EU Small Business Act and the OECD Bologna Process.

Source: SBA assessment 2012.

Key findings per SBA principle

The following findings are the results of a collaborative policy assessment exercise carried out with the support of SBA co-ordinators in all EU pre-accession economies. Assessment derived from the ten Principles of the Small Business Act for Europe and have been further broken down into 12 related policy dimensions with 108 indicators (see Annex C). The indicators measure the *status quo* and/or progress in policy development on a scale from one (low) to five (high). The scores in this section have been aggregated by policy dimension based on a weighted average calculated according to the relative importance of each indicator (see next section on Scores and Methodology).

Principle 1 – Entrepreneurial learning and women’s entrepreneurship

Principle 1 considers how the various parts of the national administration, the business world and civic interest groups co-operate to promote entrepreneurship across the learning system, and particularly within upper secondary education. It also addresses areas such as education and training for entrepreneurship outside the formal schooling system and whether and how good practice is shared among the education and training community. The second part of the assessment considers how each economy addresses women’s entrepreneurship.

The assessment found all the economies had made good progress on strategy building for entrepreneurial learning. They need to continue their efforts to make partnership arrangements to systematically develop lifelong learning for entrepreneurship. While entrepreneurship promotion is most advanced in the vocational sector, all the economies need to reinforce and sustain their policy focus on entrepreneurship as a key competence at all levels of the education system. Furthermore, the higher education community needs to give more considered attention to entrepreneurial learning across all faculties, including systematic links with business, in the bid for a more entrepreneurial economy. Outside the education system, non-formal entrepreneurial learning continues to be rich and varied but networking, and the sharing of good practice across the learning system as a whole, remains weak. Each economy needs to improve policy support for women’s entrepreneurship to ensure women can contribute to the wider competitiveness drive. Training support for women entrepreneurs and access to finance is underdeveloped across the region.

Governments should build on the regional expert co-operation model supported by the South East European Centre for Entrepreneurial Learning (SEECEL) and extend it to the upper secondary school level, focusing particularly on the promotion of entrepreneurship as a key competence. Meanwhile, governments and businesses need to engage in a dedicated discussion at regional level with the higher education communities, to determine how tertiary education can be more strategically integrated into the SBA assessment process. This might include arrangements to assist universities with more strategic entrepreneurship promotion and co-operation with business. Finally, governments will need to give more priority to women’s entrepreneurship, and advocacy networks supporting women’s entrepreneurship will therefore be important. Economies need to make specific efforts to develop support for training and improve women’s access to finance.

Table 0.1. Weighted score for Principle 1 for each EU pre-accession economy and regional average¹

Principle 1	ALB	BIH	HRV	KOS ²	MKD	MNE	SRB	TUR	WBT ³ average
Weighted average	2.50	1.75	3.25	1.75	2.50	2.50	2.25	2.50	2.50

1. The scores provided in this section of the report are weighted and rounded.

2. Kosovo is referred as KOS in this report, as Kosovo has not yet been assigned a permanent ISO country code.

3. WBT is used for this report as an acronym for Western Balkans and Turkey.

Source: SBA assessment 2012.

Principle 2 – Bankruptcy and second chance

Principle 2 addresses the need for well-structured bankruptcy laws and simplified bankruptcy procedures, which are important for facilitating the exit and re-entry of businesses into the market.

All of the eight pre-accession economies have laws on distressed companies, receivership and bankruptcy in place although legislation is only at an early stage of implementation in Albania and Kosovo. There are significant differences across the region with regard to bankruptcy time (how long it takes to close a business) the cost incurred (as a percentage of the business estate) and the recovery rate (the cents to the dollar creditors can expect to obtain out of bankruptcy cases). No government of the Western Balkans and Turkey is conducting specific information campaigns on the second chance principle. In Albania, Croatia, Serbia and Turkey, entrepreneurs who underwent non-fraudulent bankruptcy can only receive loans and support from institutions after debt clearance. Albania, Montenegro and Serbia are the most advanced in granting access to public procurement and support schemes for entrepreneurs who underwent non-fraudulent bankruptcy.

In Croatia, Serbia and Turkey, bankruptcy procedures need to be further improved to streamline market access and exit for enterprises. Having efficient bankruptcy procedures in place would also facilitate access to finance, as lenders are reluctant to extend loans to companies if they have no legal recourse if the borrower fails to repay the loan. The governments of the Western Balkans and Turkey should launch specific information campaigns to promote the second chance principle. Making de-registration from the insolvency register automatic after debt clearance would be very useful.

Table 0.2. **Weighted score for Principle 2 for each EU pre-accession economy and regional average**

Principle 2	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR	WBT average
Weighted average	3.25	3.00	3.00	3.00	3.50	3.75	2.75	3.00	3.25

Source: SBA assessment 2012.

Principle 3 – Regulatory framework for SME policy making

Principle 3 measures progress in the development of a regulatory framework for SME policy making. This includes institutional set-up, simplifying legislation and effective public-private consultations.

As a region, the EU pre-accession economies achieved the highest scores in this policy dimension. This reflects a solid institutional, regulatory and public-private consultation framework. Turkey received the highest scores, closely followed by Serbia, while the governments of Albania, Croatia, the Former Yugoslav Republic of Macedonia and Montenegro performed above the regional average. Although Bosnia and Herzegovina and Kosovo have made slight improvement in some policy areas such as public-private consultations and SME strategy, there are still large policy gaps between them and the other economies. Some economies in the region, such as Serbia, have undertaken significant measures to simplify and eliminate legislation, while others, such as the Former Yugoslav Republic of Macedonia, have improved their use of regulatory impact analysis (RIA).

The governments of the six economies doing better in this dimension should place more emphasis on monitoring the implementation of their strategic programmes and their impact on SME sector development. SMEs should be involved from an early stage in the policy-making process and consultations should be systematic and timely to ensure that the voice of the business community is reflected in the government programmes. In the case of Bosnia and Herzegovina and Kosovo, their governments need to make further efforts to close the gap. While Bosnia and Herzegovina lags behind in all sub-dimensions, Kosovo needs to focus particularly on implementing legislative reform and introducing RIA.

Table 0.3. **Weighted score for Principle 3 for each EU pre-accession economy and regional average**

Principle 3	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR	WBT average
Weighted average	3.50	2.25	3.75	2.50	3.75	3.75	4.00	4.25	3.50

Source: SBA assessment 2012.

Principle 4 – Operational environment for SMEs

The principle consists of two policy areas. The first covers the company registration and business start-up process, including the issuing of the registration certificate, the notification and the compliance phase, as well as the application of simplified procedures through the establishment of one-stop shops (OSS) and online registration. The second covers the online interaction between the public administration and the business sector, including the provision of e-services and the development of e-government infrastructure.

All of the pre-accession economies assessed, with the sole exception of Bosnia and Herzegovina, have established relatively efficient company registration processes which allow the registration certificate to be issued in less than five days, and often in a matter of few hours. The fee in most cases is less than the equivalent of EUR 50, the exceptions being Bosnia and Herzegovina, Croatia and Turkey. Bosnia and Herzegovina, Croatia and Turkey have established simplified procedures for enterprises they classify as crafts. Albania, Croatia, the Former Yugoslav Republic of Macedonia and Montenegro have introduced single company identification numbers while Serbia and Turkey are preparing to do so. Albania and the Former Yugoslav Republic of Macedonia operate company registration systems based on advanced international practices, including OSSs and online registration. Yet even though significant progress has been made in simplifying registration, the overall business start-up process remains in general quite cumbersome and costly, with most of the expenses related to legal and notary fees, kinking fees, pre-paid taxes and minimum capital requirements.

Most of the participating economies are actively engaged in developing the infrastructure for e-government and introducing e-government services. All the participating economies with the exception of Bosnia and Herzegovina and Kosovo have completed or are close to completing the legal and regulatory framework for e-signatures. Croatia, the Former Yugoslav Republic of Macedonia, Serbia and Turkey already have e-signature systems in place, although in most cases their scope is still relatively restricted and the use of e-signatures by the business community is still limited. The range of e-government services is also relatively limited, mostly restricted to filing taxes, although

social security filing and public procurement services are also available to a lesser extent. Croatia is most advanced in this area, having been developing its e-government programme for a number of years.

Those economies that have successfully implemented comprehensive reforms of the registration process (Albania, the Former Yugoslav Republic of Macedonia and Serbia) should further expand the functions of their OSSs and transform their registration body or agency into an agency providing a wide range of services to the business community and the public administration. For example, the Serbian Business Register already manages other registries, while Croatia's Financial Agency (FINA) collects and processes company data. Only the Former Yugoslav Republic of Macedonia and Montenegro perform well in the World Bank Doing Business indicators for registration and business start-up, so most of the economies in the pre-accession region need to look more carefully at the full cost and time associated with the entire business start-up process and not just at registering a company. More efforts should be made to streamline the notification phase through the establishment of OSSs and single windows and in reducing the time and costs involved in the compliance phase.

Governments in the region should aim to progressively widen the range of e-services available to the business community. Croatia's experience shows that the development of e-government services can be sped up by the establishment of a dedicated e-government agency or service within the public administration, instead of leaving each administrative branch to develop its own solution. Internet penetration in the region is still relatively low on average, but is catching up fast. The current low take-up rates of e-government services are not a justification for not investing in this area. Improvements in the information and communication technology (ICT) infrastructure and Internet penetration rates will raise the demand for e-government services and these technological developments are likely to open up new opportunities to better serve the business community.

Table 0.4. **Weighted score for Principle 4 for each EU pre-accession economy and regional average**

Principle 4	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR	WBT average
Weighted average	4.25	2.00	3.50	3.00	4.00	3.50	3.50	3.00	3.50

Source: SBA assessment 2012.

Principle 5 – SME support services and public procurement

5a – Support services for SMEs and start-ups

Dimension 5a measures how available and accessible targeted support services for SMEs and start-ups are. It also assesses the role of governments in identifying market failures in business service delivery and addressing those failures through public policy tools.

When it comes to business support services, the assessment shows that little progress has been made in the region since 2009. While basic business support services are available, they often remain poorly integrated in national strategies. Croatia and Turkey have performed comparatively strongly, providing a broad range of business support services to SMEs and start-ups and making information on starting and conducting a business widely available. Serbia has also made progress, particularly with regard to the

range of SME and start-up support services. In the remaining economies, improvements to the range and quality of support services have been marginal and support for start-ups is still underdeveloped.

To move forward, governments will have to adopt more strategic approaches to the development of business support services. In many economies, business support services are still provided as part of *ad hoc* and donor-sponsored initiatives. To bridge existing gaps and limit overlaps, business support services should be developed in a co-ordinated way and clearly integrated within SME strategies. To complement the existing range of business support services, which are mostly focused on basic services, additional efforts should be made to develop high value-added support. This could be done by ensuring that public service providers broaden their range of services to include technological support, skills development and strategic assistance but also by enhancing the business environment in which private service providers operate. Finally, access to business information still needs to improve. Information on starting and conducting a business remains fragmented across different sources. There are very few web portals specifically dedicated to SMEs, making access to relevant information complicated and time-consuming for entrepreneurs.

Table 0.5. Weighted score for Dimension 5a for each EU pre-accession economy and regional average

Dimension 5a	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR	WBT average
Weighted average	2.50	2.50	4.00	2.00	2.50	3.00	3.50	4.25	3.00

Source: SBA assessment 2012.

5b – Public procurement

Dimension 5b looks at policy mechanisms and tools that would enable SMEs to participate in public procurement on an equal footing with larger companies.

All the economies assessed have made major efforts to improve the public procurement framework. All have public procurement laws making it possible to cut tenders into smaller lots, a measure that can definitely increase the chances of SMEs obtaining a consistent share of public procurement contracts. Moreover, in economies like Kosovo, the Former Yugoslav Republic of Macedonia and Montenegro, the government provides a dedicated helpdesk and training on procurement opportunities. The region is also making a visible effort to provide e-procurement solutions. The process seems to be the most advanced in the Former Yugoslav Republic of Macedonia and Albania where, according to information provided, it is possible to handle tenders electronically without any paper-based formal procedure at all. Turkey also plans to implement similar systems. The main deficiency is a lack of any specific policy approach aimed at combating late payments for public procurement, with the exception of Croatia. In 2009, it implemented a law imposing strict deadlines for payments and penalties in case of non-compliance with agreed deadlines.

The governments of the Western Balkans and Turkey should follow Croatia's lead in this area, as laws combating late payments are a prerequisite for accession to the EU. They need to further improve their public procurement systems to relate their qualification levels and financial requirements to the needs of SMEs. Furthermore, they should devote more resources to implementing a more comprehensive e-procurement framework.

Table 0.6. **Weighted score for Dimension 5b for each EU pre-accession economy and regional average**

Dimension 5b	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR	WBT average
Weighted average	3.25	2.75	3.00	2.75	3.50	3.25	3.00	3.75	3.25

Source: SBA assessment 2012.

Principle 6 – Access to finance for SMEs

Principle 6 measures progress in access to finance for SMEs and the development of a legal and business environment conducive to timely payments in commercial transactions. It is made up of two sub-dimensions: the sources of external finance for SMEs and the legal and regulatory framework.

The overall scores in this category have been significantly affected by the 2009 financial crisis, with credit contraction and tighter liquidity making it more difficult to access external finance. While Turkey's real economy continues to grow buoyantly, market uncertainty resulting from the crisis has still caused a slowdown in lending growth and capital outflow. After banking, microfinance and leasing are the most developed sources of finance across the EU pre-accession region; alternative financial instruments such as venture capital and private equity remain limited in scope. The legal and regulatory environment has generally improved since 2009, particularly in the efficiency and quality of land (cadastre) and movable asset registration systems, although progress has not been uniform across the region. Credit information systems have also improved with the majority of economies scoring relatively well. Albania and the Former Yugoslav Republic of Macedonia in particular have made significant progress since 2009. Strengthening creditors' rights remains a challenge in Albania, Bosnia and Herzegovina, Croatia, and Kosovo due to a generally weak level of enforcement and efficiency. Government-supported programmes to increase awareness about national strategies and improve financial literacy have only recently begun in some places such as Albania and Croatia and thus financial literacy remains relatively low in the region. The exception is Turkey where a recent initiative has been launched by the Capital Market Board and the Central Bank.

Governments could improve the general investment climate through measures such as reducing the listing requirements for SMEs on exchanges, which would facilitate access to capital and help to enhance corporate standards. Targeted and non-distortionary public support through the private sector could improve access to finance for SMEs. Adequate enforcement of creditors' rights remains a challenge in the region. Proper assessment of the levels of financial literacy could also enhance access to external sources of finance.

Table 0.7. **Weighted score for Principle 6 for each EU pre-accession economy and regional average**

Principle 6	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR	WBT average
Weighted average	3.00	3.00	3.50	2.25	3.00	3.00	3.75	3.75	3.25

Source: SBA assessment 2012.

Principle 7 – Standards and technical regulations

Principle 7 considers technical barriers to trade in industrial and agricultural products. The implementation of standards and technical regulations will ease access to the Single Market and liberalise trade between the EU and the Western Balkans and Turkey.

The assessment shows that, in general, the economies of the region are complying with the implementation of trade-related regulatory standards for industrial and agricultural products. Croatia and Turkey have performed best at eliminating trade barriers. Their strong performance can be explained by Croatia's finalisation of accession negotiations with the EU and the customs union between the EU and Turkey, which has strongly promoted bilateral trade and investment relations since it was put in place in 1996. For the other economies in the region, technical trade barriers currently represent one of the most important obstacles with regard to the liberalisation of trade with the EU.

Albania, Kosovo and Montenegro should consider further improving their provision of administrative and regulatory information to the business community, in particular for SMEs having to comply with the legislative environment in the EU. Although many of the economies in the region have finalised the adoption of EU standards, Albania, Kosovo, Montenegro and Serbia still lag behind in fully incorporating them. The region has made considerable progress with respect to aligning their legislation on sanitary and phytosanitary standards (SPS) with the EU framework. Governments need to do more to inform companies about the requirements for exports and investment opportunities in the European market.

Table 0.8. Weighted score for Principle 7 for each EU pre-accession economy and regional average

Principle 7	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR	WBT average
Weighted average	3.00	2.75	4.25	2.50	4.00	2.75	4.00	4.50	3.50

Source: SBA assessment 2012.

Principle 8 – Enterprise skills and innovation

8a – Enterprise skills

Dimension 8a assesses the policies and support frameworks to promote skills in small businesses. It considers the availability of training, its relevance to SME needs, the quality of the training provided and how well it is targeted for both new and growing enterprises.

All the economies have well-developed training provider networks for management and trade skills with quality assurance in place. More attention to the knowledge and skills requirements for sectors trading with the European Union is necessary to prepare businesses for the competitive pressures within the EU internal market. The assessment found continued weaknesses in intelligence on enterprise skills across most economies. Until governments and business finally commit to gathering systematic intelligence on enterprise skills, poor data, including statistics on training for start-ups, will continue to undermine any policy effort to create a skilled and competitive workforce.

All the economies are encouraged to establish sector skills councils (or reinforce them if they exist) focusing on those sectors which will be important for economic growth and jobs. They should pay particular attention to those sectors trading with the European

Union. All of the economies could co-operate and exchange good practice in sectors of common interest such as the agri-food. A key task of the skills councils should be to develop systematic and comprehensive data on skill gaps and weaknesses and future skills requirements to improve policy making and resource allocation towards more strategic manpower developments.

Table 0.9. **Weighted score for Dimension 8a for each EU pre-accession economy and regional average**

Dimension 8a	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR	WBT average
Weighted average	3.25	2.25	3.25	3.00	3.50	2.75	3.00	3.00	3.00

Source: SBA assessment 2012.

8b – Innovation policy for SMEs

Dimension 8b evaluates the policies that support innovation and technology transfer. The assessment focuses on the key elements needed to provide a favourable environment for innovative SMEs: institutional co-operation, the development of a strategic approach to innovation policy, and the development of a broad range of technical and financial support services.

Innovation policy is at an early stage of development in the Western Balkans and Turkey; budgets for SME innovation support are low and few economies have established a co-ordination body or adopted a sound overarching strategy for innovation. In most economies, innovation policy is limited to small-scale *ad hoc* initiatives. Croatia, Serbia and Turkey have the most developed innovation policy infrastructure. All three have a clear delegation of tasks and responsibilities and are implementing overarching innovation strategies, albeit with varying degrees of progress. Albania has set up an innovation steering committee and is at an early stage of implementing its innovation strategy. The Former Yugoslav Republic of Macedonia is in the process of designing and adopting a comprehensive innovation strategy, based on an innovation policy analysis that was conducted in co-operation with the OECD. Bosnia and Herzegovina, Kosovo and Montenegro all largely lack an institutional and policy framework for innovation.

For those economies, the first step must be a strategic policy document, as it underpins their governments' commitment to foster triple helix partnerships, financial support schemes, and innovation support services for SMEs. The more advanced economies should enhance the monitoring and evaluating of public programmes, making sure they take place on a regular basis to ensure their policy tools are efficient and effective at addressing market failures, and to ensure that public budgets are spent with care and that programmes do not create market distortions. The EU pre-accession economies are invited to look into the OECD Framework for the evaluation of policies on SMEs and entrepreneurship and particularly into the "Six Steps to Heaven" methodology for assessing the impact of SME policy on companies.*

* OECD (2008), *OECD Framework for the Evaluation of SME and Entrepreneurship Policies and Programmes*; OECD, Paris.

Table 0.10. **Weighted score for Dimension 8b for each EU pre-accession economy and regional average**

Dimension 8b	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR	WBT average
Weighted average	2.50	2.00	3.75	1.25	2.50	2.00	3.25	3.50	2.50

Source: SBA assessment 2012.

Principle 9 – SMEs in a green economy

Principle 9 assesses the support governments give to SMEs to enable them to benefit from green growth opportunities by adjusting their business models and the promotion of a policy framework towards eco-innovation and eco-efficient business.

Overall, with the exception of Turkey the economies score poorly on this dimension. Current enterprise policy documents make little mention of eco-efficiency and eco-innovation, particularly in SME strategies. Governments in the region have not put in place any environment-related measures specifically targeting SMEs. This suggests that environmental protection and SME development are still perceived as disconnected policy areas. The assessment also shows that information on environmental issues remains scarce in many economies. Even when the information is available, it tends to cover general issues such as energy efficiency or climate change rather than more specific issues which directly affect SMEs. Businesses in all eight economies remain largely unaware of how they could improve their environmental performance through environmental management systems (EMSs) and standards.

To support SMEs in dealing with environmental challenges and enable them to benefit from green growth opportunities, governments first need to recognise eco-efficiency and eco-innovation as priorities in enterprise policy documents – particularly in SME strategies. They need to enhance access to SME-relevant information on environmental issues, including information on existing and forthcoming environmental legislation, and provide tools to enhance environmental management, funding opportunities for green innovations and environmental best practice. All governments in the region need to support the implementation of effective EMSs. As a first step, they should make information about EMSs and standards more widely available. Following on from that they could consider giving financial support to companies wishing to acquire ISO 14001 or the European Eco-Management and Audit Scheme (EMAS) certification.

Table 0.11. **Weighted score for Principle 9 for each EU pre-accession economy and regional average**

Principle 9	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR	WBT average
Weighted average	1.75	1.25	3.25	1.50	2.50	2.25	2.75	3.50	2.50

Source: SBA assessment 2012.

Principle 10 – Internationalisation of SMEs

Principle 10 focuses on government support towards promoting export-oriented SMEs and helping them access international markets.

In general, all of the economies have an export promotion policy and measures in place. However, the level of implementation of the strategies and financial allocation to export promotion activities vary throughout the pre-accession region. The most advanced economies are Croatia, Serbia and Turkey, which provide a wide range of well-financed export promotion services. The governments of Albania, the Former Yugoslav Republic of Macedonia and Montenegro score slightly lower in this dimension, allocating less financial support and often relying on external donor funding. The export base in Bosnia and Herzegovina and Kosovo is still limited.

Export promotion agencies in the Western Balkans should pay more attention to assisting SMEs to access foreign markets and become more internationally competitive. This could be done by enhancing their access to trade finance and export insurance and helping them obtain creditworthiness. Further support measures include providing international market information, finding international partners for research and development and implementing international quality standards. In addition, governments need to better co-ordinate and systematically monitor their export promotion activities to increase their efficiency.

Table 0.12. **Weighted score for Principle 10 for each EU pre-accession economy and regional average**

Principle 10	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR	WBT average
Weighted average	3.25	2.25	4.00	2.25	3.75	3.25	4.25	4.75	3.50

Source: SBA assessment 2012.

A detailed assessment for each policy dimension can be found in Part I of the report.

Scores and methodology

Small Business Act scores

The following table displays the Small Business Act assessment scores for the economies of the Western Balkans and Turkey. The cut-off date for the assessment process was 30 November 2011. The assessment framework is derived from the 10 principles of the Small Business Act for Europe, further broken down into 12 policy dimensions, 21 sub-dimensions and 108 indicators. Each indicator is structured around five levels of policy reform, with 1 being the weakest and 5 being the strongest. For further details please see the methodology section.

Table 0.13. **Small Business Act scores**

Name of indicator	Scores									Weights
	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR	WBT	
I) Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded										
1. Entrepreneurial learning and women's entrepreneurship	2.54	1.79	3.31	1.81	2.40	2.54	2.35	2.52	2.41	
1.1. Policy framework for entrepreneurial learning										3
Policy partnership	3.0	3.0	4.0	3.0	3.0	4.0	3.0	4.0		1
Policy elaboration	2.0	2.0	3.0	3.0	3.0	4.0	2.0	3.0		1
Policy support resources	3.0	2.0	4.5	3.0	4.5	2.0	3.0	5.0		1
Monitoring and evaluation	2.0	2.0	4.0	2.0	3.0	2.0	2.0	2.0		1
Good practice exchange	3.0	3.0	5.0	4.0	4.0	1.0	4.0	2.0		1
Non-formal entrepreneurial learning	3.0	1.0	4.0	3.0	4.0	4.0	4.0	4.0		1
National higher education policy on entrepreneurial learning	3.0	1.0	3.0	1.0	1.5	2.0	1.0	2.0		3
Good practice in higher education	2.0	1.0	2.0	1.0	2.5	2.0	2.0	2.5		1
University-enterprise co-operation	2.0	1.0	2.5	1.0	2.5	3.0	1.0	2.5		2
1.2. Women's entrepreneurship										3
Policy support framework for promotion of women's entrepreneurship	2.5	3.0	3.0	1.5	1.5	3.0	3.0	2.5		1
Training for women's entrepreneurship	1.5	1.5	2.5	1.0	2.5	1.5	2.0	1.5		1
Financing for women's entrepreneurship	3.0	2.5	3.5	1.5	1.5	2.5	2.5	2.5		1
Networks for women entrepreneurs	3.0	1.0	4.0	2.5	2.5	3.0	3.0	2.5		1
II) Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance										
2. Bankruptcy and second chance for SMEs	3.20	3.13	3.07	2.99	3.40	3.64	2.76	2.99	3.15	
2.1. Bankruptcy procedures										2
Laws and procedures on distressed companies, receivership and bankruptcy	3.0	4.0	4.0	3.0	5.0	4.0	4.0	4.0		2
Bankruptcy time (DB indicator ¹)	3.5	2.0	2.0	3.5	3.5	3.5	3.0	2.0		1
Cost (% of the estate) (DB indicator)	4.0	4.0	3.5	3.5	4.0	4.5	2.0	3.5		1
Recovery rate (cents on the dollar) (DB indicator)	3.0	2.0	2.0	4.0	3.0	3.0	1.0	1.0		1
2.2. Second chance										1
Promoting positive attitudes towards giving entrepreneurs a fresh start	2.0	1.0	2.0	1.0	1.0	1.0	1.0	2.0		1
Discharge from bankruptcy	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0		1
Access to credit	3.0	4.0	3.0	1.5	1.0	5.0	3.0	3.5		1
Discrimination against re-starters	4.0	3.0	3.0	4.0	5.0	5.0	5.0	3.0		1

Table 0.13. **Small Business Act scores (cont.)**

Name of indicator	Scores									Weights
	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR	WBT	
III) Design rules according to the “think small first” principle										
3. Regulatory framework for SME policy making	3.55	2.16	3.75	2.59	3.74	3.75	4.00	4.19	3.47	
3.1. Institutional framework										3
SME definition	4.0	3.0	5.0	4.0	5.0	5.0	5.0	5.0		1
Inter-governmental co-ordination in policy elaboration	4.0	2.0	4.0	3.0	4.0	4.0	4.0	5.0		3
SME development strategy	4.0	2.5	4.0	3.0	3.5	4.0	4.0	5.0		3
SME policy implementation agency or equivalent	3.0	2.0	4.0	3.0	3.5	3.5	4.5	5.0		3
Measures to tackle the informal economy	4.0	1.5	4.0	3.0	3.5	4.0	4.0	3.5		2
3.2. Legislative simplification and regulatory impact analysis (RIA)										2
Review and simplification of current legislation	4.0	3.0	3.5	2.0	4.0	4.0	4.5	4.0		3
Legislative guillotine	4.0	2.5	3.0	1.0	4.0	4.0	4.0	2.5		3
Use of RIA	2.5	1.5	4.5	1.5	4.5	2.5	5.0	3.5		3
The SME test	1.5	1.0	2.0	1.0	2.0	2.0	1.5	2.0		1
3.3. Public-private consultations (PPCs)										2
Frequency and transparency of PPCs	4.0	2.0	4.0	3.5	3.5	4.0	4.0	4.5		1
Formal influence of PPCs	3.5	2.5	2.5	2.5	3.5	4.0	3.5	4.5		1
Representativeness of PPCs	3.0	2.0	4.0	3.0	3.5	3.5	3.0	4.0		1
IV) Make public administration responsive to SME needs										
4. Operational environment for SMEs	4.32	2.02	3.52	3.08	4.11	3.62	3.61	3.12	3.42	
4.1. Company registration										
Issuing of company registration certificate										2
Number of days to obtain a company registration certificate	5.0	3.0	4.0	4.0	5.0	4.0	4.0	5.0		1
Number of administrative steps to obtain a company registration certificate	5.0	3.0	5.0	5.0	5.0	5.0	4.0	5.0		1
Official cost of obtaining a company registration certificate	5.0	1.0	1.0	5.0	4.0	4.0	4.0	3.0		2
Company identification numbers										1
Administrative identification numbers in dealing with the public administration	5.0	3.0	5.0	3.0	5.0	3.0	2.0	3.0		1
Completion of the overall registration process and entry in operations										1
Number of days to complete the overall registration process (WB Cost of Doing Business Index)	4.0	1.0	3.0	1.0	4.0	3.0	3.0	3.0		1
Costs connected with registration (% of GNI per capita) – (WB Cost of Doing Business Index)	1.0	1.0	2.0	1.0	4.0	4.0	2.0	1.0		2
Minimal capital requirements (% of GNI per capita) – (WB Cost of Doing Business Index)	5.0	2.0	3.0	1.0	5.0	5.0	4.0	4.0		2
Tools for further simplification										1
Progress towards one-stop shops (OSS)	5.0	1.0	4.5	1.0	5.0	4.0	5.0	3.0		3
Online registration	5.0	1.5	4.0	2.5	5.0	2.5	2.5	4.0		2
“Silence-is-consent” principle	5.0	1.0	1.0	1.0	5.0	2.5	5.0	2.5		1
Craft registration										2
Number of days to obtain a craft registration certificate	5.0	3.0	3.0	4.0	4.0	4.0	4.0	4.0		1
Number of administrative steps to obtain a craft registration certificate	5.0	3.0	4.0	5.0	5.0	5.0	4.0	4.0		1
Official cost of obtaining a craft registration certificate	5.0	2.0	3.0	5.0	3.0	5.0	4.0	2.0		2
4.2. Interaction with government services (e-government)										
E-government services										2
Tax returns	3.5	4.0	4.0	3.5	4.0	2.0	4.0	3.5		2
Social security returns	4.0	1.0	4.0	2.5	3.5	3.5	3.0	1.0		2
Extension to other services (e.g. pensions, procurement, cadastre)	4.0	1.5	4.0	1.0	4.0	2.0	3.5	3.5		1
Reporting on enterprise statistics	2.0	1.5	4.0	1.0	2.0	2.0	4.0	3.0		1

Table 0.13. **Small Business Act scores (cont.)**

Name of indicator	Scores									Weights
	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR	WBT	
E-government infrastructure										2
Connection between the databases of different public administrations, companies providing information only once, unless for updates	3.0	1.0	3.0	2.0	3.0	2.5	3.0	2.5		1
Electronic signature (or equivalent)	4.0	2.0	4.0	2.5	4.0	3.5	4.0	3.5		2
V) Adapt public policy tools to SME needs										
5a. Support services for SMEs and start-ups	2.48	2.39	3.99	1.88	2.61	2.94	3.47	4.32	3.01	
Government action plan on business services	3.0	2.0	3.5	1.0	3.0	3.0	3.5	4.5		3
Information services for SMEs										
Availability and accessibility of information	2.5	2.5	4.5	2.0	2.5	3.0	4.0	4.0		1
Quality of online portal	2.0	2.0	3.0	2.5	1.0	2.5	2.5	3.5		1
Targeted business services for established SMEs										
Range of business services	2.5	3.0	5.0	2.5	3.0	3.0	3.5	5.0		2
Business services for start-ups										
Business incubators	2.5	3.5	4.0	2.0	3.0	2.5	3.5	4.0		1
Advisory services for start-ups	1.5	2.0	4.0	2.0	3.0	3.5	4.0	4.5		1
Financial support for start-ups (vouchers, grants, etc.)	2.0	2.5	4.5	2.0	3.5	3.5	4.0	4.5		1
5b. Public procurement	3.17	2.67	3.00	2.83	3.50	3.33	3.00	3.67	3.15	
Cutting tenders into lots	4.0	4.0	4.0	4.0	4.0	4.0	4.0	5.0		1
Information and publication of public procurement	3.0	4.0	3.0	5.0	4.0	4.0	4.0	5.0		1
Penetration of e-procurement	4.0	3.0	2.0	2.0	4.0	3.0	1.0	3.0		1
Ensuring that payments are made on time	1.0	1.0	3.0	1.0	1.0	1.0	2.0	2.0		1
Openness to foreign enterprises, whether SMEs or large	4.0	3.0	5.0	4.0	4.0	5.0	4.0	4.0		1
Setting proportionate qualification levels and financial requirements	3.0	1.0	1.0	1.0	4.0	3.0	3.0	3.0		1
VI) Facilitate SME access to finance and develop a legal and business environment supportive to timely payments in commercial transactions										
6. Access to finance for SMEs	3.04	3.09	3.48	2.17	2.96	3.07	3.83	3.72	3.17	
6.1. Sources of external finance for SMEs										7
Credit guarantee schemes	3.0	3.5	3.5	1.5	2.0	2.0	3.0	4.5		1
Public start-up funding	2.0	2.0	3.0	2.0	2.0	2.5	3.5	3.5		1
Business angels network	1.0	1.5	2.5	1.0	1.5	1.0	2.0	2.5		1
Microfinance facilities (including credit unions)	4.0	3.0	3.0	3.5	3.5	3.0	3.5	2.5		1
Leasing	3.5	3.0	4.5	2.5	3.5	4.5	4.0	4.0		1
Availability of risk capital (e.g. venture capital, private equity funds)	2.0	1.0	3.5	1.0	2.0	2.0	3.0	4.5		1
Access to stock market	2.0	2.5	3.0	1.0	1.5	3.5	3.5	3.5		1
6.2. Legal and regulatory framework										15
Cadastre	3.5	4.0	4.5	3.0	3.0	3.0	3.5	4.0		3
Credit information services	4.0	3.5	3.0	2.0	4.5	3.0	4.5	4.0		3
Registration systems for moveable assets	3.0	4.5	4.0	2.5	2.5	4.0	5.0	3.0		3
Collateral and provisioning requirements	3.0	3.0	3.5	2.0	3.0	3.0	3.0	4.0		3
Creditor rights	3.0	2.5	3.0	2.5	4.0	4.0	5.0	4.0		3
6.3. Other factors that affect demand and supply of finance										1
Financial literacy	3.0	2.0	3.0	1.5	1.0	1.0	2.5	3.5		1
VII) Help SMEs to benefit more from the opportunities offered by the single market										
7. Standards and technical regulation	3.06	2.63	4.25	2.56	3.88	2.81	3.88	4.38	3.43	
Technical regulations	3.0	3.0	4.0	3.0	3.0	2.0	3.5	5.0		1
Standardisation	3.5	2.5	5.0	2.0	4.0	2.5	3.5	4.0		1
Accreditation	3.5	2.0	5.0	3.5	4.0	3.0	3.5	5.0		1
Conformity assessment	2.5	2.0	4.5	2.0	3.5	2.5	4.0	4.0		1
Metrology	3.5	3.0	4.0	3.0	4.0	3.5	4.5	5.0		1
Market surveillance	2.5	1.5	2.5	2.0	3.5	2.5	3.0	3.0		1

Table 0.13. **Small Business Act scores (cont.)**

Name of indicator	Scores									Weights
	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR	WBT	
Administrative and regulatory information	3.0	4.0	5.0	2.0	5.0	3.5	5.0	5.0		1
Sanitary and phytosanitary standards (SPS) – institutional framework	3.0	3.0	4.0	3.0	4.0	3.0	4.0	4.0		1
VIII) Promote the upgrading of skills and all forms of innovation										
8a. Enterprise skills	3.13	2.31	3.13	3.06	3.38	2.69	2.94	3.06	2.96	
Training needs analysis (TNA)	3.0	2.0	3.0	2.5	3.0	2.5	3.0	3.0		3
Access to training	4.0	3.0	4.0	4.0	4.5	2.5	3.0	4.5		2
Quality assurance	3.0	3.0	3.5	4.0	4.0	3.5	3.5	3.0		1
Start-ups	2.0	2.0	2.0	2.0	2.0	3.0	2.0	2.0		1
Enterprise growth	3.0	1.5	2.5	3.0	3.0	2.5	3.0	3.0		1
8b. Innovation policy for SMEs	2.51	1.90	3.81	1.37	2.40	2.02	3.25	3.53	2.60	
Policy framework for innovation										
Delegation of competencies and tasks	3.0	1.5	4.0	1.0	2.5	1.5	3.5	4.0		2
Strategic approach to broad innovation policy	3.0	2.0	3.0	1.5	2.5	2.0	3.5	4.0		3
Budget provision for SME innovation	2.5	1.5	3.5	1.0	2.0	1.5	3.0	3.0		2
Establishment of innovation and technology centres	2.5	2.0	3.5	1.0	1.5	1.5	2.5	4.0		1
Innovation support services	2.0	1.0	4.0	1.0	2.0	1.5	3.5	4.0		2
Tools for SME-researcher co-operation	1.5	2.0	3.0	1.5	1.5	1.5	3.0	4.0		1
Incubators	1.0	2.5	4.0	1.0	1.0	2.0	3.0	4.0		1
Science parks	1.5	3.5	4.0	1.0	1.0	1.0	3.0	3.0		1
Financial support services	2.5	1.0	3.5	1.5	2.0	2.0	3.0	4.5		1
Public R&D grants	2.0	1.0	4.0	1.0	1.5	1.0	2.0	3.5		1
Intellectual property rights	3.0	3.0	4.5	2.0	4.0	3.5	4.0	2.5		2
IX) Enable SMEs to turn environmental challenges into opportunities										
9. SMEs in a green economy	1.86	1.29	3.14	1.57	2.50	2.29	2.79	3.50	2.37	
The “greening” of current strategies in the field of SMEs, industry and innovation	2.0	1.0	3.0	2.0	2.5	2.0	2.5	3.5		3
Availability of expertise to SMEs on environmental issues	2.0	1.5	3.5	1.5	3.0	3.0	3.5	3.5		2
Promoting the use of environmental management systems and standards	1.5	1.5	3.0	1.0	2.0	2.0	2.5	3.5		2
X) Encourage and support SMEs to benefit from the growth of markets										
10. Internationalisation of SMEs	3.21	2.21	4.00	2.14	3.79	3.29	4.21	4.64	3.44	
Export promotion programmes	3.5	2.5	4.0	2.0	4.0	4.0	4.5	4.5		3
Financial support for export promotion activities	3.0	2.0	4.0	2.0	3.5	2.5	4.0	5.0		3
National SME promotion events	3.0	2.0	4.0	3.0	4.0	3.5	4.0	4.0		1

1. World Bank Doing Business Indicator 2011.

Source: SBA assessment 2012.

Methodology

Small Business Act assessment framework

The SME Policy Index indicators are derived from the ten principles of the EU Small Business Act listed in Table 0.14. Each principle has been broken down into policy dimensions and sub-dimensions that capture the critical feature of policy development in each specific area relevant for EU pre-accession region. Specifically, the following dimensions and sub-dimensions have been assessed:

Sub-dimensions have then been further broken down into 108 measurable policy indicators which are structured around 5 levels of policy development, with 1 being the weakest and 5 being the strongest (see Annex C for further information.). Based on the

Table 0.14. **SBA principles, policy dimensions and sub-dimensions**

SBA principle	Related policy dimension	Related sub-dimension
I) Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded	1. Entrepreneurial learning and women's entrepreneurship	<ul style="list-style-type: none"> Policy framework for entrepreneurial learning. Upper secondary education (ISCED 3). Women's entrepreneurship.
II) Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance	2. Bankruptcy and second chance for SMEs	<ul style="list-style-type: none"> Bankruptcy procedures. Second chance.
III) Design rules according to the "think small first" principle	3. Regulatory framework for SME policy making	<ul style="list-style-type: none"> Institutional framework for SME policy development. Legislative simplification and regulatory impact analysis. Public-private consultations.
IV) Make public administration responsive to SMEs	4. Operational environment for SMEs	<ul style="list-style-type: none"> Company registration. Interaction with government services (e-government).
V) Adapt public policy tools to SME needs	5a. Support services for SMEs and start-ups	<ul style="list-style-type: none"> Information services for SMEs. Business services for SMEs. Business services for start-ups.
	5b. Public procurement	<ul style="list-style-type: none"> Public procurement.
VI) Facilitate SME access to finance and develop a legal framework and business environment supportive of timely payments in commercial transactions	6. Access to finance for SMEs	<ul style="list-style-type: none"> Sources of external finance for SMEs. Legal and regulatory framework. Other factors that affect demand and supply of finance.
VII) Help SMEs to benefit more from the opportunities offered by the Single Market	7. Standards and technical regulations	<ul style="list-style-type: none"> Standards and technical regulations.
VIII) Promote the upgrading of skills and all forms of innovation	8a. Enterprise skills	<ul style="list-style-type: none"> Enterprise skills.
	8b. Innovation policy for SMEs	<ul style="list-style-type: none"> Policy framework for innovation Support services for innovative companies.
IX) Enable SMEs to turn environmental changes into opportunities	9. SMEs in a green economy	<ul style="list-style-type: none"> SMEs in a green economy.
X) Encourage and support SMEs to benefit from growth markets	10. Internationalisation of SMEs	<ul style="list-style-type: none"> Internationalisation of SMEs.

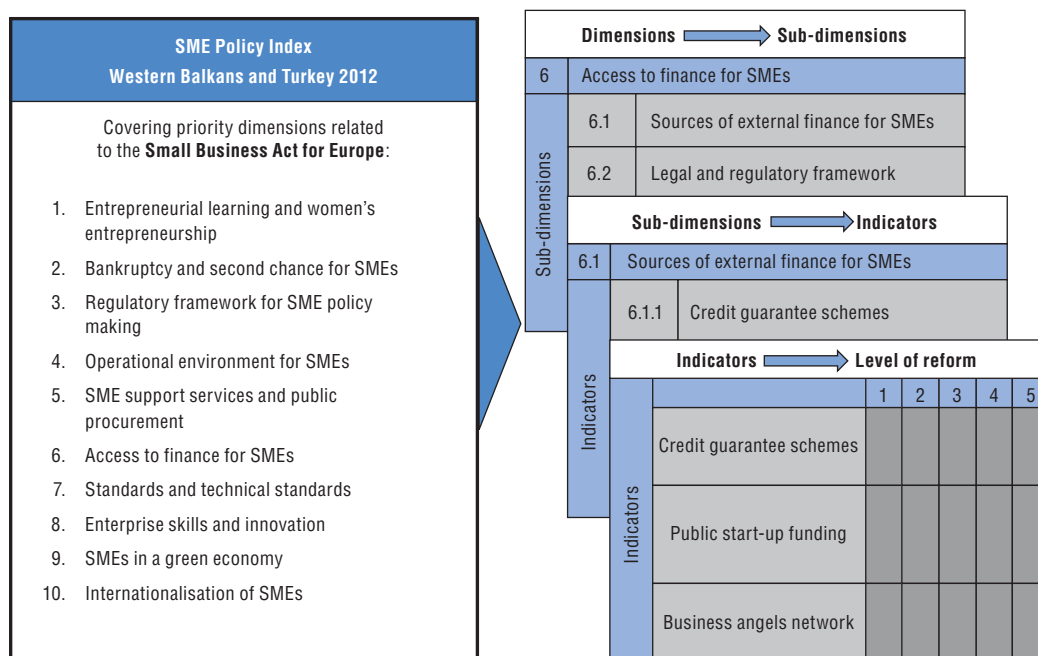
evidence provided during the Small Business Act process, the report assesses how strong the economy performs in the policy area represented by each indicator. The breakdown is illustrated in Figure 0.2.

Allocation of scores

Generally there are two types of indicators: quantitative and qualitative. The quantitative indicators give a score based on the value of a certain figure. For example, most of the indicators from Principle 4 (operational environment) are based on specific indicators such as the number of days taken to obtain a company registration certificate or the number of administrative identification numbers needed in dealing with the public administration.

Qualitative indicators give a score based on the level of policy development in a certain area and transform qualitative information into quantitative indicators to measure progress in reform implementation. The policy development path of qualitative indicators is typically structured along the following lines:

- **Level 1:** There is no framework (*e.g.* law, institution, project, initiative) in place to cover the area concerned.
- **Level 2:** There is a draft or pilot framework and there are some signs of government activity to address the area concerned.
- **Level 3:** A solid framework is in place for this specific policy area.

Figure 0.2. **Assessment framework based on the EU Small Business Act**

- **Level 4:** As for Level 3 plus some concrete indications of effective policy implementation of the framework.
- **Level 5:** As for Level 4 plus some significant record of concrete and effective policy implementation of the framework. This level comes closest to good practices as identified by OECD standards.

To provide an example of a qualitative indicator, Table 0.15 shows the measurement for Indicator 6.1.1 (credit guarantee schemes), which is a part of Sub-dimension 6.1 (sources of external finance for SMEs), Dimension 6 (access to finance for SMEs), based on SBA Principle VI (Facilitate SME access to finance and develop a legal framework and business environment supportive of timely payments in commercial transactions).

Table 0.15. **Example of an indicator**

	Level 1	Level 2	Level 3	Level 4	Level 5
6. Access to finance for SMEs					
6.1. Sources of external finance for SMEs					
6.1.1. Credit guarantee schemes	No credit guarantee scheme in place.	Credit guarantee scheme facility under consideration.	Credit guarantee facilities in place. (government initiative and state controlled).	Credit guarantee facility operating under contract to the private sector but state-funded.	Number of mutual or mixed credit guarantee schemes in place under private managers able to finance themselves out of fees alone.

A score of 4 or 5 is given to economies that have privately operated credit guarantee facilities in place either funded by the state or through fees. Economies that have one or more credit guarantee schemes in place but which are established and controlled by the government receive a score of 3. A score of 2 is given if a scheme is under consideration. Finally, a score of 1 is given to economies that do not have any credit guarantee facilities nor any plans to have one.

The methodology of the assessment process

The scores assigned to each indicator are the result of a participative and analytical process. In order to reduce bias and mis-measurements in assigning a score to each indicator, the SME Policy Index approach is to conduct two parallel assessments based on the same assessment grid. The first one is a self assessment produced by the government. It includes inputs received from representatives of the different agencies and ministries involved in SME policy under the responsibility of the national SBA co-ordinator.

In addition a parallel independent assessment is conducted by the OECD and its partner international and multilateral organisations. The independent assessment is based on inputs from a team of local experts that collect data and information and conduct interviews with key stakeholders and, in particular, with the representatives of private sector organisations.

The final scores are the result of the consolidation of these two assessments, enhanced by further desk research by the four partner organisations and inputs from other sources.

Weighting system

In order to create aggregated scores for each dimension, each indicator and, in some cases, each sub-dimension is allocated a certain weight according to its relative importance within a dimension. The weights are assigned through a process of expert consultation.

The highest weight of 3 is typically given to so-called driver indicators, which set the basis for policy development across a dimension. Secondary indicators, which typically measure the existence and sophistication of additional policy instruments, are given a weight of 2 or 1. An example of a driver indicator is the “policy partnership” indicator in Dimension 1, entrepreneurial learning and women’s entrepreneurship. “Policy partnership” measures the coherence between developments in entrepreneurial learning and wider policies in the economy, and therefore is a fundamental condition for more specific entrepreneurial learning tools to be effective. Other examples of driver indicators are the indicators in Sub-dimension 6.2 on access to finance which measure the legal and regulatory framework for financing.

The weighted average is calculated as the sum of individual scores weighted with the share of the allocated weight in the total sum of weights for the dimension (or sub-dimension). The aggregation is done up to the level of dimensions, as they represent distinct policy areas.

Overview of the SBA assessment process and SME sector

Introduction

The objective of this report is to monitor the implementation of the policy principles of the Small Business Act for Europe (SBA) in the EU pre-accession region. The SBA is a set of ten policy principles, which guides the design and implementation of policies aimed at SMEs both at EU and national level. It is the key reference policy document for SME policy in the EU and was endorsed politically by the EU Council of Ministers in December 2008 to ensure the full commitment of both the EU Commission and the EU member states.

The report covers Albania, Bosnia and Herzegovina, Croatia, Kosovo, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia and Turkey. It presents an analysis of the process of policy elaboration and implementation for each of the ten SBA principles. It evaluates the performance of each economy in implementing the SBA policy guidelines, based on a common set of indicators. This evaluation focuses on policies elaborated and implemented by central governments.

The report is structured in two parts:

- Part I contains an assessment of the degree of implementation of each of the ten SBA principles, with an analysis of trends and key issues, as well as comparisons of the different economies.
- Part II contains chapters on each pre-accession economy, providing additional insight on the implementation of the ten principles of the SBA.

The SME Policy Index process

Two regional SME policy assessments were conducted in 2006 and 2008 and published in 2007 and 2009 respectively. These assessments were structured around the European Charter for Small Enterprises, the predecessor of the SBA, but are comparable to the assessment presented in this report.

The Western Balkan governments and the partner organisations expressed strong interest in adopting the SBA as a guidance tool for SME policy, replacing the European Charter for Small Enterprises. They called for a continuation of the regional SME policy measurement and implementation process in the High-Level Conference on the implementation of the European Charter for Small Enterprises in the Western Balkans which took place on 17-18 June 2009 in Brussels. The beneficiary economies emphasised the importance of the guidance process (previously through the Charter's action lines, now through the SBA principles), monitoring (through the SME Policy Index and the different bilateral and regional meetings of the countries with the EC and the partner organisations), and evaluation (through the final report) led by the partner organisations. The Turkish authorities also expressed their interest in the charter process and therefore the current

project includes Turkey. This report is a response to these requests by the Western Balkans and Turkey.

Following the 2009 report, the SBA assessment has taken on more political significance with two additional economies, Montenegro and Serbia, having been granted EU candidate status. With a further EU candidate – Turkey – joining the pre-accession assessment process for the first time, there are now five EU candidates (including the Former Yugoslav Republic of Macedonia and Montenegro) participating in the assessment drive. This reinforces the importance of the SBA policy provisions. Because the assessment framework is comparative, the increase in candidate economies also acts as a spur for the three remaining economies with potential candidate status (Albania, Bosnia and Herzegovina and Kosovo) to commit more fully to the SBA policy lines.

The 2011-12 assessment process

The 2011-12 assessment process was launched on May 2011 at a regional meeting in Istanbul, hosted by the Turkish SME Agency KOSGEB.

As in the previous SME policy index assessments, the Western Balkan and Turkish governments conducted self assessments during July to September 2011, which they published in national reports. A network of local consultants conducted the independent assessments at the same time. They were co-ordinated by the OECD Investment Compact, in close consultation with the EC (DG Enterprise and Industry) and the EBRD. The ETF provided the independent assessment for the human capital dimensions. The government self assessment and independent assessment were discussed and compared at eight bilateral stakeholder meetings held in each capital city, under the auspices of government authorities and the EC. From 40 to 70 key SME policy stakeholders participated in each of these bilateral meetings, which were held throughout October and November 2011.

This report is the result of the consolidation of these two assessments, enriched by further desk research by the four partner organisations and inputs from other organisations such as the World Bank, International Finance Corporation (IFC) and the United Nations Development Programme (UNDP), research centres and bilateral development agencies. The assessment is based on all information available to governments and partner organisations as of 30 November 2011. Any policy developments that occurred after that date were not assessed, although they may have been mentioned, in this report.

The 2011-12 assessment process was complemented by two evaluations – a company survey and a local assessment – that were conducted in parallel. With the help of the company survey SMEs perception on priority conditions for business development and implementation of government policies in the Western Balkans and Turkey were captured (see Annex A). The Local Development Capacity Assessment evaluated SME policy implementation at sub-national level in the Western Balkans. The assessment framework was built around the SBA Principles with 102 indicators adjusted to the local level (see Annex B). The results of both evaluations are reflected in the annexes of this report but they were not considered in assigning the SBA scores.

Box 0.1. The SME Policy Index process

1. Regional meeting is held with national SBA co-ordinators to approve new indicators and launch SME Policy Index 2012 evaluation (Istanbul, Turkey, 20 May 2011).
2. Western Balkan economies and Turkey conduct self evaluations, structured in a national report, corresponding to the ten SBA principles (July-September 2011).
3. Partner organisations conduct second-level measurement through desk research (July-September 2011) to further incorporate:
 - ❖ primary data from each pre-accession economy;
 - ❖ input from specialised government bodies (such as SME agencies);
 - ❖ input from the private sector (such a chambers of commerce, SME associations);
 - ❖ input from other studies commissioned by international organisations (such as the World Bank).
4. A team of independent local consultants, co-ordinated by the OECD and ETF experts, in the case of the human capital dimensions, use the SME Policy Index to conduct independent assessments (June-September 2011).
5. SME stakeholder meetings are held in each economy with partner organisations, the economy's government and key SME stakeholders (including the private sector), to compare and discuss each self assessment and independent assessment (October-November 2011).
6. Further analysis and evaluation are conducted after the stakeholder meetings (December 2011-January 2012).
7. Regional meeting for partner organisations to present aggregated scores and for governments to discuss scores and country performances at a regional level is held at Trento, Italy, 7-9 February 2012.
8. Partner organisations aggregate final score with an opportunity for countries to comment on preliminary scoring (February-April 2012).
9. Review of final scores and first draft of report by beneficiary economies and partner organisations (May 2012).
10. SBA report is finalised and published (July-October 2012).

The SME Policy Index 2012

The SME Policy Index was introduced in response to the request by the beneficiary economies in 2006 for a more systematic and analytical tool to track policy developments and identify gaps in policy elaboration and implementation at the national and regional levels. It has been developed by the OECD Investment Compact, the EC, the ETF, and the EBRD and in close consultation with the national SBA Co-ordinators of the Western Balkans, with Turkey joining the assessment process in 2011. The SME Policy Index methodology is based on a policy assessment methodology developed by the OECD Investment Compact for South East Europe in 2005 for the Investment Reform Index and includes indicators drawn up by ETF and experts from the pre-accession economies on human capital and women's entrepreneurship.

SME Policy Index objectives

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

- Structured evaluation:
 - ❖ evaluate progress in SME policy reform in the Western Balkans and Turkey on a comparative basis;
 - ❖ assess economies' performance on a scale of 1 to 5 (weaker to stronger), corresponding to the various dimensions of reform.
- Targeted support for improvement:
 - ❖ prioritise regional and national-level policy priorities and support needs.
- Regional collaboration and peer review:
 - ❖ encourage more effective peer review through a common evaluation framework.
- Public and private sector involvement:
 - ❖ offer a simple and transparent communication tool for potential entrepreneurs or investors;
 - ❖ establish a measurement process that encourages public-private consultation.
- Planning and resource allocation:
 - ❖ facilitate medium-term planning, particularly for dimensions that require multi-year programmes;
 - ❖ provide a tool for resource mobilisation and allocation, following the identification of strong points and areas for improvement.

Importance and relevance of the Small Business Act for Europe

The evaluation process in every partner economy was co-ordinated by the relevant government institution in charge of SME policy or entrepreneurship development. Inputs were provided by relevant public administrations as well as independent consultants.

The added value provided by this evaluation framework is its holistic approach which provides policy makers with a single window to assess their progress in a specific context. The evaluation framework aims to:

- independently and rigorously assess SME-related policy settings and reforms against international best practice;
- give guidance for policy reform and development;
- create a process that enhances the quality of policy development relating to SMEs;
- facilitate the prioritisation of donor activities supporting SME growth.

While there are a number of other indices that assess the business environment in the economies of the Western Balkans and Turkey, the evaluation framework of the SME Policy Index brings a different approach for addressing the SME policy issues. The main factors differentiating the SME Policy Index from other indices from international organisations are:

- Focus on a very specific region where history, culture and geography allow for more relevant benchmarking between countries.
- Tripartite participatory approach to evaluation and measurement including government, private sector, and the OECD, European Commission, ETF and EBRD.

- Comprehensive evaluation of the SME policy environment structured along ten key principles in line with the EU Small Business Act.
- The index not only measures but also provides guidance on how to improve through good practices and policy recommendations.
- “Meta-Index” which incorporates existing work already conducted by other organisations (e.g. the World Bank’s *Doing Business* report).

The methodology has both strengths and limitations, presented in Table 0.16 below.

Table 0.16. **Strengths and limitations of the SME Policy Index**

Strengths	Limitations
<ul style="list-style-type: none"> ● The indicators have been structured to be fully compatible with the EU Small Business Act. ● Combination of original data collected by OECD, European Commission, ETF and EBRD with existing data from sources such as the World Bank or the United Nations. ● Use of a common “scoreboard” facilitates public-private consultation and encourages action. ● The “scoreboard” approach also helps public officials to communicate better with respect to policy progress and areas where more reform is necessary. ● The SME Policy Index incorporates good practice examples and policy recommendations. 	<ul style="list-style-type: none"> ● Measuring effective implementation of government policy can be difficult. ● Distinction between scoring levels can be challenged, especially when above 3. ● A simple weighting system has been incorporated to give more important indicators a higher weight. ● Not all dimensions have the same importance – the balance of this importance varies between economies. ● There is a lack of general national statistics on SMEs, due to problems such as no uniform definition of an SME. ● The SME Policy Index does not cover all aspects of SME policy but instead focuses on the areas covered by the EU Small Business Act. ● As the same set of indicators and weights is applied to all economies of the region certain economy-specific characteristics might not be given full consideration.

The SME Policy Index 2012 and 2009 – A comparison

The SME policy Index 2012 is based on the Small Business Act for Europe, while the two previous SME Policy Indices in 2007 and 2009 were based on the European Charter for Small Enterprises. Both assessment grids use the same policy foundation, assessing government policies for SMEs in the field of the regulatory framework, operational environment, human capital, access to finance, internationalisation and support services. The policy areas from the charter were restructured and integrated to the SBA and complemented by new SME policy dimensions. While the charter used 10 policy dimensions with 80 indicators, the SBA consists of 10 principles, embracing 12 policy areas for SMEs with 108 indicators. Overall, 60 indicators of the EU Charter and SBA are highly comparable while 48 new indicators were integrated to the new SBA assessment grid.

All of the policy dimensions used in the charter can be found in the new SME policy assessment grid. Even though policy dimensions have been restructured and indicators modified and added they remain highly comparable, particularly in the case of human capital, legislative framework, company registration and access to finance. In a few cases, such as e-government indicators and business support for start-ups, the indicators and sub-dimensions are partly comparable. Some of the new policy dimensions, such as women’s entrepreneurship, bankruptcy, public procurement, technical regulation, innovation and the green economy, cannot be compared with the previous SME policy assessment results. A comparative overview of the SBA and EU Charter is explained in Table 0.17.

Table 0.17. **Comparison of the SBA assessment grid with the EU Charter**

SBA Principle	Related policy dimension	Related policy sub-dimension	Highly comparable	Partly comparable	New or not comparable
I. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded	1. Entrepreneurial learning and women's entrepreneurship	Policy framework	X		
		Lower secondary education	X		
		Upper secondary education	X		
		Tertiary education			X
		Women's entrepreneurship			X
II. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance	2. Bankruptcy and second chance	Bankruptcy procedures			X
		Second chance			X
III. Design rules according to the "think small first" principle	3. Regulatory framework for SME policy making	Institutional framework	X		
		Legislative guillotine and RIA	X		
		Public-private consultations	X		
IV. Make public administration responsive to SMEs	4. Operational environment for SMEs (company registration and e-government)	Registration certificate	X		
		Identification number	X		
		Registration process	X		
		Simplified tools for company registration		X	
		Craft indicators	X		
		E-government services	X		
		E-government Infrastructure		X	
V. Adapt public policy tools to SME needs	5a. Support services for SMEs and start-ups	Information Services for SMEs	X		
		Targeted business services	X		
		Business services for start-up		X	
	5b. Public procurement	Public procurement			X
VI. Facilitate SME access to finance and develop a legal framework and business environment supportive of timely payments in commercial transactions	6. Access to finance for SMEs	Sources of external finance for SMEs		X	
		Legal/regulatory framework and financial literacy	X		
VII. Help SMEs to benefit more from the opportunities offered by the Single Market	7. Standards and technical regulations	Standards and technical regulations			X
VIII. Promote the upgrading of skills and all forms of innovation	8a. Enterprise skills	Training needs analysis	X		
		Access to training and quality assurance	X		
		Training for start-ups and growing businesses	X		
	8b. Innovation policy for SMEs	Policy co-ordination			X
		Innovation support measures			X
		Financial innovation support measures			X
		Intellectual property rights	X		
IX. Enable SMEs to turn environmental changes into opportunities	9. SMEs in a green economy	Greening of SME strategies and environmental standards			X
X. Encourage and support SMEs to benefit from growth markets	10. Internationalisation of SMEs	Export promotion	X		

Macroeconomic background and the SME sector in the EU pre-accession economies

The purpose of this section is to provide background information on the structure and recent economic trends of the economies covered by the report, draw a profile of the SME sector in each of the observed economies and present the approach adopted through the report in analysing SME policy.

The EU pre-accession economies

The eight economies covered by the report differ significantly in terms of size, economic structure, income level and recent economic performance. However, they all

share two common features: they are all engaged in the EU pre-accession process, although at different stages, and they have adopted the EU Small Business Act as their main SME policy framework, as part of the policy convergence towards the EU.

Turkey is the largest economy in the EU pre-accession region accounting for 83% of the combined GDP. It is a fast growing and highly diversified mid-income economy with a vast internal market and large industrial base with a strong traditional specialisation in products with low and medium technological content (garment textiles, household appliances and cars and transport equipment), although new sectors with a higher value added and technological content are emerging. Turkey shares a customs union with the EU. Its main trade and investment partners are the EU and the surrounding economies of the Middle East, the Gulf and Eurasia.

Croatia and Serbia are the two largest economies in the Western Balkans, accounting for 12% of the combined GDP, but with significantly different income levels. Croatia has the highest *per capita* income level in the Western Balkans, while Serbia has the third highest *per capita* income level after Montenegro. Both highly open economies, Croatia and Serbia share a high level of economic integration with the EU, accounting for over 61.1%¹ and 63.6%² of their trade flows respectively and 92.2%³ and 85%⁴ of their FDI inflow respectively, and a significant level of regional trade integration with their CEFTA partners. Both countries are specialised in low and medium technological products, with a strong presence of sectors such as agri-business, metal working, chemical products, pharmaceutical product, mechanical components, automotive components and transport equipment.

The remaining economies in the Western Balkans (Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Montenegro and Kosovo) are relative small open economies with an advanced level of trade integration with the EU and the CEFTA area with an income *per capita* ranging from middle to middle low income level. Their traditional specialisation is in highly labour intensive industries (garments, textiles and leather) and commodity transformation sectors (smelting, metal working and agro-business). Tourism and construction account for a significant share of GDP in Montenegro while remittances play an important role in supporting domestic demand and small-scale investment in Albania, Bosnia and Herzegovina, Kosovo and to a less extent in the Former Yugoslav Republic of Macedonia.

Table 0.18. **Structural and macroeconomic indicators**

Selected structural and macroeconomic indicators (2011)								
	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Population in millions	3.2	3.8	4.4	1.8	2.1	0.6	7.3	75
GDP growth % year-on-year	3.1	1.8	0.1	5.5	3.0	2.7	1.6	8.5
Consumer price inflation (% average)	3.5	3.6	2.1	4.8	3.9	2.9	11.2	6.5
Government balance % of GDP	-3.5	-3.1	-5.5	n.a.	-2.6	-6.5	-4.0	-1.4
Current account balance % of GDP	-13.2	-8.3	0.9	n.a.	-2.8	-19.4	-9.1	-10.0
Net FDI in EUR millions	695.7	317.3	1 023.7	n.a.	307.2	389.2	1 823.0	9 669.0
Gross reserves in % of GDP	20.7	18.8	24.4	n.a.	22.9	9.6	34.0	9.9
Nominal GDP in EUR billions	9.3	12.9	45.9	5.2	7.4	3.3	32.4	557.6

Source: EBRD 2011⁵ with data collected from WEO (IMF), World Bank, National Statistical Agencies and Central Banks.

Recent economic trends

The global financial crisis of 2009 had a significant impact on the Western Balkans region although less so in Turkey. With the exception of Albania, which appeared to weather the crisis relatively well, most economies in the region went through a prolonged period of recession in 2009 and early 2010. The contraction was most severe in Croatia and Montenegro where the decline in external demand was compounded by a significant domestic credit crunch. Turkey's economy has shown robust growth in recent years and its banks weathered the global financial turmoil well, as evidenced by their balance sheet strength. Earlier financial sector reforms set the foundations for the stability of the banking system today.

Economic activity in the Western Balkans economies began to pick up again in the latter part of 2010 and in the first half of 2011, mainly on the back of a strong recovery in exports. In this period, GDP growth figures became positive again in all economies except for Croatia, which experienced one of the most severe and most protracted recessions in the region. In Turkey, economic activity has rebounded strongly with growth of 9.2% in 2010 and 8.5% in 2011, with a slowdown in growth in the final quarter of 2011 allaying fears of overheating. Growth is primarily driven by domestic demand, fuelled by capital inflows and loose fiscal and monetary policy stances.

The strength of the recovery, however, has been negatively affected by the deteriorating sovereign debt crisis in the euro zone. As a result, there was a significant slowdown in economic activity in the second half of 2011 and early 2012, as evidenced by a number of macroeconomic indicators. Growth in exports has declined as has the growth in imports. The key weakness of the Turkish economy is its current account deficit, which reached 10% of GDP by the end of 2011. Industrial production has been falling in most economies since September 2011. Credit growth has been on the decline as well. Coupled with high unemployment and declining consumer confidence, it has contributed to weakening of domestic demand in most of the region. Montenegro has been experiencing the most prolonged credit crunch – credit to the private sector has been falling continuously since the start of the crisis as the enormous pre-crisis credit boom continues to be unwound.

Inflation has exhibited a strong downward trend in most economies in the region except Turkey. In Serbia, inflation fell from a peak of 14.8% year on year (y-o-y) in April 2011 to 3.2% y-o-y in March 2012. In response to the downward trend in inflation and overall economic conditions, central banks in most of the region have been loosening monetary policy. Inflation continues to be a concern in Turkey, reaching 10.6% in February, well above the official target of 5.5%, and refocusing Turkey's central bank policy back onto price stability in light of a cautiously stabilising lira.

The banking sectors in the region have remained sound and liquid, though the level of non-performing loans (NPLs) is high and still increasing in some economies. The large proportion of foreign banks (75% or more of the total banking asset share in most of the economies) makes the region particularly vulnerable to developments in the euro zone that may affect the parent banks. So far, there has been little evidence of a major impact on Greek or Italian-owned banks in the region, but the risks remain high. In Turkey, private sector credit, financed by foreign borrowing and a post-crisis return of short-term deposits, fell from a high of 43% year-on-year to 33% year-on-year at the end of 2011, partly driven by central bank interventions to rein in credit growth.

The outlook for the region in the coming year remains relatively gloomy. In Turkey, growth could slow significantly in 2012 to around 2.5%, driven by a slowdown in domestic demand. The persistent and potentially worsening crisis in the euro zone is bound to be felt throughout the Western Balkan region, because of the close trade, investment and financial linkages. Some mitigating factors are present: most economies have been fiscally prudent throughout the crisis, banking sectors are well-capitalised and several economies are benefiting from IMF programmes. Nevertheless, the prospects for a rebound in growth this year are relatively low. Under the current forecasts, the region will grow on average 1.1% in 2012.⁶ The downside risks, however, are high and further downward revisions of the forecasts are not unlikely.

The SME sector in the EU pre-accession economies

There are no comprehensive and comparable SME data for the whole pre-accession region, based on the EU definition of an SME. The level of statistical information varies considerable within the region: Croatia, Serbia and Turkey provide extensive and updated sets of business statistics; Albania, the Former Yugoslav Republic of Macedonia and Montenegro provide structural SME data, while there are no official SME statistics available for Bosnia and Herzegovina and Kosovo comparable with the other economies. The only information available there is from the company register or independent company surveys.

The structure of the SME sector in the EU pre-accession economies for which comparable data are available mirrors that of the European Union. Micro-enterprises (fewer than 10 employees, including sole entrepreneurs) account for an extremely large share of the registered enterprises (ranging from 88.9% in Montenegro to 95.9% in Serbia) but their contribution in terms of employment and particularly value added is significantly lower, reflecting a much lower productivity per employee than that of small and medium enterprises. Many of those micro-enterprises are operated by necessity driven entrepreneurs.

Unsurprisingly, the economic crisis of 2009 caused deterioration in the business climate and worsened the economic performance of SMEs in the Western Balkan and Turkey region. The lack of data from the individual economies makes it difficult to quantitatively assess the impact of the crisis on the SME sector specifically. However certain trends emerge when comparing data from Croatia, Serbia and Turkey. In Serbia, for example, the number of SMEs in 2009 increased by 9 337, 45% less than in 2008.⁷ Moreover, this slowdown in the emergence of new SMEs was coupled with a considerable increase in the number of firms that were forced to close. Data from Turkey shows that the number of micro and small firms increased at a greater rate than medium sized firms. Between 2008 and 2009 the number of micro and small firms grew by 33% compared with the 22% increase that was witnessed in the number of medium-sized companies.⁸

In Croatia SME turnover fell by 5% between 2009 and 2010. While the total number of SMEs continued to grow by 7% between 2009 and 2010, a rate similar to pre-crisis levels, the number of employees in the SME sector was significantly affected by the economic downturn. Between 2008 and 2010, the total number of employees in the SME sector decreased by 7%.⁹

Recent data from Croatia allows for a more complex analysis of post-crisis levels of employment based on firm size. Between 2008 and 2010, the total number of employees in small enterprises fell by 33 483 while medium enterprises experienced a loss of 12 891.

Table 0.19. **Statistics of the SME sector**

	ALB		HRV		MKD ¹		MNE ²		SRB		TUR	
	Number	Share	Number	Share	Number	Share	Number	Share	Number	Share	Number	Share
Number of enterprises												
Micro	66 166	95.8%	130 066	90.4%	65 641	92.8%	20 820	88.9%	274 021	95.9%	2 392 928	99.3%
Small	2 386	3.5%	1 132	7.9%	3 706	5.2%	2 083	8.9%	6 065	2.1%		
Medium-sized	432	0.6%	2 048	1.4%	1 159	1.6%	428	1.8%	2 173	0.8%	13 290	0.6%
SMEs	68 984	99.9%	143 434	99.7%	70 506	99.7%	23 332	99.6%	282 259	98.8%	2 406 218	99.9%
Large	54	0.1%	484	0.3%	204	0.3%	95	0.4%	484	0.2%	2 796	0.1%
Total	69 038	100%	143 918	100%	70 710	100%	23 427	100%	285 641	99%	2 409 014	100%
Employment												
Micro	109 894	45.9%	305 218	45.9%	n.a.	n.a.	40 076	20%	377 599	31.6%	6 018 131	63.5%
Small	45 720	19.1%	221 155	19.1%	n.a.	n.a.	40 348	20.1%	181 914	15.2%		
Medium-sized	40 393	16.9%	210 785	16.9%	n.a.	n.a.	43 314	21.6%	228 071	19.1%	1 368 608	14.4%
SMEs	196 007	81.8%	737 158	81.8%	n.a.	n.a.	123 738	61.6%	787 584	65.9%	7 386 510	78%
Large	43 538	18.2%	360 391	18.2%	n.a.	n.a.	76 996	38.4%	406 845	34.1%	2 086 733	22%
Total	239 545	100%	1 097 549	100%	n.a.	n.a.	200 734	100%	1 194 429	100%	9 473 243	100%
Value added in billion €												
Micro	0.55	24.7%	4	16.6%	n.a.	n.a.	n.a.	n.a.	3	22.3%	49	35.9%
Small	0.41	18.4%	5	20.2%	n.a.	n.a.	n.a.	n.a.	2	15.7%		
Medium-sized	0.31	13.9%	5	20.3%	n.a.	n.a.	n.a.	n.a.	3	18.3%	26	19.1%
SMEs	1.27	57%	13	57.1%	n.a.	n.a.	n.a.	n.a.	8	56.3%	75	55.1%
Large	0.96	43%	10	42.9%	n.a.	n.a.	n.a.	n.a.	6	43.7%	61	44.9%
Total	2.23	100%	23	100%	n.a.	n.a.	n.a.	n.a.	14	100%	136	100%

1. Data concerning MKD is taken from the State Statistical Office.

2. Data concerning MNE is from 2008.

Source: SBA factsheets 2010-11.

Although a drastic loss of jobs in the wake of an economic crisis is to be expected, comparing this data with the number of emerging small and medium-sized firms during this same period reveals an interesting trend. While 7 197 new small enterprises were established between 2008 and 2010 in Croatia, the number of medium-sized enterprises fell by 17 firms. Therefore, while the total number of employees working in small firms dramatically decreased, the number of new firms remained virtually unaffected by the crisis. This development could possibly be explained by the rise of necessity-driven entrepreneurs, possibly individuals who had lost their job as a result of the crisis, forming micro-enterprises.

Apart from the emergence of a possible new group of necessity-driven entrepreneurs, the most significant impact of the crisis on the SME sector concerns the shrinking availability of financing for these companies. Banks tightened lending standards during the financial crisis while governments simultaneously increased their borrowing to cover deficits, resulting in a crowding out of financing for SMEs. In Serbia, even though financial support for SMEs increased in 2009, it was still insufficient to prevent a recession. As previous research has shown, financial constraints affect the smallest firms most adversely, and thus with the possible emergence of an even greater amount of these micro and small enterprises, as seen in Croatia, the difficulty in accessing finance will continue to be a major deterrent to the recovery of this important sector.

Notes

1. European Commission (2012), *Croatia: EU Bilateral Trade and Trade with the World*, DG Trade Statistics, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113370.pdf.
2. European Commission (2012), *Serbia: EU Bilateral Trade and Trade with the World*, DG Trade Statistics, http://trade.ec.europa.eu/doclib/docs/2008/august/tradoc_140028.pdf.
3. 85% in 2010, 97% in 2009. National Bank of Croatia (n.d.), "Foreign Direct Investment Statistics", National Bank of Croatia Website, www.hnb.hr/statistika/estatistika.htm.
4. National Bank of Serbia (2009), *Statistical Bulletin, September 2009* National Bank of Serbia www.nbs.rs/export/sites/default/internet/english/90/90_6/sb_02_09.pdf.
5. EBRD 2011 with data collected from WEO (IMF), World Bank, National Statistical Agencies and Central Banks. Data concerning Kosovo is taken from the World Bank Open Data. Unlike the data for the other economies in the table, which is from 2011, Kosovo's statistics are from 2010.
6. The figure is estimated as the weighted average of the 2012 GDP growth projections for the economies in the region, including Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Montenegro and Serbia. The figure is based on EBRD forecasts from January 2012, and will be subject to revision for the next quarterly update in May, 2012.
7. Report on Small and Medium-sized Enterprises and Entrepreneurship 2009, Ministry of Economy and Regional Development, Republic Development Bureau, National Agency for Regional Development, Belgrade, November 2010.
8. European Commission (2011), *SBA Fact Sheet 2010-11: Turkey*, European Commission, Enterprise and Industry, http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2010-2011/turkey_en.pdf.
9. CEPOR (Centre for Development Policy for Small Enterprises) (2011), *SME Report for Croatia 2011*, SMEs and Entrepreneurship Policy Center, CEPOR.

PART I

Small Business Act assessment

PART I

Chapter 1

Entrepreneurial learning and women's entrepreneurship

SBA Principle 1: Create an environment in which entrepreneurs and family business can thrive and entrepreneurship is rewarded

This chapter assesses entrepreneurial learning and women's entrepreneurship defined under SBA Principle 1. Promoting entrepreneurship across all levels of the learning system is an important driver for the economy and a critical building block for a more flexible workforce. The assessment points to good policy efforts to bring forward lifelong entrepreneurial learning. Nevertheless, specific consideration needs to be given to partnership building to ensure coherence in entrepreneurship promotion across the learning system. Entrepreneurship as a key competence will require particular attention in terms of curricula, teacher training and school governance. As the lifelong entrepreneurial learning agenda is relatively new, good practice identification and exchange should be encouraged. This will require more developed networks involving education and training providers, both within the national education system as well as those providing more general services. A support system for sharing good practice sharing is recommended. The assessment also focused on women's entrepreneurship where policy support is evolving and where dedicated training provision is required. More developed advocacy networks will be important to ensure that women's entrepreneurship is factored into the competitiveness drive in each economy.

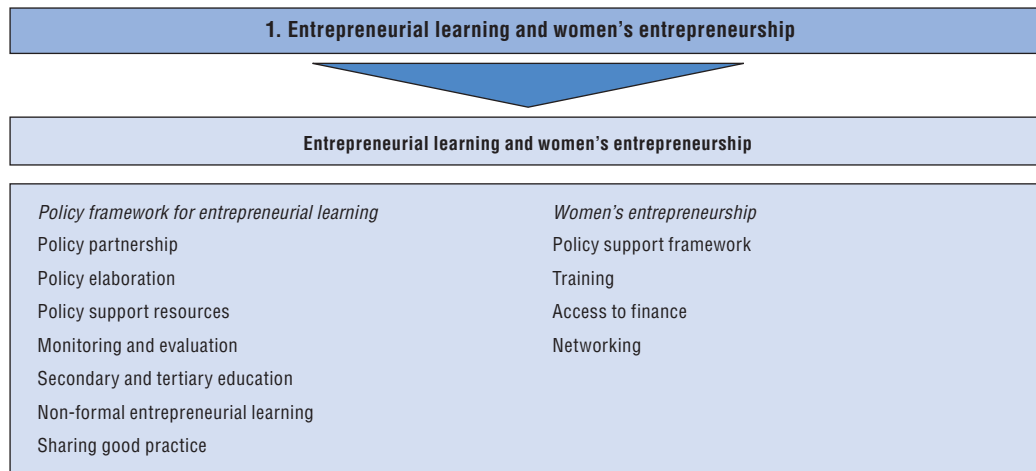
Introduction

A compounded global economic crisis impacting on trade, jobs and livelihoods has generated renewed policy interest in the potential of education and training in playing its part in the wider bid to re-establish momentum and growth in national economies. A particular feature in the policy debate has been how the education and training system can contribute to an environment which promotes entrepreneurship. At global level, the World Economic Forum put forward a set of recommendations (WEF, 2009), while the European Union's own efforts to tackle its economic downturn saw a more invigorated policy effort to promote lifelong entrepreneurial learning (EU, 2009). For their part, the economies of the EU pre-accession region have additionally, to varying degrees, embraced the entrepreneurial learning agenda. This chapter considers developments in entrepreneurial learning in the pre-accession region since the previous assessment which was published in 2009. It also addresses entrepreneurship promotion in third-level education that is an added feature in the current assessment. Finally, it examines developments in women's entrepreneurship – also new to the policy index – given its priority within EU enterprise policy.

Assessment framework

For the purposes of the SBA assessment, entrepreneurial learning is defined as “all forms of education and training, formal, informal and non-formal, which contribute to an entrepreneurial spirit and behaviour with or without a commercial objective”.¹ An integral feature of this definition is that it goes beyond the classic notion of entrepreneurship as a purely commercial phenomenon to include the entrepreneurship “key competence” (EU, 2006). This key competence involves a set of cognitive and behavioural traits which make up a more entrepreneurial individual who is able to bring initiative, innovation and value-added to the workplace. Entrepreneurial learning crucially not only prepares people for business careers but also ensures that employees behave more entrepreneurially on the job, making for a more productive business environment (Bosma, Wennekers and Amorós, 2012).

The assessment framework looks at policy arrangements for lifelong entrepreneurial learning and how entrepreneurship is promoted in secondary and tertiary education, including non-formal learning.² It also considers how good practice is shared among players in the area. Since 2009, the SBA policy index has also introduced a sub-dimension on women's entrepreneurship, which is considered essential in the wider bid to enhance women's contribution to the economy. Its four indicators, developed by experts from the pre-accession region, are: policy support, training, finance and networking. When drafting the indicators, the experts cross-referred to the 2009 indicator package where entrepreneurship policy support, start-up training, good practice and access to finance already featured. Nonetheless, the expert team felt that additional indicators specific to women's entrepreneurship were required.

Figure 1.1. **Assessment framework for SBA Principle 1**

Analysis

This section considers the findings from the region with more detail on the results per economy addressed in the country-specific chapters. The analysis focuses particularly on progress in the area of entrepreneurial learning since the 2009 assessment, including issues and implications of Turkey's integration into the policy assessment framework. The first results on women's entrepreneurship are then considered.

The 2009 assessment³ found:

- improved understanding and political interest in the entrepreneurial agenda although actual policy commitment varied from economy to economy;
- promotion of entrepreneurship was more evident in vocational compared to general education with entrepreneurship key competence developments, where they existed, confined to select schools;
- the lion's share of entrepreneurship promotion fell under the non-formal learning banner, but was not connected into any broader system-based developments in entrepreneurial learning;
- the sharing of good practice took many forms but rarely comprehensively engaged actors from all parts of the learning system.

The 2009 report recommended:

- more concerted efforts in each economy to build a "one system" framework for entrepreneurial learning based on partnership and co-operation;
- commitment to developing entrepreneurship as a key competence at school level;
- co-operation and exchange between economies in the region.

Policy framework for entrepreneurial learning

Overall, the results of the assessment point to forward movement on entrepreneurial learning in all economies apart from Montenegro where performance has slipped backwards since the last assessment.⁴ Croatia, the Former Yugoslav Republic of Macedonia, and Serbia have made the most progress with Bosnia and Herzegovina

showing promising developments. Turkey's first assessment demonstrates immediate good performance, adding new momentum to the entrepreneurial learning drive in the EU's pre-accession region. Finally, although Albania and Kosovo have edged forward, they have lost the momentum they had in the preceding assessments.

Policy framework

As lifelong entrepreneurial learning requires the active engagement of a wide range of stakeholders, the partnership indicator tracks developments in multi-stakeholder co-operation and partnership arrangements. All economies now have a policy partnership arrangement providing a step towards more systemic developments in entrepreneurial learning. Since the 2009 assessment, Albania, the Former Yugoslav Republic of Macedonia and Serbia stand out particularly for their efforts in establishing policy co-ordination frameworks between their education and economy ministries. Meanwhile, a partnership arrangement in Bosnia and Herzegovina, comprising a mix of policy makers and practitioners representing all parts of the state, is paying off with a state-wide strategy and action plan approved by the Council of Education Ministers in March 2012.

The partnership-building drive in all economies will need to give better consideration to engagement of the private sector and civic interest groups in terms of input and decision making. The next phase of development should consolidate the existing partnership arrangements while gradually integrating additional ministries (*e.g.* employment, research and regional development) where the entrepreneurship agenda requires more attention. This would be helped by the partnerships being given more reinforced institutional recognition and identity. The dedicated policy interest in entrepreneurial learning provided by the Entrepreneurship Councils in Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Serbia, and Turkey go in this direction.

While the early start on partnership development made by Montenegro and Kosovo in the run up to the 2009 assessment still holds, stakeholders may need to revisit their co-ordination frameworks to re-invigorate the earlier policy momentum. Neighbouring economies more recent to the partnership process should note that the education authorities need to take more developed ownership of the entrepreneurial learning agenda. This requires education ministries to assume greater leadership in the partnership arrangements. Both ownership and leadership will be critical to ensuring effective interfaces between the various parts of the learning system and to develop a cohesive entrepreneurial learning eco-system.

Croatia has continued its good efforts to promote entrepreneurial learning, approving a new strategy for 2010-14 which has a clear interface with its employment and enterprise strategies. However, as with most other economies, the higher education community remains on the margins of the policy discourse. Universities are too important to the development of entrepreneurial learning not to be connected up with the efforts made downstream. Turkey's Higher Education Council, in partnership with the national SME Development Organisation (KOSGEB), provides a good example of how the higher education community can engage within the wider entrepreneurship drive in the economy.

Although a newcomer to the enterprise policy assessment framework, Turkey already demonstrates good entrepreneurial learning credentials. Its policy drive is set within a wider lifelong learning strategy with a dedicated funding stream. Having such broad policy

frameworks governing entrepreneurial learning has a distinct advantage in that they increase the likelihood of entrepreneurship promotion being embedded within wider education developments. But they carry the risk that the priority given to entrepreneurial learning could change, undermining momentum and development potential.

Like Turkey, Croatia and the Former Yugoslav Republic of Macedonia specifically allocate funds for the development of entrepreneurial learning demonstrating the political priority these governments place on the entrepreneurial learning agenda. Other economies would do well to explicitly define the financial commitment for entrepreneurial learning within the specific budget lines. This should be tracked through the wider monitoring and evaluation effort.

Monitoring and evaluation were generally weak in all economies apart from Croatia and the Former Yugoslav Republic of Macedonia. In Croatia an established network reviews developments across different parts of the learning system while the Macedonian authorities have extended a monitoring system framework for secondary education to primary education. Overall, monitoring of entrepreneurship promotion in higher education continues to be anecdotal with no evidence of a system-based approach in any economy. Given that the lifelong entrepreneurial learning concept is relatively new and areas such as curriculum and teacher development need to be piloted and improved, all economies should pay more concerted attention to establishing and supporting a permanent monitoring and evaluation framework. This should address all parts of the learning system and include scrutiny of the interdependencies between education levels as a precondition for an effective lifelong entrepreneurial learning framework. Only by systematic tracking, review and improvement at each education level will it be possible to create a “domino effect” contributing to the EU’s 2020 vision of a more entrepreneurial Europe.

Non-formal learning

One of the region’s stronger areas continues to be the promotion of non-formal entrepreneurial learning.⁵ An increasing range of organisations are engaged in entrepreneurial learning and co-operation frameworks. In Serbia, for example, the Ministry of Youth has an excellent support framework for youth entrepreneurship promotion in co-operation with non-governmental organisations while Junior Achievement has a well-developed network of support agents working directly with schools and local communities across the region in developing entrepreneurship skills. Turkey also provides good examples of co-operation between different organisations to promote entrepreneurship. It stands out for its organisation of high-profile events and national awards to promote entrepreneurship. The hosting of the 2011 Global Summit on Entrepreneurship in Istanbul allowed national participants to network and exchange ideas on areas such as youth and women’s entrepreneurship as well as wider themes of national and global interest such as eco-entrepreneurship. Meanwhile, the Ankara Chamber of Economy’s Youth Entrepreneurship Committee (with the support of business and the national press) organises the “Entrepreneur of the Year”, an initiative which provides excellent visibility and role-modelling on youth entrepreneurship.

Extra value from the non-formal learning developments could be generated if the working group feature of the indicators was given more considered attention. The objective of a working group monitoring non-formal entrepreneurial learning developments is to provide an advisory support framework to on-going developments; and to promote greater

visibility and exchange. The assessment underlines that this support mechanism should be reinforced in all economies. Croatia's "E4E" support framework, nonetheless, provides a good example of how non-formal entrepreneurial learning developments feature alongside entrepreneurship promotion in the wider education and training system.

Good practice

Most economies have improved their sharing of good practice, whether through school or practitioner networks (as in the Former Yugoslav Republic of Macedonia and Kosovo), large-scale national events like Global Entrepreneurship Week (as in Bosnia and Herzegovina and Serbia), conferences with a focus on entrepreneurship (such as the annual EDUCAPLUS initiative of the Croatian Chamber of Economy) or events which have a more local knowledge-sharing objective (such as entrepreneurship promotion in vocational education at provincial level in Turkey).

Despite this improved performance and notwithstanding that a number of economies score highly on this indicator, the reflex for networking and knowledge sharing is still relatively weak. In a number of instances, internationally funded programmes which supported the sharing of good practice, and which were recognised in the 2009 assessment, have not been sustained. Programme promoters, whether international or national, need to build in measures at the outset to ensure particularly that networks supported in their programmes are sustainable. Sharing good practice achieves its real value only through scale; scaling up requires a dedicated management and support framework that engages the various parts of the system in a structured and systematic way. A promising step in this direction is the initiative by the Macedonian Centre for Entrepreneurship and Innovation which holds an annual convention to address new issues on the entrepreneurial learning agenda where good practice is showcased.

Entrepreneurship promotion in secondary education

All economies have achieved overall progress in the promotion of entrepreneurship in lower and upper secondary education. Turkey's first review has highlighted similar trends and concerns as those across the pre-accession region as a whole. Since Turkey joined the SBA assessment framework, however, the demands associated with assessing the scale of education provision there have shown that the quantitative dimensions of the indicators, which were originally designed for the smaller countries of the Western Balkans, do not readily allow for a comparative assessment. The indicators will therefore need to be revisited to determine options for a next assessment in 2013/2014 and where comparative analysis can be more confidently undertaken.

Scoring aside, the review of entrepreneurship promotion in secondary education in all economies highlights two issues in particular. First, more concerted attention still needs to be paid to the entrepreneurship key competence. While progress has been made in ensuring that the key competence provisions feature in policy frameworks, how this translates into practice remains the key challenge. The South East European Centre for Entrepreneurial Learning (SEECLE) has done pioneering work across the region addressing the key competence provisions in terms of curriculum adjustments, teacher training and school governance. This has clearly generated new understanding, confidence and buy-in particularly by teachers and school managers.

The relevant agencies responsible for curriculum design and teacher training in each economy should continue SEECEL's strategic piloting work with the objective of improving it and moving it into the mainstream national education agenda. They could consider a gradualist or "roll-out" model, spreading the cost and effort over a predefined period. It will be important for SEECEL and its expert networks to provide customised support to ensure continuity and know-how transfer between practitioners and policy makers.

Secondly, the assessment highlights how entrepreneurship continues to be more developed in upper secondary education. This reflects the concentration of vocational education at this level, where entrepreneurship promotion is traditionally stronger. A point made in the 2009 assessment, and repeated here, is that entrepreneurship should not be "vocationised" but given equal attention in general secondary education as in vocational education. This includes the promotion of both the entrepreneurship key competence and of more developed business skills. Structured co-operation between schools and enterprises is also important. General secondary education has much to learn from developments in vocational education. All economies should therefore consider how to transfer expertise on entrepreneurship promotion from the vocational to general education.

Extending SEECEL support for entrepreneurship key competence development to upper secondary education is a logical next step. This would be in keeping with the priority attached to key competence development within the EU employment guidelines (EU, 2011) as well as the importance attached to employability within the EU's "new growth initiative" (European Commission, 2012). This should include extension of SEECEL practitioner networks from lower secondary (which the assessment found were particularly appreciated in all countries) to upper secondary education creating practitioner linkages between the two education levels. Bosnia and Herzegovina is already moving in this direction.

Box 1.1. South East European Centre for Entrepreneurial Learning (SEECEL)

Established through the collective efforts and interest of all economies participating in the European Charter for Small Enterprise, SEECEL supports EU pre-accession economies in addressing issues of common interest to the entrepreneurial learning agenda falling under the Small Business Act. It comprises a network of 170 experts and policy makers and has pioneered a first-ever set of entrepreneurial learning outcomes at international level for primary and tertiary education. These learning outcomes have been endorsed as good practice by a EU27 Thematic Working Group on Entrepreneurship Education led by the European Commission's education directorate. They have also been shared with the EU's Eastern and Southern Neighbourhood regions.

SEECEL's pioneering work was recognised by the Knowledge Economy Network Award 2012 for promotion of international co-operation in education and training. Its expertise and capacity extend to women's entrepreneurship where it supports the Swedish International Development Agency with promotion of women's entrepreneurship in the region.

The SEECEL Board represents the first multi-country, education-economy policy partnership in Europe.

Source: SEECEL.

Entrepreneurship promotion in higher education

Entrepreneurial learning is traditionally better developed in tertiary education than at lower levels but institutions often lack a “cross campus” approach. The promotion of entrepreneurship should no longer be confined to the business school or economics faculty but involve all disciplines, giving all students access to entrepreneurial learning (European Commission, 2008). The “cross campus” principle is a defining feature of the three new indicators included in the assessment: higher education policy framework, good practice sharing in higher education and university-enterprise co-operation.

A number of economies have already taken steps to establish a specific policy framework for promoting entrepreneurship in higher education (Albania, Croatia, the Former Yugoslav Republic of Macedonia, Montenegro and Turkey) but the policy response by the universities, polytechnics and other institutes has been particularly weak. The higher education establishment engaged poorly with the assessment process, suggesting that either the higher education community *a)* is still unfamiliar with the SBA drive in their countries or *b)* remains unconvinced of the importance of contributing to the SBA objectives. More targeted efforts to develop the higher education establishment's understanding of, and engagement with, the entrepreneurship agenda may be needed, at both national and multi-country levels. This will be particularly significant for those economies already preparing to accommodate future EU structural funds and where the regional dimension to socio-economic development, including the role of universities, is important.

The assessment found many entrepreneurship initiatives at universities in all economies but these tend to be isolated pockets of excellence. The lack of scale means they bring little overall value to the SBA drive in each economy. Although Turkey and the Former Yugoslav Republic of Macedonia already have networks specifically addressing entrepreneurship promotion, sharing of good practice on entrepreneurship education between tertiary educational institutions remains very much undeveloped. Given the importance of structured networks to good practice sharing, local, regional or national authorities – including the private sector – could consider incentives and support for networking and promotion of entrepreneurship at universities.

Such incentives could also include specific provisions for university-enterprise co-operation, which the assessment found was also underdeveloped in most economies, apart from Croatia, the Former Yugoslav Republic of Macedonia and Turkey, where specific policy lines are already in place. An EU policy drive to improve university-enterprise co-operation is underway (European Commission, 2009). Partner economies could already borrow on critical reflection and recommendations from some EU member countries (see, for example, Wilson, 2012).

Women's entrepreneurship

Overall, the results from the assessment on women's entrepreneurship show that training provision is underdeveloped across the region while particular efforts will be required to improve women's access to finance. Policy support for women's entrepreneurship has been helped by targeted efforts to improve women's position in society (political, social, economic) which provide a good basis for more focused development of the women's entrepreneurship agenda. Networking, particularly in terms of its contribution to advocacy and policy varies considerably across the pre-accession region.

Table 1.1. **Scores for Sub-dimensions 1.1: Policy framework for entrepreneurial learning**

		ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Policy partnership	2012	3.00	3.00	4.00	3.00	3.00	4.00	3.00	4.00
	Change since 2009	+1.00	+1.00	0.00	0.00	+1.00	0.00	+1.00	n.a.
Policy elaboration	2012	2.00	2.00	3.00	3.00	3.00	4.00	2.00	3.00
	Change since 2009	0.00	0.00	+0.50	0.00	+1.00	+0.50	+0.50	n.a.
Policy support resources	2012	3.00	2.00	4.50	3.00	4.50	2.00	3.00	5.00
	Change since 2009	+1.00	0.00	+1.50	0.00	+2.00	-1.50	+1.00	n.a.
Monitoring and evaluation	2012	2.00	2.00	4.00	2.00	3.00	2.00	2.00	2.00
	Change since 2009	0.00	1.00	+2.00	0.00	+1.00	+0.50	0.00	n.a.
Good practice exchange	2012	3.00	3.00	5.00	4.00	4.00	1.00	4.00	2.00
	Change since 2009	0.00	+1.50	+1.00	0.00	+1.00	-2.00	0.00	n.a.
Non-formal entrepreneurial learning	2012	3.00	1.00	4.00	3.00	4.00	4.00	4.00	4.00
	Change since 2009	0.00	-0.50	-0.50	+1.00	+2.50	+2.00	+2.50	n.a.
National higher education policy on entrepreneurial learning	2012	3.00	1.00	3.00	1.00	1.50	2.00	1.00	2.00
Good practice in higher education	2012	2.00	1.00	2.00	1.00	2.50	2.00	2.00	2.50
University – enterprise co-operation	2012	2.00	1.00	2.50	1.00	2.50	3.00	1.00	2.50
Overall weighted average	2012	2.50	1.50	3.25	1.75	2.50	2.50	2.25	2.50

Policy support framework

The effective development of women's entrepreneurship requires a comprehensive set of gender-sensitive policies covering economic, social, fiscal, education and employment policies. Addressing all these policy areas makes for a complex policy framework but it is essential in order to create an enabling environment that allows women to join the broader entrepreneurship drive in each economy.

The assessment finds that the policies rarely address all the policy areas equally. Most consider women's entrepreneurship from two perspectives: *a)* the equity perspective, i.e. in terms of equal opportunities and non-discrimination, which often overlooks the institutional barriers to women's entrepreneurship development; or *b)* the inclusion perspective, i.e. in terms of poverty reduction, employability or broader social inclusion. In this regard, efforts supported by the UNDP to establish policy frameworks, action plans and support institutions to promote gender equality in countries like Albania, Bosnia and Herzegovina and Serbia provide a good basis to bring forward policy dialogue and where the *competitiveness perspective* could be more developed. The crux of the issue is that entrepreneurship is not a gender issue. It is an economic issue. Without the fullest participation of women in an economy's entrepreneurship drive "society loses out on the value that can be created by half its populace" (Umihanic et al., 2012).

Four economies have adopted policy profiles on women's entrepreneurship driven by a competitiveness perspective. Croatia has elaborated a national strategy for women's entrepreneurship with an SME programme that includes provisions to enhance women's entrepreneurship. Montenegro has embedded women's entrepreneurship within its 2011-15 SME strategy while the Macedonian Government Programme (2011-15) has a dedicated policy line for women's entrepreneurship. Meanwhile, women's entrepreneurship promotion in Turkey stands to be reinforced with policy and institutional recognition by the national Entrepreneurship Council.

The challenge for all economies is to raise women's entrepreneurship on the wider development agenda as a pre-condition for growth-oriented economies and improved employment (European Commission, 2012). In this regard, policy areas critical to building a gender-sensitive entrepreneurship eco-system should be monitored, improved and financially supported. Dedicated government gender units, where they exist, should be directly integrated within the SBA policy support, advisory and monitoring frameworks in each economy.

Training

For the purposes of the assessment, entrepreneurship training was considered in its widest sense and includes any dedicated human capital support for women's enterprises whether for start-ups, early phase or growth enterprises. The assessment underlined how training for women entrepreneurs in general is underdeveloped in the region although there are good examples of high-profile training and mentoring initiatives in a number of economies, in many instances supported by the donor community. The objective of the indicator is less to consider individual initiatives but to ensure that training is systemically developed and supported. Croatia, the Former Yugoslav Republic of Macedonia, Serbia and Turkey already have institutional support structures (such as advisory groups or training task forces) with a mandate to bring forward training support specifically for women.

What is clear from the assessment in all economies is that few training providers recognise that they may need to adapt the design and delivery of services, including timing and location, to meet the specific needs and wider demands of women, for example to accommodate childcare. The exceptions are a small number of project-driven organisations with a mandate for training women or supporting their integration into the economy. All economies need to undertake a stocktake of existing provision (Serbia has already moved in this direction) and analyse the specific training needs of women as a separate segment of the market. The outcome of this research may not only determine how training provision should be adapted to women but could also highlight gaps in the market, including training of providers to improve their awareness and capacity in adapting their services to women entrepreneurs.

Access to finance

Access to finance is a critical enabling factor for women's entrepreneurship in terms of start-ups and business development. The objective of this indicator is to improve options for financial support for women's businesses. Good efforts are being made in Albania, Bosnia and Herzegovina, Croatia, Montenegro and Turkey to ensure that primary financial instruments such as government finance and credit guarantee facilities are made available to women entrepreneurs. The remaining economies have preparatory measures under way.

Albania stands out for its support for women-owned craft businesses while Montenegro has a specific credit line within the Investment Development Fund dedicated to women-owned businesses. Croatia's credit framework includes support for women in local development initiatives alongside competitive loan options from commercial banks, demonstrating how different financial support instruments can be combined. In Serbia, a provincial guarantee fund in Vojvodina provides a good example of locally driven financial support although this has yet to be translated to the national level. Meanwhile, an established enterprise credit programme in Turkey has specific provisions for women entrepreneurs including a credit guarantee facility with favourable terms and conditions for women.

The assessment finds very little in the way of comprehensive information on demand and supply of finance for women entrepreneurs in the economies that would allow for any confident policy response. With concerns being raised in more developed economies, particularly of unfair practice by banks in providing finance to women's businesses (Hertz, 2011), only consolidated data from the region's banks on lending to small businesses broken down by gender will allow for an assessment of fairness in lending operations, real demand and options to improve women's access to finance.

A next step should consider how all economies could develop better statistics on lending, grants, guarantees and so on and particularly how support from the national purse could be better steered towards more women entrepreneurs. Monitoring will be important to ensure that adaptations to financial support instruments are in tune with a developing population of women entrepreneurs.

Networking

Networking for women entrepreneurs is essential for improved advocacy, policy monitoring and good practice sharing. The assessment finds a wide range of networking activity in all economies. However, the mandate, contribution and capacity of the networks vary.

While most networks act as consultation points for government in the policy-making process others provide additional functions such as good practice sharing (Montenegro). If a network is to have an advocacy role, it is particularly important that it has up-to-date intelligence and data on women's entrepreneurship, not only to support the policy process but to challenge policy directions which are not consistent with needs, priorities or interests of women entrepreneurs. The assessment's review of networks found they had little or no structured data or other intelligence readily available. This suggests that capacity building of networks for more strategic advocacy developments may be necessary.

Finally, a new development in a number of economies (Albania, Croatia, the Former Yugoslav Republic of Macedonia and Serbia) has been the effort to join the wider EU network of female entrepreneurship ambassadors⁶ where members have an awareness-raising role. Additionally, an EU women's entrepreneurship mentors network⁷ now includes members from Albania, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia and Turkey. Membership of such wider networks brings confidence to national networks and encourages know-how exchange. All economies from the pre-accession region should consider joining both EU networks.

Table 1.2. **Scores for Sub-dimension 1.2: Women's entrepreneurship**

	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Policy support framework for promotion of women's entrepreneurship	2.50	3.00	3.00	1.50	1.50	3.00	3.00	2.50
Training for women's entrepreneurship	1.50	1.50	2.50	1.00	2.50	1.50	2.00	1.50
Financing for women's entrepreneurship	3.00	2.50	3.50	1.50	1.50	2.50	2.50	2.50
Network for women's entrepreneurs	3.00	1.00	4.00	2.50	2.50	3.00	3.00	2.50
Overall weighted average for 1.2	2.50	2.00	3.25	1.75	2.00	2.50	2.50	2.25

The way forward

A number of areas are proposed to bring forward developments in entrepreneurial learning and women's entrepreneurship.

Entrepreneurship key competence and skills in upper secondary education

Developing entrepreneurship key competence remains a challenge in secondary education. Given that there are wider concerns about the employability of new labour market entrants in the region, a logical next step is to extend the developments initiated through SEECEL in lower secondary education to the upper secondary level. Two practical steps could be considered to ensure continuity and upward sequencing to the reform efforts underway at lower secondary level.

- a) Teachers already trained in the SEECEL lower secondary education network could be engaged as trainers for key competence developments for the upper secondary teacher cohort. This should include the definition of key competence learning outcomes at this level and additional entrepreneurship knowledge and skills for upper secondary teachers. The important factor here is filling the gap in the key competence learning outcomes between lower secondary and tertiary education which have been already developed through the SEECEL networks.
- b) For more developed entrepreneurship skills in secondary education, including school-enterprise co-operation, teacher training and development of learning outcomes should borrow from existing experience in the vocational streams. Again, the expertise of vocational teachers as well as curricula addressing entrepreneurship skills could be accommodated for general secondary education at reasonable cost.

Engaging the higher education community

The ministers of education and economy/entrepreneurship should invite the higher education communities and the private sector for a four-way discussion on why and how the higher education establishment should more directly engage with the SBA assessment process and its objectives. This would also be an opportunity for the European Commission to share its policy recommendations for university-business co-operation, "cross campus" entrepreneurial learning and innovation. Agreements and recommendations from the discussions could be integrated within the SBA assessment framework for follow-up and monitoring.

Recognising women's entrepreneurship as a pre-condition for competitiveness and employment

All economies should work towards adopting a competitiveness paradigm that makes women's entrepreneurship a central pillar in each economy's economic development strategy. This should be accompanied by a programme or action plan with dedicated resources for technical support, training, measures to improve access to finance, and include targets and an effective monitoring framework. Consideration could be given to following the example of a number of economies and connecting into the EU's women entrepreneurship ambassador and mentoring networks.

Financing of women's entrepreneurship: improving multi-stakeholder commitment

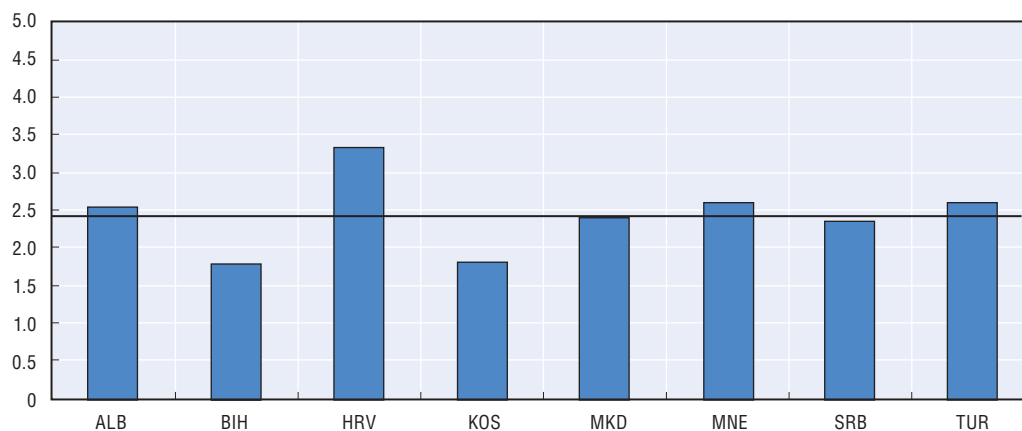
Consideration should be given to a multi-stakeholder discussion at regional level specifically addressing both formal and informal (family, friendship circles) financing of women's entrepreneurship. The objective should be to raise awareness and understanding amongst the parties to financial barriers specifically facing existing and potential women entrepreneurs. The outcome of the discussions should be a set of options and recommendations to address these barriers and the role and responsibility of each of the stakeholders in the process. The multi-stakeholder group should include entrepreneurship policy makers (and their government counterparts providing subsidies for women's start-ups and growth enterprises), the banking sector, representatives of other financing sources (such as business angels and venture capitalists), women's entrepreneurship interest groups and the wider SME support environment.

Improving the SBA indicators

The quantitative features of the indicators covering lower, secondary and higher education should be revisited to address the constraints for comparative analysis encountered in the assessment with Turkey's joining the SBA process. Additionally, following the road-testing of the women's entrepreneurship indicators, feedback from the economies assessed should also be considered and revisions introduced as appropriate. SEECEL and its expert networks should take the indicator development work forward.

Finally, given good capacity and international recognition of its policy development work, proposals for the integration of SEECEL into the SBA institutional support framework, alongside the European Commission, ETF, EBRD and OECD, should be formalised. This will reinforce SBA ownership in the pre-accession region and allow for more direct access to regional knowledge and networks for subsequent SBA assessments.

Figure 1.2. Overall scores for Principle 1: Entrepreneurial learning and women's entrepreneurship



Note: The line indicates the regional average for this policy dimension.

Source: SBA assessment 2012.

Notes

1. This framework definition was agreed by an international working group in Geneva on entrepreneurial learning on 18 January 2012. The working group comprises ETF, GIZ, ILO, UNESCO and UNEVOC.
2. Non-formal entrepreneurial learning refers to education, training and other forms of entrepreneurial knowledge and skills development that are not subject to formal assessment or examination (such as graduate start-up training, school-based virtual businesses or entrepreneurship mentoring schemes) even though these activities may be supported and administered within the school or university environment.
3. Turkey did not feature in the 2009 assessment.
4. For the 2011 assessment, countries were only credited with descriptors within indicators when there was evidence that the descriptor was fully satisfied. The 2009 assessment recognised partial fulfilment of descriptors. The result is that 2009-11 comparative score on some indicators may show a downward trend. The attribution of the "full satisfaction" principle makes for a more rigorous approach to the analysis of the indicators and improves the reliability in the comparative assessment. Note that with the inclusion of Turkey into the 2011 assessment process, the scores for entrepreneurship in secondary education are not included due to difficulties in gathering comparative data. This issue is addressed in more detail later in the chapter.
5. Note that the condition for a high-profile press event (Level 2) in the previous assessments has been withdrawn. Discussions with partners involved in the assessment exercise pointed to this variable as a frustration given that higher levels of the indicators were more readily satisfied. Options for a separate indicator focusing particularly on the role of the press in promoting entrepreneurial learning have been proposed.
6. The European Network of Women Entrepreneurship Ambassadors is managed and supported by the European Commission Directorate General for Enterprise and Industry.
http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/women/ambassadors/index_en.htm.
7. The European Network of Mentors for Women Entrepreneurs is managed and supported by the European Commission Directorate General for Enterprise and Industry.
http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/women/index_en.htm#h2-1.

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PART I

Chapter 2

Bankruptcy and second chance for SMEs

SBA Principle 2: Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance

This chapter assesses the policy areas of bankruptcy and second chance defined under SBA Principle 2. The principle addresses the need for well-structured bankruptcy laws and simplified bankruptcy procedures, which are important for facilitating exit and re-entry of businesses into the market. Moreover, it encourages governments to identify the right approach to supporting market re-entry of honest entrepreneurs who have previously failed in their business activity. The first part of this chapter assesses the efficiency of bankruptcy procedures in the EU pre-accession region based on the existing legal framework and performance indicators, such as the time required for completion of bankruptcy proceedings, the costs incurred and what proportion claimants can recover from an insolvent firm. The second part focuses on the public policy approach to facilitating restarts by promoting a positive attitude, determining favourable discharge procedures, supporting debt settlement and avoiding discriminatory measures in access to support schemes or public procurement tenders.

All of the eight pre-accession economies have laws on distressed companies, receivership and bankruptcy in place although in Albania and Kosovo, legislation is only at an early stage of implementation. There are significant differences across the region with regard to bankruptcy time (how long it takes to close a business) the cost incurred (as a percentage of the business estate) and the recovery rate (the cents to the dollar creditors can expect to obtain out of bankruptcy cases). No government of the Western Balkans and Turkey is conducting specific information campaigns on the second chance principle. In Albania, Croatia, Serbia and Turkey, entrepreneurs who underwent non-fraudulent bankruptcy can only receive loans and support from institutions after debt clearance. Albania, Montenegro and Serbia are the most advanced in granting access to public procurement and support schemes for entrepreneurs who underwent non-fraudulent bankruptcy.

Introduction

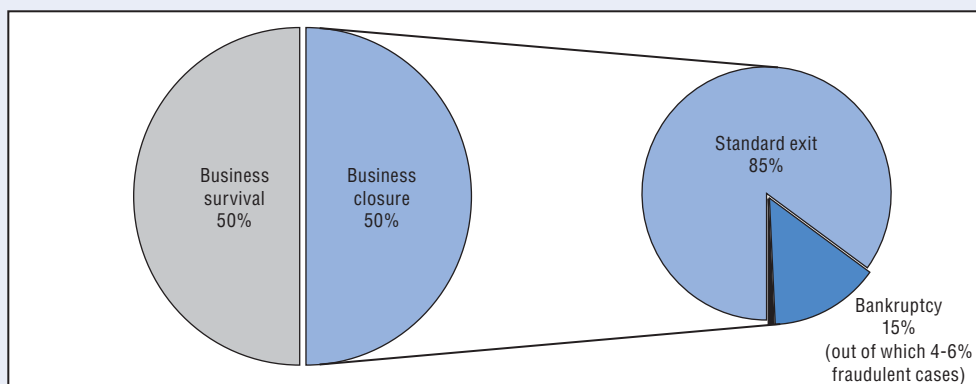
Business failure is considered a natural part of economic life which should be seen as an opportunity for a more reinvigorated fresh start and future success (see Box 2.1). It is an integral part of the process of creative destruction which drives progress and economic growth. Governments should facilitate the restructuring or exit of insolvent companies that fail to fulfil their financial obligations and give entrepreneurs who underwent non-fraudulent bankruptcy a second chance.

Box 2.1. Business failure in the EU

About 50% of companies in the EU close down within five years of start-up, 15% of these through bankruptcy procedures. However, only 4-6% of all bankruptcy cases are fraudulent which typically involves concealment of assets, fraudulent claims, false statements or other criminal acts depending on the jurisdiction. Nevertheless, public opinion stigmatises business failure as the broader public does not differentiate between honest failure and fraud. Would-be entrepreneurs are reluctant to start a business because they fear the negative consequences of business failure. Also, re-starting a business after failure is burdensome.

The stigma of business failure has a severe negative economic impact. According to estimates, 135 000 registered companies close down every year in the EU25 as a consequence and about 1.4 million jobs are lost. On the other hand, businesses set up by re-starters often grow faster than businesses set up by first-timers and 18% of successful entrepreneurs in the EU have already run one enterprise. There is thus a strong rationale for public policy to act: a) to enable the completion of all legal procedures to wind up a business within a year; b) to promote a positive attitude towards a fresh start; and c) to ensure that re-starters are treated on an equal footing with start-ups.

Figure 2.1. Business survival rates in the EU within 5 years of start up



Source: European Commission: Report of the Expert Group "A second chance for entrepreneurs: Prevention of bankruptcy, simplification of bankruptcy procedures and support for a fresh start", January 2011; OECD Analysis.

Bankruptcy is a legal status of insolvency determined by court order and plays an important role in enabling to dispose of inefficient firms and reallocate the assets of insolvent debtors into more productive activities. To ensure a well-functioning bankruptcy process, systematic implementation of bankruptcy laws and procedures is an essential first step. Having well-trained bankruptcy lawyers and specialised bankruptcy courts in place is equally important. Judging from both legal and economic reasoning, bankruptcy legislation should be designed in a way that increases efficiency of procedures while preserving the principles of fair and equal treatment of all parties involved in the reorganisation or liquidation process (Cabrillo and Depoorter, 2000).

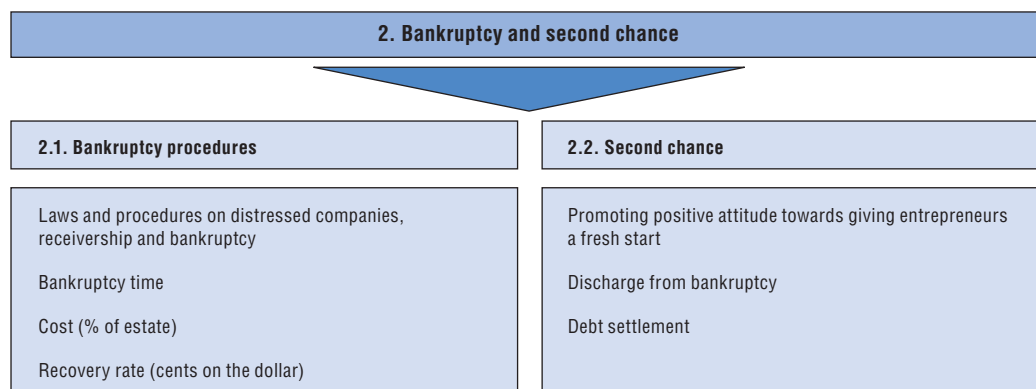
To fulfil these principles, bankruptcy legislation has to reconcile conflicting interests between creditors – such as banks, suppliers, customers or employees – and debtors, i.e. the entrepreneurs or companies failing to fulfil their financial obligations. Creditors' interests need to be protected while companies which are still viable should be kept alive. The role of public policy is to strike the right balance between these parties and to provide an efficient mechanism and judicial system which can ensure the fast reorganisation and survival of viable companies, or else the proper liquidation and structured redistribution of a failed company's assets and property (Sub-dimension 1).

Public policy should also seek to minimise the economic impact of lost entrepreneurial potential stemming from discrimination against entrepreneurs who underwent bankruptcy and who are suffering from the stigma of business failure. This can be achieved through promotion campaigns and by reducing barriers to starting a new business after bankruptcy (Sub-dimension 2).

Assessment framework

Efficient bankruptcy procedures are an important measure to facilitate the exit and re-entry of businesses into the market. Principle 2 of the Small Business Act addresses the need to implement well-structured bankruptcy laws and to simplify bankruptcy procedures. It encourages governments to identify the right approach to support honest entrepreneurs who previously failed in their business activity.

Figure 2.2. **Assessment framework for SBA Principle 2**



This assessment considers two sub-dimensions. First, it looks at the efficiency of bankruptcy procedures in the Western Balkans and Turkey based on the legal framework in place and performance indicators, such as time to undergo bankruptcy proceedings, costs incurred and the percentage claimants can recover from an insolvent firm. Second, it considers how public policies support fresh starts by promoting a positive attitude, determining favourable discharge procedures, supporting debt settlement and avoiding discriminatory measures in access to support schemes on public procurement tenders.

Analysis

Bankruptcy procedures

All of the economies have laws on distressed companies, receivership and bankruptcy in place although in Albania and Kosovo, legislation on bankruptcy procedures are at an early stage of implementation. In Croatia, Montenegro, Serbia and Turkey, bankruptcy laws are in line with international standards and fully integrated as well as consistent with commercial law and practices. Bankruptcy procedures can also be applied to state enterprises. Furthermore, the Croatian government has proposed further amendments to the Bankruptcy Act which would provide more efficient and shortened bankruptcy proceedings.

In the Former Yugoslav Republic of Macedonia, a bankruptcy law established in 2006 regulates transparent bankruptcy procedures which are effectively and systematically carried out and reduced the average duration of bankruptcy cases. According to the World Bank, recent amendments to this law have made the bankruptcy procedures even faster and bankruptcy cases are concluded within a maximum of 18 months.

Box 2.2. Reforms of bankruptcy procedures in the Former Yugoslav Republic of Macedonia

According to the World Bank *Doing Business 2012* report the Macedonian Bankruptcy Law has greatly reduced the average duration of bankruptcy cases. The Ministry of Economy in the former Yugoslav Republic of Macedonia reported in 2011 that concluding cases took an average of 1.4 years under the 2006 law compared with 6.6 years under the 1997 Bankruptcy Law and 13.8 years under the 1989 Law on Forced Settlement, Bankruptcy and Liquidation.

Recent amendments to the 2006 law were aimed at making bankruptcy procedures even faster. Coming into force in 2011, the amended law requires bankruptcy trustees to use an electronic system to record all phases and actions during bankruptcy processes, which also increases transparency.

Trustees are able to log on to the system to upload documents and track cases. The amendments to the law have diminished the legal time frame for trustees to sell all the assets of the insolvent enterprises and finish the bankruptcy case within a maximum of 18 months.

There are significant differences across the region with regard to the time needed to close a business, the cost incurred as a percentage of the estate and the recovery rate (cents to the dollar) creditors can expect to obtain out of bankruptcy cases. These indicators are measured by the World Bank *Doing Business 2012* report (Resolving Insolvency) and help to

reveal weaknesses in the system, particularly in the legal system, such as procedural and administrative bottlenecks in the bankruptcy process as well as limited capacity of specialist bankruptcy courts and trustees.

In order to obtain a Level 5 assessment then an economy should have a bankruptcy time of no longer than one year, a maximum cost of bankruptcy proceedings of 8% of the estate value and a minimum recovery rate of 70 cents on the dollar through reorganisation, liquidation or debt enforcement. As far as bankruptcy time and the minimum recovery rate are concerned, Albania, Kosovo, Montenegro and the Former Yugoslav Republic of Macedonia score above the average of the region, whilst the performance of Croatia, Serbia, Bosnia and Herzegovina as well as Turkey in this regard is below the average of the region. As regards to the cost of bankruptcy, Albania, Bosnia and Herzegovina, Montenegro and the Former Yugoslav Republic of Macedonia perform above the average of the region. For Croatia, Kosovo, Serbia and Turkey, the scores provided by the World Bank *Doing Business* 2012 report are below the average of the region (see Table 2.1).

Table 2.1. **Scores for Sub-dimension 2.1: Bankruptcy procedures**

	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Bankruptcy laws and procedures	3.00	4.00	4.00	3.00	5.00	4.00	4.00	4.00
Bankruptcy time	3.50	2.00	2.00	3.50	3.50	3.50	3.00	2.00
Cost (% of the estate)	4.00	4.00	3.50	3.50	4.00	4.50	2.00	3.50
Recovery rate	3.00	2.00	2.00	4.00	3.00	3.00	1.00	1.00
Overall weighted average for 2.1	3.25	3.25	3.00	3.50	4.00	3.75	2.75	3.00

Second chance

None of the region's governments are conducting specific information campaigns on the issue of second chances. There is also no evidence of any training targeting honest entrepreneurs who underwent non-fraudulent bankruptcy and who are seeking support for a successful restart. This is not surprising given that having a second chance policy is a rather new concept even in the EU despite the Commission suggesting its member states should facilitate second chances in order to reduce the stigma of business failure. In all economies, discharge from bankruptcy takes place after a final court decision on the discharge and the removal from the court register. In Albania, Croatia, Serbia and Turkey, entrepreneurs who underwent non-fraudulent bankruptcy can only receive loans and support from institutions after debt clearance. Deregistration from the insolvency register is not automatic.

In Montenegro, the bankruptcy law has not defined measures which discriminate against companies which underwent bankruptcy procedures. In Bosnia and Herzegovina, there are no legal barriers for entrepreneurs who underwent non-fraudulent bankruptcy procedure to receive loans. The time for completion of bankruptcy procedures is one year for companies with assets of less than EUR 2.5 million and two years for larger companies. The court determines the removal from insolvency register. In Kosovo, companies may face difficulties obtaining a bank loan, as the Kosovo Credit Registry keeps data on defaults. In Serbia and Montenegro, public procurement tenders have no discriminatory provision against companies that underwent non-fraudulent bankruptcy and they may apply for government support schemes. This is also true for public procurement in Albania. In Croatia, Bosnia and Herzegovina and the Former Yugoslav Republic of Macedonia there are

no administrative burdens, but companies cannot apply for support from the government. In Turkey companies which have faced bankruptcy cannot participate in public procurement tenders. In Kosovo, these companies can only take part in tenders with small value (see Table 2.2).

Table 2.2. **Scores for Sub-dimension 2.2: Second chance**

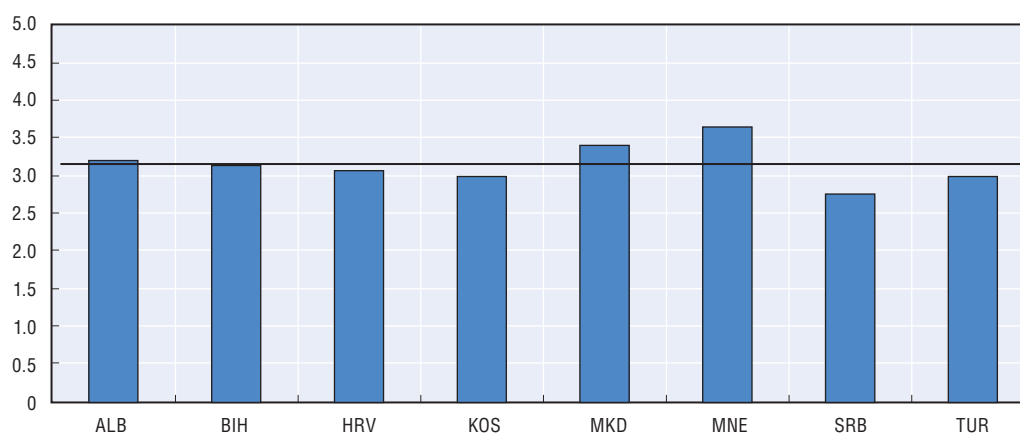
	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Promoting second chance	2.00	1.00	2.00	1.00	1.00	1.00	1.00	2.00
Discharge from bankruptcy	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Access to credit	3.00	4.00	3.00	1.50	1.00	5.00	3.00	3.50
Discrimination against re-starters	4.00	3.00	3.00	4.00	5.00	5.00	5.00	3.00
Overall weighted average for 2.2	3.00	3.00	3.00	2.25	2.00	3.25	2.75	3.25

The way forward

As far as bankruptcy procedures are concerned, laws on distressed companies, receivership and bankruptcy are more or less in place in all economies.

In some of the beneficiary economies (Croatia, Serbia and Turkey) bankruptcy procedures need to be further improved to streamline market access and exit for enterprises. Having efficient bankruptcy procedures in place would also facilitate access to finance, as lenders are reluctant to extend loans to companies if they have no legal recourse in case of failure of the borrower to repay the loan.

The governments of the Western Balkans and Turkey are invited to launch specific information campaigns on the second chance principle to promote the second chance principle. It would be very useful if deregistration from the insolvency register was automatic after debt clearance.

Figure 2.3. **Overall scores for Principle 2: Bankruptcy and second chance**

Note: The line indicates the regional average for this policy dimension.

Source: SBA assessment 2012.

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PART I

Chapter 3

Regulatory framework for SME policy making

SBA Principle 3: Design rules according to the “think small first” principle

This chapter assesses the policy areas defined under the SBA Principle 3. The “think small first” principle of the Small Business Act requires SMEs to be fully considered at an early stage of policy development. The capacity to create and implement effective public policy is determined by the structure of the process and its ability to promote timely and appropriate regulation. A policy and institutional framework to tackle SME needs is an important first step to creating a favourable business environment for SMEs. The first part of this chapter assesses the institutional framework for SMEs based on indicators referring to laws defining SMEs, strategies for SME development and institutions responsible for elaborating SME policy and implementing SME programmes. The second part focuses on measures simplifying legislation and use of regulatory impact analysis. The third part addresses the regularity and representativeness of any public-private consultations.

In most of the EU pre-accession region, institutions and mechanisms for SME policy making and effective public-private consultations are well developed. Most have undergone legislative simplification. The institutional set up is most developed in Turkey and Serbia. The governments of Croatia, the Former Yugoslav Republic of Macedonia, Montenegro and Albania perform above the regional average. Although Bosnia and Herzegovina and Kosovo have made slight improvements in some policy areas, there are still large policy gaps between this group and the other economies. In addition, some economies in the region have undertaken significant measures in simplifying and eliminating legislation (for example Serbia), others improved the use of the regulatory impact analysis (for example the Former Yugoslav Republic of Macedonia).

Introduction

The “think small first” principle requires that legislation takes the interests of SMEs into account at the very early stages of policy making in order to make legislation more SME friendly and ensure a conducive business environment for SMEs.

The regulatory burdens are higher for SMEs than for larger businesses, due to their smaller size and scarcer resources. On average, for every euro a big company spends per employee to comply with a regulatory duty a medium-sized enterprise might have to spend around four euros and small business up to ten euros.¹

The economies in the region have understood the importance of this principle and launched major regulatory reform projects aiming at simplifying and eliminating the current legislation, but this is only one aspect of a good regulatory framework. The institutional framework, the use of regulatory impact analysis and public-private consultations also need to be assessed.

Assessment framework

This SBA principle encompasses three different sub-dimensions: the institutional framework, regulatory reform and regulatory impact analysis (RIA), and public-private consultations (PPCs). All three elements are essential to the creation of a stable and business-friendly environment.

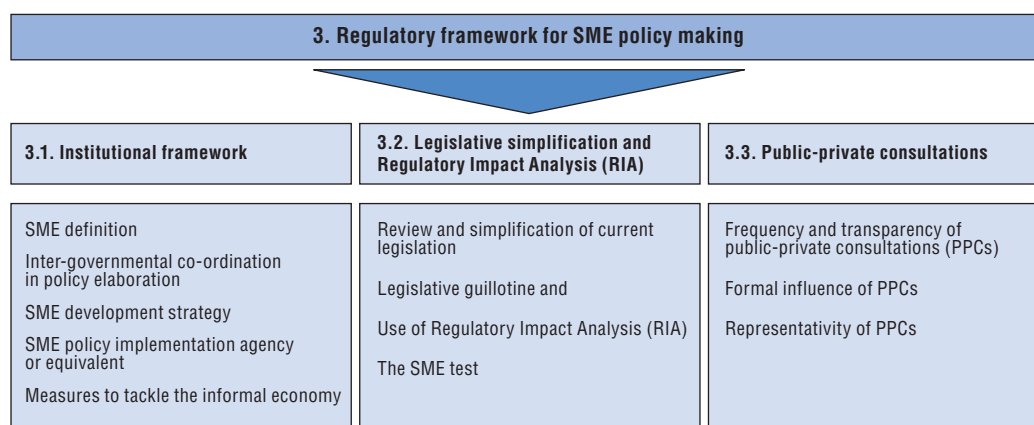
The institutional framework sub-dimension is a key ingredient of a coherent SME policy and regulatory environment. Since the previous report, the indicators for this sub-dimension have been augmented with two more indicators. The first is whether the SME definition is consistent in all legislation and applies the same criteria as the definition for EU members² at least in terms of employment size. The second considers if the EU pre-accession region has introduced measures to tackle the informal economy and to what extent those plans are implemented and actions are monitored.

The objective of the regulatory reform and regulatory impact analysis sub-dimension is comprehensible national legislation which is favourable for SMEs. This aspect is very important for most of the economies in the region, with the exception of Albania and Turkey, as they had to eliminate obsolete legislation inherited from the Former Yugoslav Federation, as well as other laws introduced afterwards. These measures are complemented by the introduction of RIA, in order to keep the regulatory environment free from overburden and over-regulation. RIA aims to improve the quality of new policies and simplify the regulatory environment. The set of indicators for this sub-dimension have been augmented by a new indicator, the SME test, which evaluates the effects of legislative proposals on SMEs.

The third sub-dimension, public-private consultations, assesses the degree to which governments systematically consult the private sector. It also measures to what extent the SME sector is effectively represented and how far its suggestions are taken into

consideration. Such consultations play an essential role in establishing a sound regulatory framework. Input from the business community through business associations provides the administration with insight into highly complex issues, and can often contribute to the formulation of effective regulatory measures for enterprises.

Figure 3.1. **Assessment framework for SBA Principle 3**



Analysis

Institutional framework

Overall the institutional structure is comparatively well established in the pre-accession region. The general framework is particularly well advanced in Croatia, Serbia and Turkey. Since the 2009 report several economies have improved their ranking, especially in the case of Kosovo.

All the economies have defined SMEs in law, using the same criteria of number of employees as EU member states (see Table 3.1). In the case of Bosnia and Herzegovina, SMEs are classified at entity level.³ Croatia, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia and Turkey also take financial criteria such as annual turnover, balance sheet and/or long-term assets into account, with levels adapted to their individual economic circumstances.

Table 3.1. **SME classification in the EU pre-accession region**

Micro	Up to 9 employees
Small	10-49 employees
Medium	50-249 employees

Albania, Croatia, Montenegro, Serbia and Turkey show solid evidence of having achieved key targets over the past years through implementation of their national SME development strategies. Turkey's high score is thanks to its complex approach to the SME sector development, including a separate change, transformation, support strategy and action plan for tradesmen and craftsmen as well as specific SME development projects by the Ministry of Economy in pursuit of the development of a national clustering policy.

Kosovo, the Former Yugoslav Republic of Macedonia and Serbia have improved their scores since 2009. Kosovo adopted its SME Strategy 2012-16, the Former Yugoslav Republic

of Macedonia adopted its new Macedonian SME Programme 2011-13 and Serbia has an annual monitoring report on the implementation of its Strategy for Competitive and Innovative SMEs 2008-12.

Inter-governmental co-ordination in policy elaboration is well established throughout the region. Kosovo needs to make further efforts in building institutional capacity and enhancing co-ordination among government agencies. Bosnia and Herzegovina still has to improve the co-ordination of SME policy between the entities and district.

A number of changes have been made to the executive agencies implementing SME policy. Croatia has made small improvements but Albania and Montenegro have regressed. The Croatian Agency for SMEs (HAMAG) covers a wide range of activities with measurable outcomes and a solid implementation record of the national SME strategy. Albania dismantled its former SME agency, AlbInvest, and replaced it with the Albanian Investment Development Agency (AIDA) in 2011. The Directorate for SME development in Montenegro had both its staff and its budget reduced, which forced it to abolish its financial credit support programme for SMEs in 2010.

Box 3.1. Small and Medium Enterprises Development Organization (KOSGEB) in Turkey

KOSGEB has been operating as Turkey's SME development agency since it was established in 1990. It is a government-funded institution with 75 local branches. Until 2009, only the manufacturing sector was eligible for KOSGEB's financial support programmes. After amendments to the KOSGEB legislation which came into force in 2009, the Council of Ministers extended its scope and its programmes now target SMEs in industry, and the service and trade sectors. KOSGEB is responsible for co-ordinating the implementation of Turkey's national SME strategy and action plan and is in charge of SME policy elaboration. A system of consultation with the implementing agencies is in place. The General Assembly and Executive Committee of KOSGEB are good examples of how a consultation system can be implemented.

The 2012 report now also considers measures to tackle the informal economy. Albania, Croatia, Montenegro and Serbia all prove to have clear measures in place with positive achievements. The Croatian government adopted a law on Prohibition and Prevention of Conducting Unregistered Activities in 2011 that introduced fines for performing activities not registered in the court. The Montenegrin Tax Administration increased the number of newly registered taxpayers and VAT payments in 2011. In Albania 33 measures were implemented under the government decree For the Reduction of the Informal Economy for the Period 2006-09. Serbia established a Market Inspection Sector with a network of 400 market inspectors, located in 25 districts in Serbia. Monitoring and reporting is performed on a monthly basis in these four countries.

Regulatory reform and regulatory impact analysis

As in the 2009 report, Albania, the Former Yugoslav Republic of Macedonia and Montenegro are the most advanced in reviewing, simplifying and eliminating existing legislation. While Serbia and Turkey joined the leaders in the 2012 assessment cycle, Croatia fell back after the early termination of its regulatory reform programme, Hitrorez. Hitrorez

Table 3.2. **Scores for Sub-dimension 3.1: Institutional framework**

		ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
SME definition	2012	4.00	3.00	5.00	4.00	5.00	5.00	5.00	5.00
Inter-governmental co-ordination in policy elaboration	2012	4.00	2.00	4.00	3.00	4.00	4.00	4.00	5.00
	Change since 2009	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a.
SME development strategy	2012	4.00	2.50	4.00	3.00	3.50	4.00	4.00	5.00
	Change since 2009	0.00	+0.50	0.00	+1.00	+0.50	0.00	+0.50	n.a.
SME policy implementation agency or equivalent	2012	3.00	2.00	4.00	3.00	3.50	3.50	4.50	5.00
	Change since 2009	-0.50	0.00	+0.50	0.00	0.00	-0.50	0.00	n.a.
Measures to tackle the informal economy	2012	4.00	1.50	4.00	3.00	3.50	4.00	4.00	3.50
Overall weighted average for 3.1	2012	3.75	2.25	4.00	3.00	3.75	4.00	4.25	4.75

was part of the “regulatory guillotine” process, and had made progress in streamlining and eliminating unnecessary legislation.

Serbia has made remarkable progress since the 2009 report. The Serbian government adopted the Strategy for Regulatory Reform from 2008-11 that included the Comprehensive Regulatory Reform. The Comprehensive Regulatory Review Unit (CRRU) reviewed hundreds proposals for abolishing, changing and amending existing laws from the private and public sectors. By February 2012, the government had adopted and implemented about 200 of the CRRU legislative recommendations. This has enabled Serbia’s economy to save approximately EUR 124 million a year.

The Turkish Coordination Council for the Improvement of the Investment Environment (YOIKK) is responsible for reviewing and simplifying current legislation. YOIKK aims to rationalise the regulations on investments in Turkey, developing policies to enhance the investment environment and generating solutions to administrative barriers. However, the Turkish government needs to address the issue of elimination of redundant legislation more intensely.

Montenegro has made progress in cutting legislation, after launching the “Guillotine of Regulations” project in 2010. Since then, the Montenegrin government has reviewed about 650 regulations and 250 administrative procedures and prepared 1 400 legislative recommendations.

When it comes to regulatory impact analysis, the Former Yugoslav Republic of Macedonia now joins Croatia and Serbia in the leading group. Since the last assessment, the Macedonian government has used RIA in adopting more than 450 laws. In 2012 it will further expand the application of RIA and introduce the fourth stage of its regulatory guillotine, focusing on simplifying the operating conditions for SMEs.

The situation has further improved in Serbia, where each new law now has to undergo regulatory impact analysis. The Albanian government has integrated a simple RIA system in the existing policy-making process and seeks to implement full-blown RIA after 2013. In Montenegro, RIA is being systematically implemented. The newly formed Department for Improvement of Business Environment within the Ministry of Finance issued approximately 360 assessments on proposed regulations in 2011. According to Turkish legislation, RIA should be applied during the preparation of any legislation if it has an impact more than YTL 10 million (Turkish lira), or EUR 4.3 million.

This report added a new indicator, the SME test, to the RIA sub-dimension, in place of the previous “type of RIA” indicator. This has led to small variations in the overall score for RIA compared with the 2009 report. SME tests, however, are yet not considered in most of the region although Croatia, the Former Republic of Macedonia, Montenegro and Turkey have launched pilots.

Table 3.3. Scores for Sub-dimension 3.2: Legislative reform and regulatory impact analysis (RIA)

		ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Review and simplification of current legislation	2012	4.00	3.00	3.50	2.00	4.00	4.00	4.50	4.00
	Change since 2009	0.00	0.00	-1.50	n.a.	0.00	0.00	+1.50	n.a.
Legislative guillotine	2012	4.00	2.50	3.00	1.00	4.00	4.00	4.00	2.50
	Change since 2009	0.00	+0.50	-1.00	n.a.	0.00	+0.50	+3.00	n.a.
Use of Regulatory Impact Analysis (RIA)	2012	2.50	1.50	4.50	1.50	4.50	2.50	5.00	3.50
	Change since 2009	+0.50	0.00	0.00	0.00	+1.50	+1.00	+0.50	n.a.
The SME test		1.50	1.00	2.00	1.00	2.00	2.00	1.50	2.00
Overall weighted average for 3.2	2012	3.25	2.25	3.50	1.50	4.00	3.25	4.25	3.25

Public-private consultations

In general the situation in the pre-accession region is further improving, as shown in Table 3.3. The best-performing economies are Albania, Croatia, Serbia and Turkey, while the Former Yugoslav Republic of Macedonia has seen substantial improvement. There, all draft laws submitted to the government have to include comments from the private sector; otherwise they will not be accepted for further processing. Furthermore, the Macedonian government launched the project “Visit of 150 Companies” to receive first-hand information from the private sector about appropriate measures to overcome business constraints.

Montenegro has also made improvements, demonstrating a well-functioning public-private dialogue in developing the Strategy for SME Development 2011-15 as well as the Strategy for Enhancement of Competitiveness at Micro-level. A large number of SMEs were actively consulted in reviewing the strategic draft documents. Kosovo recorded modest progress, setting up a Consultative Council within the Ministry of Trade and Industry. PPCs are institutionalised and held quarterly, involving a wide SME community. SME associations have formal opportunities to comment on draft SME legislation, but in Kosovo the informal network appears to remain the most effective.

Table 3.4. Scores for Sub-dimension 3.3: Public-private consultations (PPCs)

		ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Frequency and transparency of PPCs	2012	4.00	2.00	4.00	3.50	3.50	4.00	4.00	4.50
	Change since 2009	0.00	0.00	0.00	+0.50	+0.50	0.00	0.00	n.a.
Formal influence of PPCs	2012	3.50	2.50	2.50	2.50	3.50	4.00	3.50	4.50
	Change since 2009	-0.50	+0.50	-0.50	+0.50	+1.00	0.00	0.00	n.a.
Representativeness of PPCs	2012	3.00	2.00	4.00	3.00	3.50	3.50	3.00	4.00
	Change since 2009	0.00	0.00	0.00	-0.50	+0.50	+0.50	0.00	n.a.
Overall weighted average for 3.3	2012	3.50	2.25	3.50	3.00	3.50	3.75	3.50	4.25

Albania and Croatia appear to have gone backwards. Although the private sector has the opportunity to formally comment on draft laws and regulation, there is no evidence that their comments are integrated into the final legislation.

The way forward

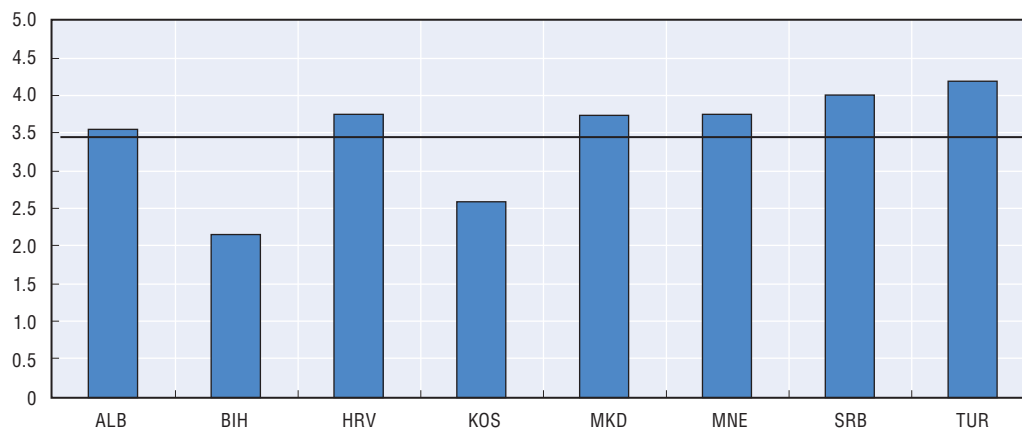
On average, the EU pre-accession economies achieved the highest scores in this policy dimension. Consideration of the “think small first” principle has improved since the previous report, with the overall average further increasing. All economies except for Bosnia and Herzegovina, and Kosovo are significantly above Level 3, which reflects a solid institutional, regulatory and public-private consultation framework.

However, governments have to place more emphasis on monitoring the implementation of their strategic programmes and their impact on SME sector development. Ideally, such monitoring and evaluation should be carried out by an independent agency to ensure impartial results.

Many economies in the region have shown a significant increase in the use of regulatory impact analysis overall but the application of the SME test is still in its infancy and has yet to be systematically implemented in legislation.

Even though public-private consultations take place on a regular basis in most of the countries in the region, the scope and quality of this dialogue has to improve. Systematic and timely consultation with the business community remains a challenge for administrations. On the other side, business associations have to build up the necessary capacity to conduct consultations and to provide well-documented proposals and comments.

Figure 3.2. **Overall scores for Principle 3: Regulatory framework for SME policy making**



Note: The line indicates the regional average of the policy dimension.

Source: SBA assessment 2012.

Notes

1. European Commission (2007), *Models to Reduce the Disproportionate Regulatory Burden on SMEs*, Report of the Expert Group. The Expert Group was established by the European Commission and consists of national experts from EU member states. It collected information on the various models that have been used successfully by member states to reduce the burden of public regulation, in particular the burden on SMEs.

2. The EU definition for SMEs covers nearly 99.8% of the 23 million European companies and has been introduced fairly recently. The EC defines SMEs as economically independent companies with less than 250 employees and less than € 50 million annual turnover (or 43 million annual balance sheet).
3. The government in Bosnia and Herzegovina comprises two entities: Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS).

PART I

Chapter 4

Operational environment for SMEs

SBA Principle 4: Make public administrations responsive to SME needs

This chapter assesses policy areas supportive to the operational environment for SMEs, which are identified under SBA Principle 4. This principle assesses the extent to which public administrations have developed instruments to simplify regulations and reduce costs and procedures for SMEs. The first part of this chapter addresses the company registration process, taking into account the number of days, administrative steps and costs for issuing the company registration certificate and completing the overall registration process. The second part focuses on interaction with online government services (e-government): whether it is possible to declare tax and social security returns online, if enterprise statistics can be reported online and if databases of different public bodies are connected.

All eight EU pre-accession economies, with the sole exception of Bosnia and Herzegovina, have established relatively efficient company registration processes, issuing the registration certificate within five days and often in a matter of a few hours. The fee in most cases is below the equivalent of EUR 50, the exceptions being Bosnia and Herzegovina, Croatia and Turkey. Simplified procedures have been established for enterprises that classify as crafts in Bosnia and Herzegovina, Croatia and Turkey. Albania, Croatia, the Former Yugoslav Republic of Macedonia and Montenegro have introduced a single company registration number while Serbia and Turkey are preparing to do so. Albania and the Former Yugoslav Republic of Macedonia operate company registration systems based on advanced international practices, including one-stop shops and online registration. The provision of e-government services is also relatively limited, with most of the available services related to tax filing, and to a less extent to the filing of social security and to public procurement services. Croatia is most advanced in this area, having developed an e-government programme over a number of years.

Introduction

Enterprises interact constantly with the public administration at all levels, national, regional and local, as they need to comply with laws and regulations, apply for licenses and permits and regularly report about their activities. If it is not efficiently organised this interaction, while necessary, may lead to an excessive administrative burden that could weigh heavily on company resources, particularly for smaller enterprises.

In the case of micro-enterprises, it is often the entrepreneurs themselves that take on the obligation to deal with administrative requirements, diverting time and resources from their core business activities. Larger enterprises employ administrative staff or rely on external services, increasing their fixed costs. A more responsive public administration which is able to interact efficiently with all classes of enterprises while still retaining control over administrative compliance can make a positive contribution to the productivity of the enterprise sector.

Assessment framework

The Small Business Act calls for a substantial reduction in the administrative burden on SMEs. The European Union has set specific targets in terms of time and costs for completing the registration process and is closely monitoring progress in reducing the administrative burden in member states. The development of interactive functions conducted over the Internet, known as e-government, has created opportunities to reduce the time and cost to enterprises of interacting with government, particularly for routine functions like tax declarations and reporting of statistical information. It has also created the opportunity for public administrations to reach a large number of enterprises with timely and well-organised information at a substantially lower cost per contact.

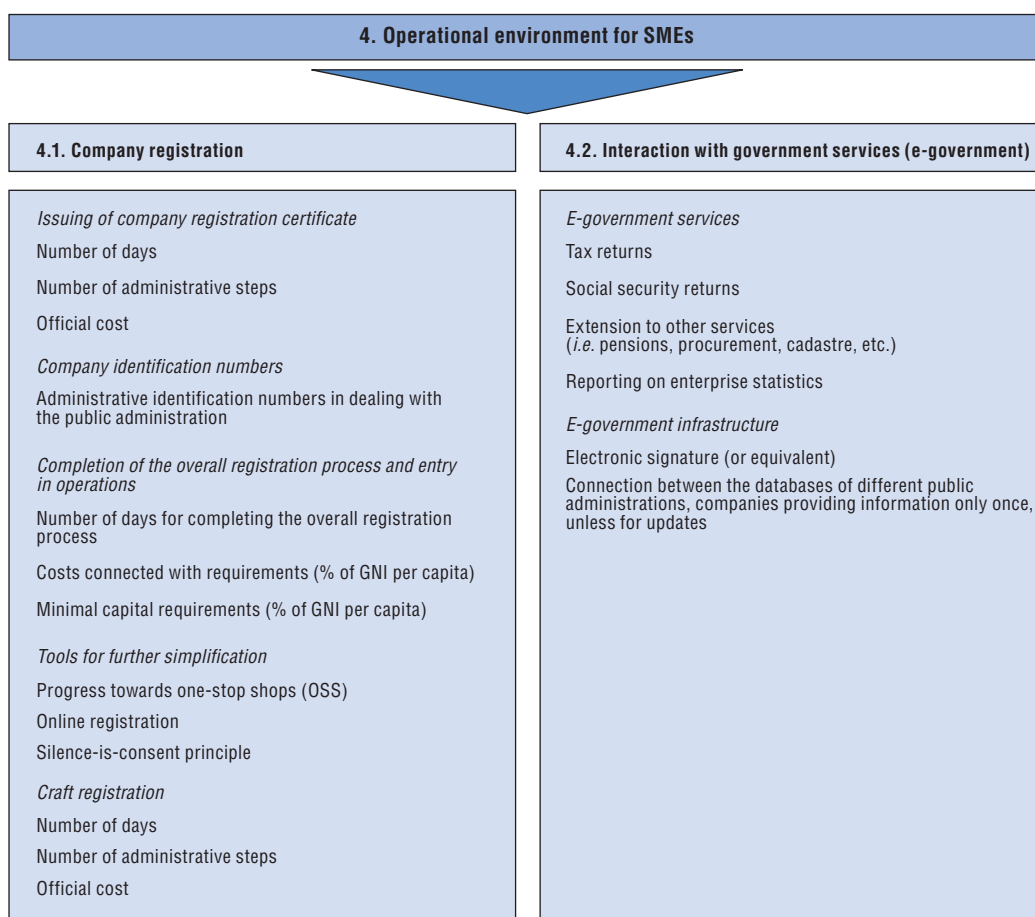
The assessment framework for Principle 4 is modelled on the approach adopted by the European Commission and has two sections. The first section analyses in detail the process of company registration, going through the three stages of obtaining the company registration certificate from the relevant government body or agency, completing the notification process and fulfilling the compliance requirements in terms of mandatory licenses and permits. It has 13 indicators organised in five sub-dimensions: issuing company registration certificates, company identification numbers, completion of the registration process, advanced registration procedures, and craft registrations.

The second section focuses on e-government and has six indicators in two sub-dimensions: the range of the e-government functions currently available, and elements of the e-government infrastructure, such as the interconnection between databases and the introduction of e-signatures.

The indicators concerning the company registration process are comparable to those used for the two previous assessments conducted under the EU Charter for Small Enterprises and therefore it will be possible to track progress since 2008 for all the economies with the exception of Turkey. Direct comparisons are harder for the e-government

section. While scores for the e-government service sub-dimension are fully comparable to those recorded in 2009, for e-government infrastructure only the scores for e-signature indicators are comparable.

Figure 4.1. **Assessment framework for SBA Principle 4**



Analysis

Company registration certificates can now be obtained cheaply and quickly in most economies

In structuring the company registration process governments face two options: either to apply a set of legal and regulatory checks over the status of the company owner(s), the company by-laws, name, and the consistency and source of the initial capital before registration, or to limit the pre-registration checks to a few essential requirements for the simplest and more common forms of company registration and conduct checks after the event only when required. Governments in the EU pre-accession region have largely opted for the second option, in line with a general trend observed by the World Bank's *Doing Business 2012* report. In all the economies assessed except Bosnia and Herzegovina, the company registration process is now conducted by a specialised agency or the Chamber of Commerce and no longer by the court.

The process of obtaining a company registration certificate for the most common forms of registration has been greatly simplified in all the economies covered by the report, both in terms of time taken and number of steps. Although it is no longer a significant administrative burden there are still significant differences in the level of fees charged by the company registration body. They range from less than EUR 10 in Albania and Kosovo, to over EUR 250 in Bosnia and Herzegovina and Croatia. In the case of Croatia the higher cost reflects the level of pre-registration checks conducted for limited liability companies, while in Bosnia and Herzegovina it reflects the level of court fees. Overall, Albania appears to have introduced the most efficient company registration system in the region following its comprehensive 2007 reform. The Former Yugoslav Republic of Macedonia and Serbia have marginally improved their already good performance, while the performance of Bosnia and Herzegovina remains substantially below the average for the region, as its company registration process remains fragmented and unreformed.

Table 4.1. **The company registration process in figures, according to government information**

		ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
No. of days	2009	1	< 15	< 5	1 ¹	2-5	4	5	–
	2011	1	> 10 < 15	2	1 ¹	1	4	3	1
No. of steps	2009	1	5-7	1	3	1	1	2	–
	2011	1	4	1	1	1	1	2	2
Official cost (€)	2009	1	15-750	> 350	5-20	+/- 57	11	60	–
	2011	1	> 250	> 250 ²	> 1	32-63 ³	5	44	65-250*

* Range applies from sole trader to limited liability company.

1. Number of days for sole trader registration;

2. applies to limited liability companies;

3. range covers fees from sole trader to joint stock company;

Source: SBA assessment (information provided by the governments of the EU pre-accession region).

More economies now provide a single company identification number

The 2009 SME Policy Index report showed that substantial progress had been made in simplifying the process of notifying different administrative bodies about the establishment of a new company. Normally, each notification results in the issue of a different identification number but the process can be greatly simplified if the body registering companies introduces an automatic notification and registration process, one of the key functions of a “one-stop shop” (OSS) for company registration. Introducing of a single identification number greatly simplifies the interaction between a company and the public administration and also allows the authorities to easily cross-reference data about a company. This enables them to monitor the company better without repeatedly having to ask it for information directly.

Albania, Croatia, the Former Yugoslav Republic of Macedonia and Montenegro now operate on the basis of a single identification number. Albania introduced the single identification number in 2007 as part of its reform of company registration while the Former Yugoslav Republic of Macedonia and Montenegro did it more recently as part of their public administration reform. Croatia moved to a single number in 2009, merging the tax identification number into a single personal identification number (OIB) valid also for legal entities. Bosnia and Herzegovina, Kosovo, Serbia, and Turkey still require between three and four registration numbers although in Serbia the Business Registers Agency

issues four identification numbers simultaneously. Both Serbia and Turkey are moving towards the introduction of a single identification number. In particular Turkey is testing the use of the tax registration number as a single identification number in a pilot project co-ordinated by the Ministry of Trade and Customs called MERSIS, which is being trialled initially in the city of Mersin.

Table 4.2. Scores for Sub-dimensions 4.1 and 4.2: Issuing of company registration certificates and Company identification numbers

		ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Number of days	2012	5.00	3.00	4.00	4.00	5.00	4.00	4.00	5.00
	Change since 2009	0.00	0.00	+0.50	0.00	0.00	0.00	0.00	n.a.
Number of administrative steps	2012	5.00	3.00	5.00	5.00	5.00	5.00	4.00	5.00
	Change since 2009	0.00	0.00	0.00	+1.00	0.00	0.00	0.00	n.a.
Official costs	2012	5.00	1.00	1.00	5.00	4.00	4.00	4.00	3.00
	Change since 2009	0.00	-0.50	0.00	+1.00	+1.00	0.00	+1.00	n.a.
Administrative identification numbers	2012	5.00	3.00	5.00	3.00	5.00	3.00	2.00	3.00
	Change since 2009	0.00	0.00	+1.00	0.00	+1.00	+2.00	-2.00	n.a.

Box 4.1. Company registration reform and one-stop shop (OSS) development in the Former Yugoslav Republic of Macedonia

The Former Yugoslav Republic of Macedonia is operating a one-stop shop system that enables investors to register their businesses within four hours. An individual can register a company by visiting one office, obtaining the information from a single place, and addressing one employee. This significantly reduces administrative barriers and start-up costs and provides an extended range of services to the public administration and the business community. The one-stop shop system operates within the Central Register via 32 electronically integrated offices located throughout the Former Yugoslav Republic of Macedonia and it has been implemented as part of the Business Environment Reform and Institution Strengthening project financed by the World Bank. The OSS is the last phase of a reform programme that started in 2006.

2006	2007-09	2010
<ul style="list-style-type: none"> • Transfer of the registration procedure from the courts. • Conversion of all paper registration files in digital records. • Establishment of a unique centralised registry. • Registration procedure reduced from 48 to 3 days. • Connecting with Tax Office, banks and Statistics Bureau. 	<ul style="list-style-type: none"> • Reducing the registration procedure to four hours. • Opening of an office of the Employment Agency. • E-filing of annual accounts. • Introduction of a general business clause. • Electronic distribution of data to the public. 	<ul style="list-style-type: none"> • Fully integrated electronic registration of companies, pledge, leasing. • Electronic recording of bankruptcy procedures. • Registry of disqualified managers and founders.

Phase 2 of the OSS programme, started in 2010, includes the introduction of e-registration for local as well as foreign owned companies (which was already in operation), as well as other services related to pledge registration and bankruptcy procedures.

Source: Ministry of Economy and Invest Macedonia.

Mandatory licensing requirements have been reduced, but the other steps and procedures still add considerably to the burden of starting a business

The *Doing Business Report*, compiled yearly by the IFC-World Bank, provides a comparative view of the cost and time associated with the regulatory requirements for starting a new business. The report covers 183 economies, including the Western Balkans and Turkey. While the SME Policy Index indicators analysed here only look at the costs and processing time by the company registration agency once a complete dossier has been deposited by the applicant, the *Doing Business* indicators include all the steps required and costs incurred in the start-up process, not just those imposed by the public administration, such as the legal costs of elaborating the company's by-laws. In addition the *Doing Business* indicators cover the time and costs associated with getting business licenses and permits for standard commercial and industrial activities not involving health, safety and environmental risks. By comparing the two indicators it is possible to get an indication of the additional costs and time associated with the business start-up process as well as those associated with mandatory compliance requirements such as licenses and permits.

With the exception of Bosnia and Herzegovina, the time taken to issue a company registration certificate has been cut significantly across the region to less than 5 days, but it takes on average an additional 10 to 15 days to complete the overall start-up process. This is mostly needed to complete the pre-application requirements (such as notarisation, legal services, company stamps and company name registration) and for the notification requirements in the countries where there is no one-stop shop in operation. Compliance requirements have been cut across the region, however. For instance, Montenegro has abolished the requirement to obtain a municipal license, while in Kosovo national and municipal registration are conducted in parallel. Only Bosnia and Herzegovina still requires double registration at national and municipal level, adding 10 days to the overall business start-up process.

When it comes to costs, registration fees are only a minor part of the business start-up process. Other major costs are legal and notary services and pre-paid taxes and fees charged by the tax administration. Most of the economies covered by this report have substantially reduced or eliminated their minimum capital requirements for legal entities, although they are still substantial in Bosnia and Herzegovina, equalling 29% of the *per capita* gross national income (GNI), and to a lesser extent in Croatia (13% of GNI). In Albania, on the other hand, while the company registration fee is less than EUR 10 and the minimum capital requirement is zero, tax administration registration fees and mandatory pre-paid taxes are considerable, bringing the total start-up cost to 29% of the average *per capita* income.

Simple registration procedures for crafts are available in only a few economies

Both Bosnia and Herzegovina and Croatia have established simplified registration procedures for craftspeople, sole traders and small firms conducting a defined list of business activities such as crafting, repairing and providing custom services. Croatia has established a separate craft registration chamber, while registration fees for crafts are substantially lower than for other legal forms. In Turkey craft businesses have the option to register at the Trade Registry Office through the Chamber of Tradesmen and Crafts (TESK) or to opt for the standard registration process, which allow them operate as standard firms.

Table 4.3. Scores for Sub-dimensions 4.3 and 4.4: Completion of the overall registration process and Tools for the further simplification of the registration process

		ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Number of days for completing the overall registration process	2012	4.00	1.00	3.00	1.00	4.00	3.00	3.00	3.00
	Change since 2009	+1.00	0.00	+2.00	-1.00	+1.00	+1.00	+1.00	n.a.
Costs of registration for limited liability companies	2012	1.00	1.00	2.00	1.00	4.00	4.00	2.00	1.00
	Change since 2009	0.00	0.00	+1.00	0.00	+1.00	+1.00	0.00	n.a.
Minimal capital requirements	2012	5.00	2.00	3.00	1.00	5.00	5.00	4.00	4.00
	Change since 2009	+3.00	0.00	0.00	-4.00	0.00	0.00	0.00	n.a.
Progress towards OSSs	2012	5.00	1.00	4.50	1.00	5.00	4.00	5.00	3.00
Online registration	2012	5.00	1.50	4.00	2.50	5.00	2.50	2.50	4.00
	Change since 2009	+2.00	0.00	0.00	0.00	+2.50	0.00	-1.00	n.a.
Silence-is-consent principle	2012	5.00	1.00	1.00	1.00	5.00	2.50	5.00	2.50
	Change since 2009	0.00	0.00	0.00	-4.00	0.00	-2.50	0.00	n.a.

However, in doing so firms are able to circumvent regulations concerning professional qualifications and craft activities. The current system creates a double regulatory framework for those sectors dominated by crafts.

Table 4.4. Scores for Sub-dimension 4.5: Craft registration

		ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Number of days	2012	5.00	3.00	3.00	4.00	4.00	4.00	4.00	4.00
	Change since 2009	0.00	0.00	0.00	0.00	-1.00	0.00	-1.00	n.a.
Number of administrative steps	2012	5.00	3.00	4.00	5.00	5.00	5.00	4.00	4.00
	Change since 2009	0.00	0.00	-1.00	+2.00	0.00	0.00	-1.00	n.a.
Official costs	2012	5.00	2.00	3.00	5.00	3.00	5.00	4.00	2.00
	Change since 2009	0.00	0.00	0.00	+1.00	0.00	0.00	-1.00	n.a.
Weighted average	2012	5.00	2.50	3.25	4.75	3.75	4.75	4.00	3.00

Some economies are now introducing one-stop shops and online registration

Albania, Croatia and the Former Yugoslav Republic of Macedonia have now introduced one-stop shops (OSSs) for company registration. A single body, usually the business registration agency, takes care of all the administrative tasks connected with company registration and notification and issues ordinary operating licenses when required. The issue of more complex licenses, such as those dealing with health, safety and environment risks, are usually the remit of specialised bodies. In Albania the National Registration Centre operates 31 OSS windows across the economy; in Croatia, FINA operates 61 OSS windows and in the Former Yugoslav Republic of Macedonia the Central Register operates the OSSs, covering the entire notification process since the beginning of 2008. In Serbia the Business Registers Agency has acted as an OSS since 2009, performing registration and notification functions. In Montenegro, new companies have had the option since May 2011 to register either with the Central Company Register managed by the Commercial Courts, or with the Tax Administration offices acting as an OSS. The requirement to also register with the local authorities has been abolished. In Turkey the Commercial Registry Office performs most of the functions related to company registration and notification, but for limited liability companies, entrepreneurs are still required to deal directly with the competition authority over the deposit of the mandatory quota of the company capital. Turkey's MERSIS project should lead to the introduction of OSSs. Kosovo has started to

introduce single windows that deal with registration in the central and local company registers, but they do not conduct the entire notification process, while in Bosnia and Herzegovina the registration and notification process is still very fragmented and multiple registrations (municipality and canton/district) are required.

Online registration is operational in Albania, the Former Yugoslav Republic of Macedonia and in Croatia where it is available through HITRO, the national e-government service agency. Montenegro, Serbia and Turkey are working on the introduction of an e-registration service, with Montenegro and Serbia planning to offer it from 2012.

Table 4.5. **Scores for Sub-dimension 4.6: E-government services**

		ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Tax returns	2012	3.50	4.00	4.00	3.50	4.00	2.00	4.00	3.50
	Change since 2009	0.00	+2.50	0.00	+1.50	+1.50	-2.00	+2.50	n.a.
Social security returns	2012	4.00	1.00	4.00	2.50	3.50	3.50	3.00	1.00
	Change since 2009	0.00	-0.50	0.00	+0.50	0.00	0.00	+2.00	n.a.
Extension to other services	2012	4.00	1.50	4.00	1.00	4.00	2.00	3.50	3.50
	Change since 2009	+0.50	0.00	0.00	0.00	0.00	0.00	+2.00	n.a.
Reporting on enterprise statistics	2012	2.00	1.50	4.00	1.00	2.00	2.00	4.00	3.00
	Change since 2009	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a.
Weighted average	2012	3.50	2.25	4.00	2.25	3.50	2.50	3.50	2.50

Croatia leads the region in e-government services, but they are underdeveloped in the other economies

Governments in the Western Balkans and Turkey are progressively extending the range of e-services they offer to enterprises for standard reporting and compliance functions, such as making tax declarations or submitting statistical data, or providing relevant information, for instance related to public procurement and land registration.

Progress has been most advanced in online tax declarations. This is currently available in nearly all the economies covered by the report. The exceptions are Kosovo, where an online tax filing service is being tested but online payment is not yet available, and Montenegro, where an EC-funded project upgrading the IT infrastructure of the tax administration is supporting the development of a new online tax application. In most economies, however, enterprises are only able to file their declarations online and in some cases pay their tax online. More advanced functions, such as an overview of the company tax situation and compensation among different tax liabilities and credits aren't currently available.

Online declaration and payment of social security obligations are also quite developed across the region, although the service is not yet available in Albania and Bosnia and Herzegovina and it is still at a pilot stage in Kosovo. By contrast, reporting of statistical information online is quite underdeveloped. This is only available in Croatia and Serbia. In Turkey, the national statistical institute, TurkStat, is working with the Ministry of Finance to improve the quality of business statistics by extracting relevant information from the tax and VAT declarations, which can be filled in online.

The extension of other online services has been relatively limited although substantial progress has been made in the area of customs clearance and public procurement, where

Box 4.2. On-line tax filing in Albania

The Albanian tax administration started to pilot online tax filing in 2007, with the support of technical assistance funded by the Millennium Challenge Corporation administrated by USAID. In March 2010 e-tax filing became mandatory for all VAT payers, including firms with a turnover over 8 million Leks (EUR 57 000) and sole traders with a turnover over 2 million Leks (EUR 14 300). In the first year of application over 25 000 VAT e-files were received. In order to facilitate e-filing and e-payment by small businesses the tax administration opened a service centre in Tirana where business tax payers receive information and tax advice and have access to electronic terminals.

tender notices and other information are available online in all the economies covered by the report.

Two main constraints on e-government services in the region are the relatively low Internet and broadband penetration rates* (see Table 4.6). Fixed Internet connection rates per 100 inhabitants for the economies of the region for which data are available are well below the EU27 average. However, Croatia stands out with a penetration rate above that of the EU27 average and in line with the most advanced EU countries.

Table 4.6. Internet and broadband penetration rates per 100 inhabitants

	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR	EU27
Fixed Internet connection	3.49 ¹	13.89 ¹	33.97 ²	n.a.	n.a.	11.14 ³	11.96 ¹	9.93 ¹	24.50
Broadband connection	1.9	4.9	11.8	5.4	n.a.	5.3	6.3	10.0*	n.a.

* Source for Turkey: OECD Broadband Portal 2012.

1. 2009 data.

2. 2008 data.

3. 2006 data.

Source: Source for fixed Internet connection: ITU: World Telecommunications/ICT indicators data base; Source for broad band penetration: PMR Monthly News Letter Central and Eastern Europe – January 2009; Source for *Turkey: OECD Broadband Portal 2012.

Several economies have made significant progress on legislating for and implementing electronic signatures. In Croatia, electronic signature legislation was first introduced in 2002, and after being amended and updated several times is now fully compliant with EU directives. Albania, the Former Yugoslav Republic of Macedonia and Serbia have also completed the legal framework and established national certification and registration bodies. Montenegro is in the final stage of completing the necessary legal framework. Bosnia and Herzegovina and Kosovo have approved the basic legislation, but not yet developed the related by-laws and established the certification, although the Republika Srpska in Bosnia and Herzegovina is making some progress in this area. Turkey has completed the legal framework and established the national certification and registration providers, but the use of electronic signature in public activities is still very limited.

Several economies (Albania, Croatia, Serbia and to a lesser extent Montenegro and Turkey) are making progress in interconnecting government databases, enabling real time

* Data are only available for the general population but are a proxy for business Internet users.

exchange of information among different branches of the public administration and therefore potentially relieving companies of the burden of supplying a full set of documentation each time they interact with government services. However, the process is at a very early stage in Bosnia and Herzegovina and Kosovo.

Table 4.7. **Scores for Sub-dimension 4.7: E-government infrastructure**

		ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Connection between the databases of different public administrations	2012	3.00	1.00	3.00	2.00	3.00	2.50	3.00	2.50
Electronic signatures	2012	4.00	2.00	4.00	2.50	4.00	3.50	4.00	3.50
	Change since 2009	+1.00	-1.00	0.00	0.00	+0.50	+0.50	+1.00	n.a.
Weighted average	2012	3.75	1.75	3.75	2.25	3.75	3.25	3.75	3.25

The way forward

Principle 4 indicators are grouped into two main areas: company registration and the business start-up process, and the provision of e-government services. On average the pre-accession economies have performed better in the first area, with an average score of 3.5, than in the second area, where the average is 2.75. However, there are some exceptions: Croatia and Serbia have performed better in the e-government area, where Croatia is particularly strong, than in the business start-up area, while Turkey and Bosnia and Herzegovina have recorded the same scores for both areas.

Company registration procedures in the region compare well with the most advanced EU countries and with a few exceptions company registration fees are generally low. In Bosnia and Herzegovina the process is still relatively lengthy and costly and out of line with the rest of the region, but it has made some marginal improvement. In Turkey, while company registration certificates are issued quite efficiently, there is still room for improvement in the notification process, while the introduction of OSSs and online registration is at a pilot stage.

For the economies that have successfully reformed their company registration process (Albania, the Former Yugoslav Republic of Macedonia and Serbia) the next steps are to further expand the functions of their OSSs, and to transform their company registration bodies into government agencies providing a wide range of services to the business community and public administration, such as managing other registries, as the Serbian Business Register already does and collecting and processing company data, as FINA in Croatia already does.

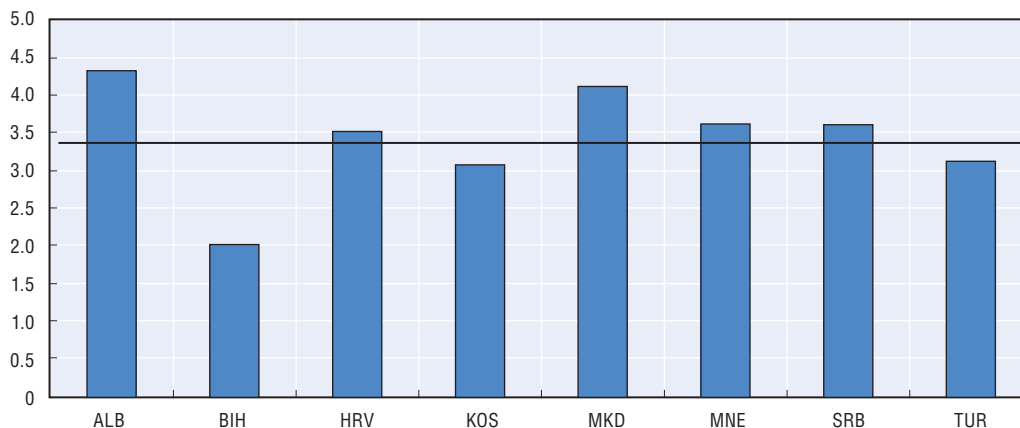
All the economies in the region need to look more carefully at the full cost and time associated with the business start-up process as a whole, as currently only the Former Yugoslav Republic of Macedonia and Montenegro perform well in the Doing Business registration and business start-up indicators. This may be achieved by improving the notification process through introducing or expanding the functions of their OSSs and by simplifying further the registration and start-up process for most of the common form of businesses.

When it comes to e-government, the economies of the region can be divided in two groups. The first group, Albania, Croatia, the Former Yugoslav Republic of Macedonia and Serbia, have made progress with their e-government infrastructure and have introduced online services beyond tax filing and public procurement information. The second group

includes economies that are either at an initial stage, such as Bosnia and Herzegovina, or are in the pilot project development phase, such as Montenegro and Turkey, conducted within the framework of wider public administration reform. Progress in e-government has been generally modest with the exception of Serbia, but most of the economies in the region have now gone through all the legal and operational requirements needed to implement the electronic signature system.

As Croatia has shown, the development of e-government services can be sped up by establishing a dedicated agency or service for it within the public administration, instead of leaving each administrative branch to develop its own e-government solution. Internet penetration in the region is on average still relatively low, but is catching up fast. Current low usage rates of e-government services are not a justification for not investing in this area. As the ITC infrastructure and Internet penetration rates improve, the demand for e-government services will increase and technological developments are likely to open up new opportunities for better servicing the business community.

Figure 4.2. **Overall scores for Principle 4: Operational environment for SMEs**



Note: The line indicates the regional average of the policy dimension.

Source: SBA assessment 2012.

PART I

Chapter 5

Support services for SMEs and public procurement

SBA Principle 5: Adapt public policy tools to SME needs

This chapter assesses policy areas defined under SBA Principle 5. The principle refers to public policy tools that help SMEs in accessing markets and procurement opportunities. The chapter is divided into two policy dimensions: business services (5a) and public procurement (5b). The first policy dimension gives an overview of the public policy tools to address information gaps and the limited availability of business services for small firms. The second focuses on giving SMEs an equal chance to participate in public procurement.

On business support services, the assessment shows that little progress has been achieved since 2009. While basic business support services are available in the region, they often remain poorly included in national strategies. In comparative terms, Croatia and Turkey are the strongest performers under this dimension, providing a broad range of business support services to SMEs and start-ups and widely available information on starting and conducting a business. Regarding the public procurement framework all economies have made progress. All public procurement laws make it possible to cut tenders into smaller lots, a measure that can definitely increase chances of SMEs of obtaining a consistent share of public procurement offers. Moreover, the Former Yugoslav Republic of Macedonia, Montenegro and Kosovo provide a helpdesk and training on procurement opportunities. Good efforts in establishing e-procurement services have been made in the Former Yugoslav Republic of Macedonia and Albania, where it is possible to handle tenders electronically without any paper-based formal procedure. The main deficiency in the public procurement system is a lack of a specific policy approach aimed at combating late payments. Only Croatia has introduced a law on late payments (in 2009) imposing strict deadlines for payments and penalties in case of non-compliance with agreed deadlines.

DIMENSION 5a: SUPPORT SERVICES FOR SMES AND START-UPS

Introduction

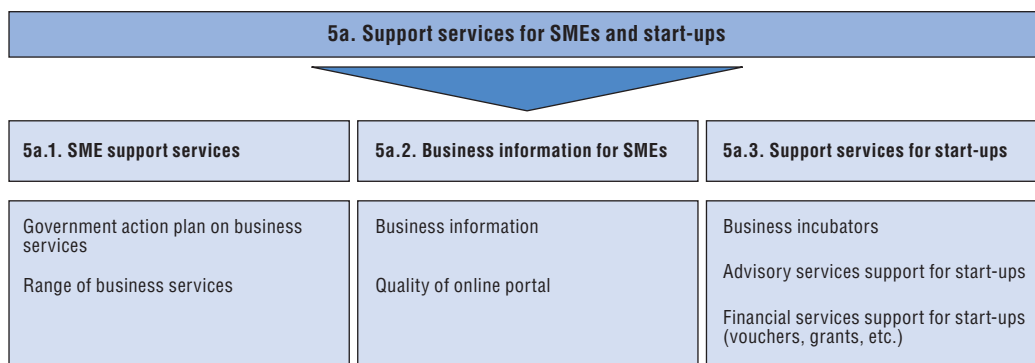
The objective of this chapter is to assess progress with regard to the availability and accessibility of business support services for locally-established SMEs and start-ups and identify remaining policy gaps. Governments and private companies can provide a wide range of support services to help small businesses in the process of starting up and running their operations. Business support to SMEs can take different forms including financial support, advice and information. New businesses can also be targeted through specific start-up support.

Assessment framework

Governments in the Western Balkans and Turkey support small and new businesses through a variety of services. To assess performance in this dimension, the following sub-dimensions are examined:

1. SME support services, covering the policy framework for SME support services and the range of services available.
2. Information services for SMEs, taking into account the availability of information on starting and conducting a business as well as the quality of on-line portals.
3. Support for start-ups, including incubators and advisory and financial support for start-ups.

Figure 5.1. **Assessment framework for Dimension 5a**



The 2009 Policy Index Report covered most of the above indicators on SME and start-up support services but these were not all integrated within the same dimension. Since then, three new indicators have been added to this assessment including “government action plans on the development of SME support services”, “advisory services for start-ups” and “financial services for start-ups”. The previous assessment is thus reasonably

comparable at the indicator level but direct comparisons cannot be made at the level of the overall dimension.

The 2009 report highlighted that information on business services was still fragmented and of low quality. Programmes providing business support services remained isolated and fragmented. It recommended that business and start-up support should be embedded into long-term national strategies to avoid gaps and overlaps in SME support services.

Analysis

Overall, little progress has been achieved since the last assessment. While basic business support services are available in the region, they often remain poorly covered in national strategies. Croatia and Turkey are comparatively the strongest performers, providing a broad range of business support services and making information on starting and conducting a business widely available. Serbia has also made some progress, particularly with regard to the range of SME and start-up support services. The remaining economies have made only marginal improvements in the range and quality of support services and start-up support is still underdeveloped.

SME support services

Government action plan

In order to make them effective, business support services should be integrated into a coherent policy framework. Such a framework limits the risk of gaps and overlaps in business support services.

In Albania, Bosnia and Herzegovina, Kosovo, and the Former Yugoslav Republic of Macedonia, policy frameworks for business support services are still incomplete. Business support services are mentioned in these economies' SME or business development strategies but not associated with any concrete targets in the related action or implementation plans.

Montenegro's Implementation Plan of the Strategy for SME development (2011-15) includes specific operational targets relating to business support services. These cover the improvement of business centres, the development of technology parks, and the strengthening of the European Information and Innovation Centre of Montenegro (EIICM). Similarly, the Serbian SME Strategy provides a number of specific actions detailed in the operational plan to improve business support services.

The Croatian government's Annual Operational Plans for the Promotion of SMEs covers the development of entrepreneurial support institutions. The government plans to financially support SME service providers including development agencies, business centres, incubators and technology parks. However, its targets are neither specific nor associated with clear indicators to measure performance.

In Turkey, the policy framework for business support services is well developed. SME and start-up support services are covered under the 2011-13 SME Strategy and Action Plan. For each policy measure the Action Plan clearly defines a timeframe, the responsible agency and its expected impact.

Range of SME support services

SMEs in Croatia and Turkey have access to a wide array of support services. In Turkey, although most service providers are located in large cities, a broad range of business support services is available throughout the economy. The business services market has a good level of competition and international consultancy firms are well established. Similarly, Croatia has a well-developed and competitive business services market in which both national and international consulting companies operate.

Serbia has made progress on the range of business support services. The National Agency for Regional Development (NARD) has a network of regional agencies which provide business services to potential and existing entrepreneurs, including training modules, mentoring, and legal and financial consulting. These services are financed by the government and donor projects. Associations of private consultants also offer tailor-made services to SMEs. Nevertheless, the presence of international consulting companies remains limited.

In the Former Yugoslav Republic of Macedonia and Montenegro, no major improvements have been recorded since the last assessment. SMEs in the Former Yugoslav Republic of Macedonia rely on donor support programmes as well as support from the Agency for the Promotion of Entrepreneurship (APPRM) through its regional centres and a voucher programme which provides co-financing for business services. In Montenegro, the network of regional and local business centres offers various subsidised services to businesses and potential entrepreneurs.

In Albania, Bosnia and Herzegovina and Kosovo, SME support services are still limited and dependent upon donor support. In Albania, the government dismantled the former investment promotion agency Albinvest and replaced it by a new agency, AIDA. In the transition period services were not available to SMEs. The structural change prevented the development of a broader range of SME support services.

Table 5.1. Scores for Sub-dimension 5a.1: SME support services

		ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Government action plan on business services	2012	3.00	2.00	3.50	1.00	3.00	3.00	3.50	4.50
Range of business services	2012	2.50	3.00	5.00	2.50	3.00	3.00	3.50	5.00
	Change since 2009	0.00	0.00	0.00	+0.50	0.00	0.00	+1.00	n.a.

Information services for SMEs

Information on starting and conducting a business is widely available in Croatia, Turkey and Serbia through the different ministries, chambers of commerce, SME agencies, regional development agencies, local government offices, etc. Information is available in paper form and through websites. However, these different sources of information are not always linked to each other, getting hold of the information can be complicated (e.g. by written request), and information is sometimes difficult to locate.

In Albania, Bosnia and Herzegovina, Kosovo, the Former Yugoslav Republic of Macedonia and Montenegro, basic business information is usually available online. More detailed information can be obtained by sending a request or through direct contacts with

chambers of commerce, SME agencies or business support centres. However, the quality, extent and accessibility of the information could be improved.

Most economies still lack a centralised SME portal. In Croatia, extensive information is available online but spread across various websites. In Montenegro, SME-related information is available on the website of the Directorate for SME Development. However, information is usually updated on an *ad hoc* basis. In the Former Yugoslav Republic of Macedonia, the APPRM website contains some information but very few links to other relevant websites. In Bosnia and Herzegovina, online information is fragmented and not regularly updated. In Kosovo, the SME agency's website provides information which is neither comprehensive nor regularly updated.

Other economies' portals are not yet operational. In Serbia, the NARD portal is still under construction. This new portal should provide extensive and regularly updated information to SMEs and entrepreneurs. In Albania, the AIDA portal, which is intended for both foreign investors and SMEs to use, still needs to be fully activated.

In Turkey, there is a centralised portal dedicated to SMEs (www.kobi.org.tr) which provides information that small businesses need for their operations as well as links to support programmes. However, it is not always user friendly and some of the links to other websites are broken.

Table 5.2. **Scores for Sub-dimension 5a.2: Information services for SMEs**

		ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Availability and accessibility of information	2012	2.50	2.50	4.50	2.00	2.50	3.00	4.00	4.00
	Change since 2009	+0.50	+0.50	0.00	-1.00	-0.50	0.00	0.00	n.a.
Quality of online portal	2012	2.00	2.00	3.00	2.50	1.00	2.50	2.50	3.50
	Change since 2009	-1.00	0.00	-1.00	-0.50	-2.00	+0.50	-1.50	n.a.

Support for start-ups

Overall, there have been no major developments regarding incubators since the last assessment. Croatia, the Former Yugoslav Republic of Macedonia and Serbia received the same scores as in 2009. In Croatia, the 24 business incubators in operation continue to primarily provide basic services rather than high value-added and technology-oriented support. Limited efforts have been made to develop exit strategies for tenants. In the Former Yugoslav Republic of Macedonia, there are still just three business incubators in Skopje, Bitola and Strumica but the government plans to establish eight new ones between 2012 and 2015. In Serbia, there are currently 16 incubators in operation. However, none of these incubators were allocated direct funding in 2011; they only received indirect financial support through regional development programmes and donor initiatives.

In Turkey, the network of incubators comprises 15 Business Development Centres – which typically provide office space, training and mentoring – and 29 technology-oriented Technology Development Centres. The SME Strategy and Action Plan for 2011-13 plan the establishment of additional business incubators.

Bosnia and Herzegovina has a relatively well-developed network of business incubators. The economy has 13 operating incubators, including 5 in Republika Srpska (RS) and 8 in the Federation of Bosnia and Herzegovina (FBiH). However, their legal status remains to be clarified.

While they still score poorly, Albania and Montenegro have made some progress. In Montenegro, two business incubators are operating in Podgorica and Bar and the establishment of a third one is planned in Berane. In Albania, the recently approved Strategic Programme for the Development of Innovation and Technology of SMEs (2011-16) plans to establish new incubators. Kosovo is lagging behind the rest of the region. The four business incubators located in Decan, Gjilan, Shtime and Drenas are still in the pilot phase.

Start-ups benefit from a good degree of advisory support in Croatia, Serbia and Turkey. In Croatia, consultants certified under the HAMAG Business Consultant Project offer services to start-ups through centres for entrepreneurship, development agencies, incubators and technological parks. In Turkey, advisory support is primarily provided through KOSGEB's Business Development Centres and regional development agencies. Additional advisory support providers include branches of the Union of Chambers and Commodity Exchanges of Turkey (TOBB), the Confederation of Turkish Craftsmen and Tradesmen (TESK), the Employment Agency, municipalities, and NGOs. In Serbia, the NARD network of regional agencies, the business centres of the National Employment Service and the regional chambers of commerce provide advisory support under the start-up loan programme and the subsidies for self-employment programme.

In the Former Yugoslav Republic of Macedonia and Montenegro, advisory support to start-ups is less developed. New firms can receive support through incubators and business centres and in Montenegro the Employment Agency's network also provides consultancy support to start-ups. The Montenegrin SME Strategy plans to further develop non-financial support to start-ups.

Advisory support to start-ups remains very limited in Albania and Kosovo. In Kosovo, support is provided through Business Advisory Centres but there is no clear government commitment to further develop such support. In Albania, the government does not allocate specific support to start-ups.

Financial support for start-ups

In addition to advisory services, some economies offer a broad range of financial support tools to start-ups. In Croatia, start-ups are supported primarily through grants, guarantees and subsidised loans. In Serbia, financial support to start-ups includes favourable start-up loans, mini-grants from the Innovation Fund and subsidies from the National Employment Service to the unemployed starting a business. In Turkey, KOSGEB provides loans and grants through the Entrepreneur Support Programme to entrepreneurs who have completed the applied entrepreneurship training or who are established in Business Development Centres (ISGEM). In practice, however, start-up projects account for only a small share of KOSGEB's activities.

In the Former Yugoslav Republic of Macedonia and Montenegro, financial support to start-ups is still at an early stage of development. In Montenegro, the Investment Development Fund supports start-ups through favourable credit lines and guarantees and the Employment Agency provides credit support to the unemployed starting a business. In the Former Yugoslav Republic of Macedonia, a small-scale voucher scheme has been in place since 2005 but insufficient funding has limited its impact.

In the remaining economies, very few options are available to start-ups seeking financial support. In Bosnia and Herzegovina, a small-scale voucher scheme for SME support services was launched in July 2011 as part of the EU-sponsored EURELSMED

project. The government also provides grants to start-ups in the different entities but the total budget allocated to grants is very small. In Kosovo, the voucher scheme implemented by the SME Support Agency in 2010 was discontinued in 2011. Finally, only small donor grant schemes are available to Albanian start-ups.

Table 5.3. **Scores for Sub-dimension 5a.3: Support for start-ups**

		ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Business incubators	2012	2.50	3.50	4.00	2.00	3.00	2.50	3.50	4.00
	Change since 2009	+1.00	0.00	0.00	0.00	0.00	+0.50	0.00	n.a.
Advisory support for start-ups	2012	1.50	2.00	4.00	2.00	3.00	3.50	4.00	4.50
Financial support for start-ups	2012	2.00	2.50	4.50	2.00	3.50	3.50	4.00	4.50

Box 5.1. **KOSGEB's Entrepreneurship Support Programme**

Turkey's SME Development and Support Organisation (KOSGEB) implements this programme to support the establishment of new businesses and disseminate an entrepreneurial culture.

The Entrepreneurship Support Programme comprises three sub-programmes:

1. Applied Entrepreneurship Training.
2. Start-up Capital Support.
3. Business Incubator Support.

The training programme includes free-of-charge practical training courses on topics such as business idea development, the preparation of business plans and market surveys as well as workshop modules to develop entrepreneurial abilities.

Entrepreneurs who have completed the Applied Entrepreneurship Training and start-up firms established in Business Development Centres (ISGEMs) can apply for start-up support under the New Entrepreneur Support sub-programme. Financial support is available in the form of loans (fixed investment support) or grants for such things as company establishment, machines and materials, and general expenditures. Co-financing is required in both cases.

Source: KOSGEB website www.kosgeb.gov.tr.

The way forward

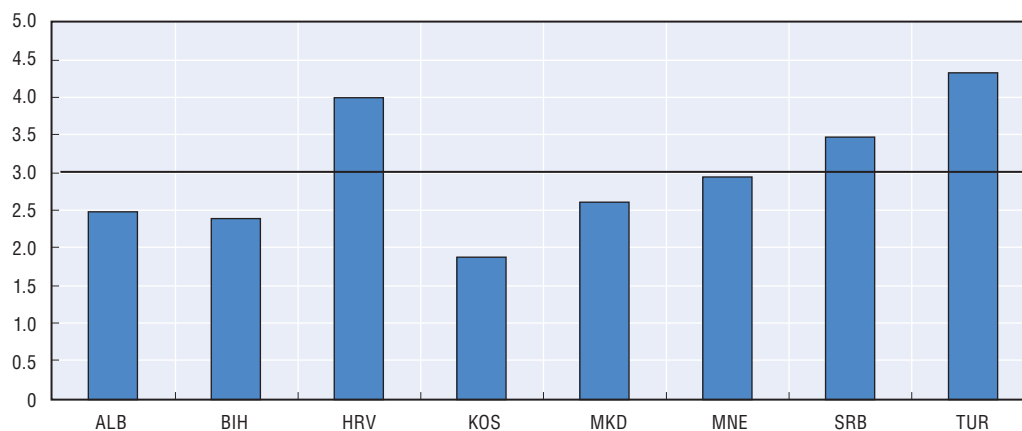
Business support services are unevenly developed across the region, particularly for start-ups. To move forward, governments will have to pay more attention to start-ups in their policy frameworks as well as through specific support measures.

Up until now, support to SMEs has largely revolved around basic services but these should be complemented with services that add more value. The range of services should be broadened with a view to offering more technological support, skills development through training and coaching, and strategic assistance through advice and consulting.

There is also a continuing need to improve access to business information. Information on starting and conducting a business remains fragmented across different sources. There are still few web portals specifically dedicated to SMEs, making access to relevant information complicated and time-consuming.

Finally, governments should adopt more strategic approaches towards the development of business support services. In many economies, business support is provided only as part of *ad hoc* and donor-sponsored initiatives. More co-ordinated and long-term approaches will contribute to bridging existing gaps and limit the number of overlaps between business support services.

Figure 5.2. **Overall scores for Dimension 5a: Support services for SMEs and start-ups**



Note: The line indicates the regional average of the policy dimension.

Source: SBA assessment 2012.

DIMENSION 5b: PUBLIC PROCUREMENT

Introduction

SMEs face more obstacles to accessing public procurement than large firms. While public procurement represents an important source of revenue for firms of all sizes, small firms have less opportunity to benefit from it due to their small size and limited access to information. According to recent research (European Commission, 2010), in EU countries, the share in public procurement that SMEs could secure for themselves in 2006-08 was 14 to 21 percentage points lower than their overall weight in the economy (as measured by combined business turnover), particularly in the case of micro and small firms (European Commission, 2010).

The large size of contracts is generally the most important barrier for SMEs accessing public procurement (European Commission, 2010). Other important barriers are the overly complicated procedures that have to be carried out just to qualify for the tender. Limited information, lack of clarity in how tender documents are written, and a lack of appropriate debriefing are also obstacles that disproportionately affect SMEs in accessing public procurement.

Assessment framework

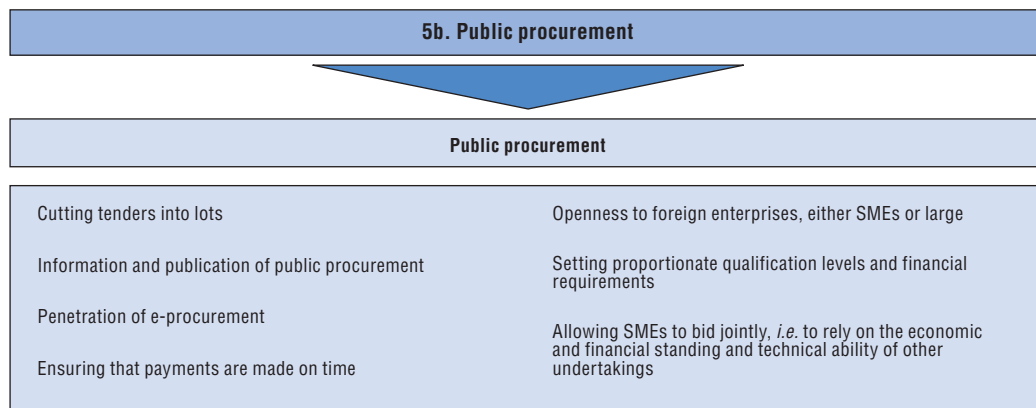
Dimension 5b analyses the policies and tools in place in the EU pre-accession region to allow SMEs better access to the market of public procurement. The dimension focuses on six indicators:

The indicators on cutting tenders into lots and setting proportionate qualification levels and financial requirements assess the extent to which public authorities use tools to account for the small size of firms bidding in the tenders and to provide them with equal opportunities.

The indicator on information and publication of public procurement measures how far information on public procurement is centralised and is free of charge for all participants, and whether there is also training and a helpdesk available to provide support for interested firms. Penetration of e-procurement measures the existence and implementation of electronic procurement, starting from the provision of information on procurement online to the electronic submission of tenders.

Ensuring that payments are made on time focuses on the existence of legislation imposing strict deadlines for payments from public authorities, and penalties in case of non-compliance. Finally, openness to foreign enterprises, either SMEs or large enterprises, ensures a fair level of competition.

Figure 5.3. **Assessment framework for Dimension 5b**



Analysis

Overall the economies in the Western Balkans and Turkey made visible progress with regards to public procurement. All public procurement laws make it possible to cut tenders into smaller lots, a measure that can definitely increase the chances of SMEs obtaining a consistent share in public procurement offers.

A visible effort has also been made to publish information on public procurement. This information is centralised at a national level and is available free of charge. Moreover, in economies such as Kosovo, the Former Yugoslav Republic of Macedonia and, Montenegro, companies are offered a dedicated helpdesk and training on procurement opportunities. This is a very positive sign and should be replicated in other countries of the region.

The system is, legally at least, open and transparent and all relevant legislation allows foreign economic operators to compete for public tenders on an equal basis with domestic companies.

The region also appears to be making efforts to provide e-procurement solutions. The system seems to be the most advanced in Albania and the Former Yugoslav Republic of Macedonia where, according to the information collected, it is possible to handle tenders electronically without the need for any paper-based formal procedure. Turkey is also at advanced stage of planning the implementation phase of its e-procurement.

The main deficiency is the lack of any specific policy approach aimed at combating late payments. The economies are lagging behind with the drafting and the implementation of laws dealing with “late payment”. Croatia seems to be the most advanced economy in this field, and has a law on late payments imposing strict deadlines for payments and penalties in case of non-compliance with agreed deadlines.

On the basis of the responses to the questionnaires received, it is difficult to draw any conclusions about to what extent public procurement systems differentiate between qualification levels and financial requirements, especially when it comes to SMEs. The exception is Turkey, where SMEs are no longer required to present a certificate on work experience, reducing the number of documents needed. Various studies and training are ongoing regarding better guidelines for SMEs on tendering procedures and qualification criteria.

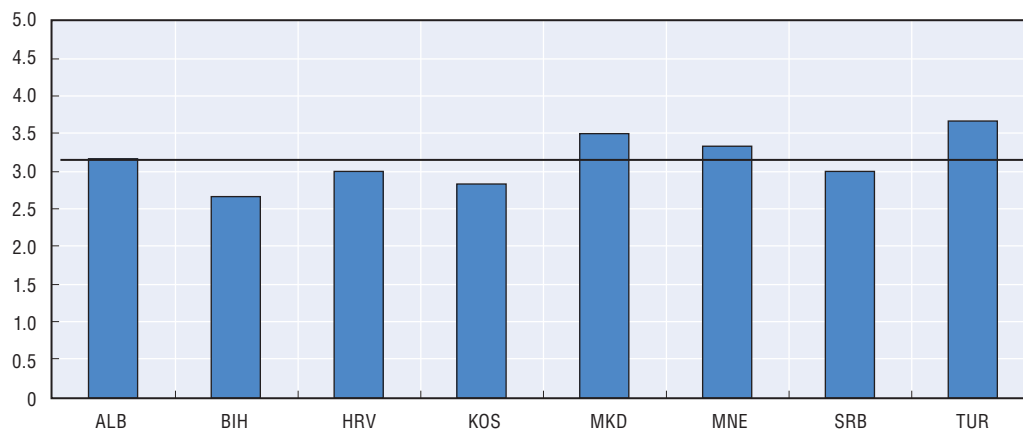
While all of the economies are making tangible efforts to improve the public procurement framework, it is of the utmost importance that they deepen their efforts in further implementing e-procurement practices and developing a late payment law.

Table 5.4. **Scores for Dimension 5b: Public procurement**

	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Cutting tenders into lots	4.00	4.00	4.00	4.00	4.00	4.00	4.00	5.00
Information and publication of public procurement	3.00	4.00	3.00	5.00	4.00	4.00	4.00	5.00
Penetration of e-procurement	4.00	3.00	2.00	2.00	4.00	3.00	1.00	3.00
Ensuring that payments are made on time	1.00	1.00	3.00	1.00	1.00	1.00	2.00	2.00
Openness to foreign enterprises, either SMEs or large	4.00	3.00	5.00	4.00	4.00	5.00	4.00	4.00
Setting proportionate qualification levels and financial requirements	3.00	1.00	1.00	1.00	4.00	3.00	3.00	3.00
Weighted average	3.25	2.75	3.00	2.75	3.50	3.25	3.00	3.75

The way forward

The Western Balkans and Turkey should treat Croatia as a role model and design their policies towards late payments, as laws on combating them are a prerequisite for accession to the EU. They need to improve their policies on qualification levels and financial requirements for access to public procurement systems, and these policies should in particular be related to SMEs. Furthermore, they need to devote more resources to further implementing a comprehensive e-procurement framework.

Figure 5.4. **Overall scores for Dimension 5b: Public procurement**

Note: The line indicates the regional average of the policy dimension.

Source: SBA assessment 2012.

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European Commission (2010), *Evaluation of SMEs' Access to Public Procurement Markets in the EU*, DG Enterprise and Industry, European Commission, Brussels.

PART I

Chapter 6

Access to finance for SMEs

SBA Principle 6: Facilitate SME access to finance and develop a legal and business environment supportive to timely payments in commercial transactions

This chapter assesses policy areas defined under SBA Principle 6. The principle measures progress in access to finance for SMEs and the development of a legal and business environment conducive to timely payments in commercial transactions. It is made up of two sub-dimensions: the sources of external finance for SMEs and the legal and regulatory framework.

Access to finance is one of the main challenges faced by enterprises of the EU pre-accession region. According to BEEPS 2009, over 45% of micro, small and medium enterprises (MSMEs) in the Western Balkans, and about 30% in Turkey perceived access to finance as a moderate to severe obstacle to doing business. SMEs largely rely on internal sources of finance, which have been negatively affected by the current global crisis and the recent economic slowdown in the region, further restricting their growth. Bank lending remains the main source of external finance but banking sector credit growth in the Western Balkan region suffered a significant decline in 2009. Bank lending has been affected by tighter credit conditions, including tighter credit standards, stricter funding conditions and more non-performing loans as well as decreases in the demand for loans. Credit growth slightly recovered at the end of 2010, but remained subdued in 2011 reflecting the economic slowdown caused by spillovers from the euro zone crisis. This is mainly due to strong trade, investment, remittances and financial linkages between the region and the euro zone.

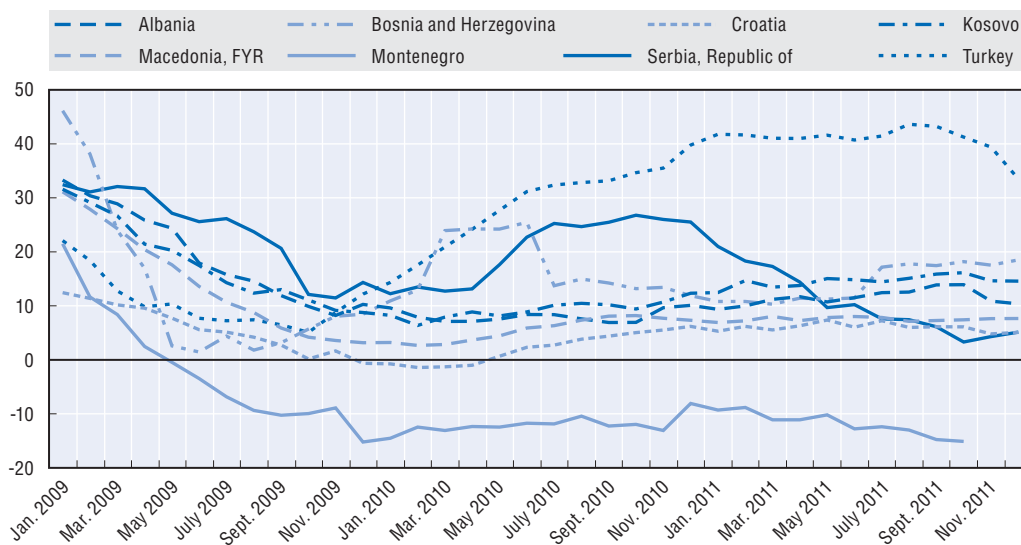
Introduction

For enterprises to grow it is essential that they have access to finance, and this is considered one of the main challenges faced by enterprises of the region. According to BEEPS 2009,¹ over 45% of micro, small and medium enterprises (MSMEs) in Western Balkans and about 30% in Turkey perceived access to finance as a moderate to severe obstacle to doing business. SMEs largely rely on internal sources of finance, which have been negatively affected by the current global crisis and the recent economic slowdown in the region, further restricting their growth.

Bank lending remains the main source of external finance but credit growth in the banking sector in the Western Balkan region suffered a significant decline in 2009. Bank lending has been affected by tighter credit conditions, including tighter credit standards, stricter funding conditions and increasing non-performing loans as well as decreases in the demand for loans. Credit growth slightly recovered at the end of 2010, but remained subdued in 2011 reflecting the economic slowdown caused by spillovers from the euro zone crisis. This is mainly due to strong trade, investment, remittances and financial linkages between the region and the euro zone (see Figure 6.1).

Figure 6.1. **Growth in domestic credit to the private sector**

In %, 2009-2011



Source: IMF-International Financial Statistics.

The euro zone sovereign debt crisis and particularly the uncertainties in the euro zone financial system have had a negative impact on the region's banking systems, especially the Western Balkans where banking is majority owned by the large euro zone banks.

Around 75% of the banking sector in Serbia is owned by euro zone banks, and up to 90% of the sector in other economies of the region. Greek banks have a significant share in the market in economies like Albania, the Former Yugoslav Republic of Macedonia and Serbia. Both the Western Balkans and Turkey have already seen some contraction in lending from parent banks. Although banks in some places, such as Albania, have tried to replace some of this parent funding with deposits, the reduction in funding has led to a credit contraction. The ratio of domestic credit to GDP remains relatively low, ranging from 39% in Albania to about 72% in Croatia in 2011. Bank deleveraging² limits the availability of credit throughout the region, and the level of non-performing loans continue to grow. SMEs have been particularly affected: bank lending to SMEs was estimated at only 5% of GDP in Bosnia and Herzegovina, rising to about 10% of GDP in other economies in the region in 2010.³

Turkey's real economy continues to grow buoyantly, supported by proactive government policies. Its banking sector is less integrated with the euro zone banks and credit growth has continued, reaching over 30% from mid-2010. However, market uncertainty over the euro zone debt crisis has led to foreign exchange pressures since August 2011, resulting in less liquidity and a slowdown in lending growth, as well as capital outflows.

Table 6.1. **Banking sector indicators**

In percent

	Domestic credit to GDP		Non-performing loans (NPLs) as % of total loans		Asset share of foreign-owned banks	Asset share of state-owned banks
	2008	2011	2008	2011 ¹	2010 ²	2010 ²
ALB	35.2	39.0	6.6	18.9	92.4	0.0
BIH	57.8	55.0	3.1	11.8	94.5	0.8
HRV	64.4	72.0	4.8	12.2	90.3	4.3
KOS	33.1	36.0	3.0	5.7	90.0	0.0
MKD	43.1	46.0	7.8	9.5	93.1	1.4
MNE	86.9	68.6	7.2	19.7	88.4	0.0
SRB	39.4	49.0	6.7	11.9	75.3	16.0
TUR	31.8	50.0	3.6	2.7	16.6	31.6

1. Data as of September 2011 for Albania, Croatia, the Former Yugoslav Republic of Macedonia and Montenegro.

2. End of 2009 for Albania, Bosnia and Herzegovina and the Former Yugoslav Republic of Macedonia, end 2008 for Serbia.

Source: World Economic Outlook Database (WEO), National sources and EBRD banking survey.

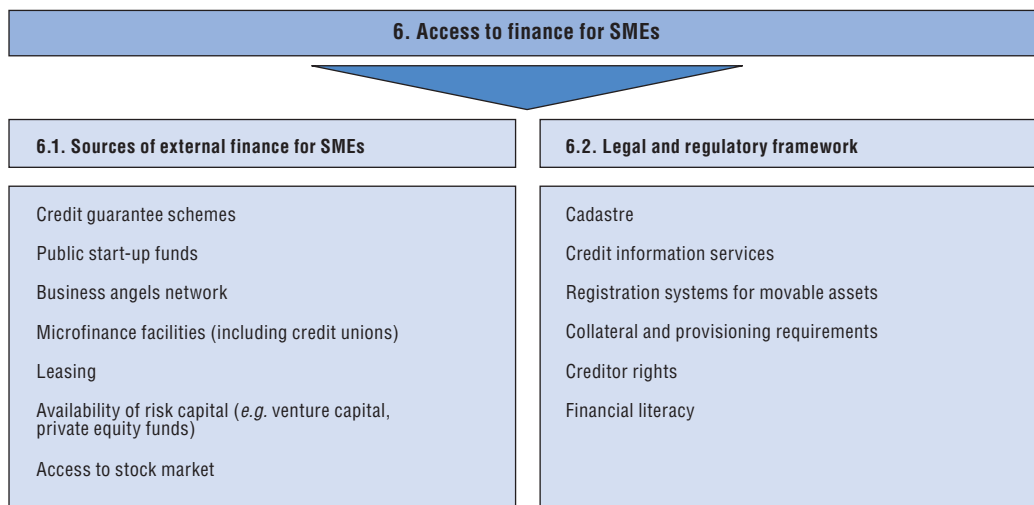
Assessment framework

Dimension 6 is made up of two sub-dimensions: sources of external finance for SMEs and the legal and regulatory framework. As with the 2009 SME Policy Index, this exercise does not consider all sources of external finance as that would require a complete review of the supply and demand of all financial instruments. The assessment is based on the European Union's Small Business Act which sets out potential instruments that could be used by governments in order to facilitate access to finance by SMEs.

New indicators have been introduced to this dimension to give a more comprehensive and complete view of the obstacles to accessing external funding faced by SMEs. There are four new indicators under the sources of external finance sub-dimension. These are: the presence of public, self sustainable, start-up funding facilities targeted to specific groups; business angel networks; microfinance facilities and access to the stock market. In the

legal and regulatory sub-dimension, a new indicator on creditor rights assesses the extent to which laws on secured transactions are developed and enforced as well as the ease with which a creditor can get ownership of the collateral in case of default. Finally, this assessment also looks at financial literacy as another factor that affects both demand for and supply of finance.

Figure 6.2. **Assessment framework for SBA Principle 6**



Analysis

Sources of external finance

The government can play an important role in bridging the financing gap and encouraging banks to lend to SMEs. This is especially the case in a period of economic slowdown, as SMEs lose their internal resources and need to rely more on external sources of finance just as banks decrease lending. There is limited public support for SMEs in the region and what little there is has been affected by fiscal constraints worsened by the slowdown in growth in all of the economies except for Turkey. Credit guarantee schemes are more developed in Bosnia and Herzegovina, through the regional development agencies; Croatia, through the Croatian agency for SMEs (HAMAG); and Turkey, through the Credit Guarantee Fund. On the other hand credit guarantee schemes have decreased since 2009 in the Former Yugoslav Republic of Macedonia due mainly to fiscal constraints.

Public start-up funding facilities can be essential for businesses in their initial stages. These publicly-funded schemes are designed to encourage new and growing businesses and may be targeted at specific groups of individual entrepreneurs such as women or young entrepreneurs. There is little public support for start-ups in the region. The best performers are Turkey, through KOSGEB,⁴ which is especially focused on women and disabled people; Croatia (HAMAG and ME,⁵ targeting youth and disabled people), and Serbia (the Development Fund, targeting newly established SMEs). The Former Yugoslav Republic of Macedonia and Montenegro are also considering start-up support for the unemployed.

Leasing is particularly attractive financing tool for SMEs and a comprehensive and well-established legal framework is needed to fully develop leasing activities. Although

such a legislative framework is in place across the region, leasing activity is relatively low, except in Croatia where it amounts to 14% of GDP and Turkey (8% of GDP), and to a lesser extent in Montenegro and Serbia. Albania, the Former Yugoslav Republic of Macedonia and Serbia have performed slightly less well than in 2009, due to the negative effects of the crisis on bank funding for leasing and on the quality of leasing companies' portfolios.

Microfinance institutions (MFIs) are important in particular because of their proximity to smaller borrowers. Governments may assist the microfinance sector, notably by regulating skills and risk-taking behaviour and liberalising banking services in order to make deposit taking easier. Microfinance is relatively developed across the Western Balkans although its activities have decreased due to the crisis. Microfinance is available across the whole of Albania and Kosovo. In Bosnia and Herzegovina, microfinance is mainly donor financed and has led to over-indebtedness as MFIs do not have access to or chose to ignore credit information systems. In Serbia and Turkey, however, there is still no legal framework for microfinance and it is not developed.

The availability of risk capital is limited in the studied region. Even in Turkey, where active capital from international and local funds accounts for 0.3% of GDP, it is mostly invested in larger enterprises. In Croatia the government has launched Economic Co-operation funds to invest alongside private investors, but during their first two years of their existence the five funds have made only two investments. The other economies have mostly only regional funds. For private equity capital to develop further, the region will have to see further improvement in the general business environment (investment opportunities and exit strategies⁶), the development of local institutional investors such as pension funds willing to commit permanent risk capital, and increased conformity with the OECD Corporate Governance Principles.⁷ In Bosnia and Herzegovina and Montenegro, risk capital remains limited and has negatively been affected by the crisis.

Business "angels" are individuals who invest in start-ups and growing companies in return for an equity stake. This new indicator has been added to the assessment since investments by business angels can fill the gap between venture capital and debt finance, especially for start-ups. Governments could help develop a competitive business angel network by promoting it and attracting investors. There is little or no business angel activity in the region although Croatia and Turkey lead the way with some business angel networks starting to operate in these economies.

The stock market could also be used as a source of long-term finance for SMEs. A legal framework which allows low-capitalised companies to be listed could be beneficial. On the other hand, listing usually entails high costs and a high level of red tape requiring a number of accounting and auditing procedures which SMEs could struggle with. The cost of overcoming the information asymmetries for SMEs also makes it hard for investors to invest in these small firms. There are capital markets across the region but with very limited activity, especially outside government securities. The corporate bond markets are underdeveloped even for large enterprises. Only Turkey has developed the Emerging Companies market (ECM) targeted at small companies, which started in 2009. To facilitate SMEs listing in the ECM, Turkey amended its capital market legislation to ease listing requirements including disclosure obligations. KOSGEB also supports SMEs with packages subsidising the costs of going public at the ECM.

Table 6.2. **Scores for Sub-dimension 6.1: Sources of external finance**

		ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Credit guarantee schemes	2012	3.00	3.50	3.50	1.50	2.00	2.00	3.00	4.50
	Change since 2009	0.00	+1.50	+0.50	-0.50	-3.00	0.00	0.00	n.a.
Public start-up funding	2012	2.00	2.00	3.00	2.00	2.00	2.50	3.50	3.50
Business angel network	2012	1.00	1.50	2.50	1.00	1.50	1.00	2.00	2.50
Microfinance facilities	2012	4.00	3.00	3.00	3.50	3.50	3.00	3.50	2.50
Leasing	2012	3.50	3.00	4.50	2.50	3.50	4.50	4.00	4.00
	Change since 2009	-0.50	0.00	+0.50	+0.50	-0.50	+0.50	-1.00	n.a.
Availability of risk capital	2012	2.00	1.00	3.50	1.00	2.00	2.00	3.00	4.50
	Change since 2009	0.00	-3.00	-0.50	0.00	-2.00	-1.00	0.00	n.a.
Access to the stock market	2012	2.00	2.50	3.00	1.00	1.50	3.50	3.50	3.50
Overall weighted average for 6.1	2012	2.50	2.50	3.25	1.75	2.25	2.75	3.25	3.50

Legal and regulatory framework and financial literacy

Property and land registration (cadastre) has improved, particularly in Bosnia and Herzegovina and Serbia. Croatia has a fully functioning cadastre registry, e-Katastar, available online, and in Turkey around 97% of land has been registered. Serbia improved its cadastre during 2011 and land registration accelerated.

The coverage of credit information systems and the quality of their information has improved throughout the region since 2009. Significant progress has been made in particular in Albania, with the establishment of a public registry in 2009, and in the Former Yugoslav Republic of Macedonia where a fully functioning private credit bureau has been in place since 2011. Turkey has both private and public bureaus and the private bureau has included information on firms as well as individuals since 2010. In Croatia and Serbia the information from the private bureau is available to financial institutions only (as it is in Montenegro for the public credit bureau).

Having a central and unified registry for movable assets facilitates the use of assets other than real estate for collateral. It can also help control the use of the same collateral for multiple loan applications. There have been some improvements in collateral registries for movable assets, particularly in Croatia where information is available online through FINA, Croatia's Financial Agency, and Bosnia and Herzegovina, where a registry was created in 2009 with support of the United States Agency for International Development (USAID). This means SMEs can use their movable assets as collateral for credit. It is not yet possible to register assets in Turkey electronically.

No improvements have been made since the 2009 assessment in the area of collateral requirements, which remain high in the region.⁸ On the contrary, banks have become more risk averse due to the crisis which has had a negative effect on collateral requirements for SMEs. A legal environment which protects creditors' rights by providing for adequate enforcement mechanisms is likely to be beneficial for SME lending as such rules would normally facilitate risk assessment and debt collection by creditors. Creditor rights are generally ensured on paper, in particular in the Former Yugoslav Republic of Macedonia, Montenegro, Serbia and Turkey although in practice the effectiveness of the process of seizing collateral in case of bankruptcy needs improvement.

Box 6.1. The legal and regulatory framework for access to finance in Serbia

Important improvements in the legal and regulatory framework have been seen in Serbia since 2009. The land registration system has notably improved. A private credit bureau has been operating since 2004 and its coverage has improved, reaching 100% of adults at the end of 2011. The credit bureau provides positive and negative data on borrowers for a period of more than three years. Creditors are exclusively responsible for the accuracy and the maintenance of the data shown in the credit bureau reports.

The Serbian Business Registers Agency (SBRA) was established by the Business Registers Agency Law with the support of the Swedish government, the World Bank and USAID. In 2005 the Republic of Serbia began to implement reforms in the area of business registration to facilitate business activities in the country. The creation of the SBRA led to the harmonisation of Serbian legislation with European standards and provided a registration system for financial leasing and pledge rights on movable assets and rights. The Register of Pledges on Movable Property and Rights started its operations in 2005 and is maintained by the Business Registers Agency. The Register of Pledges is a single electronic database containing data on pledges. All interested parties have access to the data contained in the Register of Pledges through the website of the Agency. The Register has been designed in accordance with the latest trends developed in the European Union, known as Electronic Governance and One-Stop-Shop.

This report has introduced financial literacy as a consideration to assess whether national strategies include any evaluation of the level of financial literacy and promote educational programmes to improve it. This can impact on the supply and demand of finance. Firms need to be aware of every financial product on the market and have adequate levels of skills and transparency in order to be considered creditworthy. There is no comprehensive survey-based evidence available, but financial literacy in the region remains low. Albania and Croatia's governments have recently shown increasing awareness about the need to increase financial literacy. In Turkey financial literacy is higher and Capital Market Board and Central Banks have launched initiatives to improve financial literacy.

Table 6.3. Scores for Sub-dimension 6.2: Legal and regulatory framework

		ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Cadastre	2012	3.50	4.00	4.50	3.00	3.00	3.00	3.50	4.00
	Change since 2009	+0.50	+1.00	+0.50	0.00	0.00	-1.50	+0.50	n.a.
Credit information services	2012	4.00	3.50	3.00	2.00	4.50	3.00	4.50	4.00
	Change since 2009	+1.00	-0.25	+0.75	+0.50	+3.00	0.00	+0.75	n.a.
Registration system for movable assets	2012	3.00	4.50	4.00	2.50	2.50	4.00	5.00	3.00
	Change since 2009	0.00	+0.75	+1.00	+0.25	-0.50	+0.25	+1.25	n.a.
Collateral	2012	3.00	3.00	3.50	2.00	3.00	3.00	3.00	4.00
	Change since 2009	-1.00	-2.00	-0.50	0.00	0.00	+1.00	0.00	n.a.
Creditor rights	2012	3.00	2.50	3.00	2.50	4.00	4.00	5.00	4.00
Overall weighted average for 6.2	2012	3.25	3.50	3.50	2.50	3.50	3.50	4.25	3.75

The way forward

Although external sources of finance are generally available in the region, they have been significantly affected by the crisis. Banking continues to be the main source of finance despite the significant negative effects of the global crisis on this sector and the remaining high risks to bank lending related to the euro zone crisis. After banking, microfinance and leasing are the most developed sources of finance; access to alternative financial instruments, such as venture capital and private equity, remain limited in scope. The legal and regulatory environment has generally improved compared to 2009, although progress is not uniform across the region. In particular, the efficiency and quality of land and movable asset registries and credit information systems have improved.

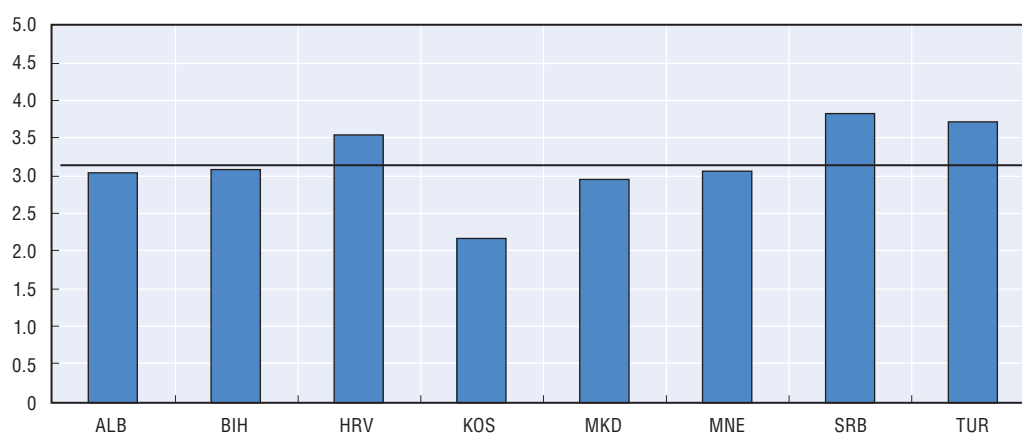
Giving SMEs less onerous requirements to be listed on markets could encourage them to improve their corporate standards and enable them to access equity capital. Improving the legal framework and the general investment climate would increase investment opportunities, but the development of capital markets and risk capital is constrained by small markets, lack of domestic institutional investors and lack of corporate governance standards.

Public support for start-ups, while important for addressing market failures, is costly. Therefore, such support should be targeted, non-distorting, effective and operated efficiently through private sector involvement.

Strengthening creditors' rights remains a challenge in Albania, Bosnia and Herzegovina, Croatia, and Kosovo, as the efficiency and level of enforcement is generally weak.

More efforts to assess and increase financial literacy levels could help SMEs access bank and other sources of finance.

Figure 6.3. **Overall scores for Principle 6: Access to finance for SMEs**



Note: The line indicates the regional average of the policy dimension. Weighting: Each indicator under sources of external finance and financial literacy has a weight of 1, and legal and regulatory indicators a weight of 3, where 1 indicates “least important” and 3 “most important”.

Source: SBA assessment 2012.

Notes

1. Business Environment and Enterprise Performance Survey, EBRD.
2. Banks attempting to decrease their financial leverage.
3. Internal estimate based on our survey sent to resident offices in these countries.
4. Small and Medium Enterprises Development Organization.
5. Ministry of Entrepreneurship and Crafts.
6. “Exit strategies” refer to the methods by which a venture capitalist intends to get out of an investment.
7. The OECD Corporate Governance Principles is an international benchmark for good corporate governance.
8. It represents an obstacle for SMEs while asking for a loan because SMEs might lack adequate collateral to access finance.

PART I

Chapter 7

Standards and technical regulations

SBA Principle 7: Help SMEs to benefit more from the opportunities offered by the Single Market

This chapter assesses policy areas defined under SBA Principle 7. The principle proposes the implementation of standards and technical regulations that will ease access to the Single Market and liberalise trade between the EU and the Western Balkans and Turkey. This chapter analyses the level of progress of the EU pre-accession region in eliminating technical trade barriers for industrial and agricultural products.

The assessment shows that, in general, the economies of the region are complying with the implementation of trade-related regulatory standards for industrial and agricultural products. Croatia and Turkey have performed best at eliminating trade barriers. Their strong performance can be explained by Croatia's finalisation of accession negotiations with the EU and the customs union between the EU and Turkey, which has strongly promoted bilateral trade and investment relations since it was put in place in 1996. For the other economies in the region, technical trade barriers currently represent one of the most important obstacles with regard to the liberalisation of trade with the EU.

Introduction

Principle 7 of the SBA is strongly related to the trade agenda as it aims to eliminate technical trade barriers in the market for industrial and agricultural products for the region.

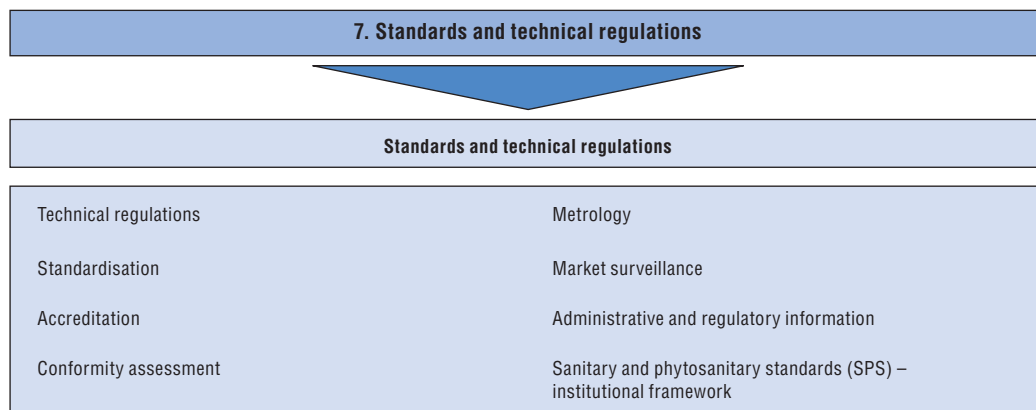
Almost all the Western Balkans have been offered Stabilisation and Association Agreements (SAAs) by the EU and have been granted autonomous trade preferences. These preferences allow nearly all exports to enter the EU without customs duties or limits and quantities. The preferential regime has contributed to an increase in the Western Balkans' exports to the EU. In 2010, the EU was the region's largest trading partner for both imports (61%) and exports (64.5%). Enlargement countries like Croatia have liberalised bilateral trade with the EU through the accession negotiations. In 1996, a customs union was established between Turkey and the EU abolishing most of the tariffs with respect to bilateral trade.

With tariffs mostly gone, technical trade barriers now represent one of the most important obstacles to the liberalisation of trade between the EU and the countries of the Western Balkans and Turkey. Technical barriers can severely distort trade by preventing market access, protecting domestic producers and discriminating against foreign producers. In particular SMEs have to comply with the trade-related regulatory environment for industrial and agricultural products covering technical regulations, standards, accreditation, conformity assessments, metrology, market surveillance and sanitary and phytosanitary rules.

Assessment framework

Accession to the EU is a strong political priority for all of the eight economies involved in the SBA assessment process. Croatia has already completed its accession negotiations and will join the EU on 1 July 2013 while accession negotiations with Turkey started in 2005. Serbia, the Former Yugoslav Republic of Macedonia and Montenegro have been given candidate status. Albania, Bosnia and Herzegovina and Kosovo are potential candidates, which might be given candidate status pending on progress in political and economic relations with the EU.

Accession to the EU would require the enlargement economies to completely align their relevant legislation with the framework of the European Union and, as far as trade relations are concerned, with the principles of the Single Market. This implies regulatory approximation in areas like public procurement, intellectual property rights and customs co-operation. As far as trade in industrial and agricultural products is concerned, the legal framework for manufactured products and sanitary and phytosanitary standards would have to be aligned with the EU *acquis*.

Figure 7.1. **Assessment framework for SBA Principle 7**

Analysis

Technical regulations

Technical regulations are common requirements or rules about the composition, manufacturing or mandatory labelling of a product. Due to its long-established customs union with the EU, Turkey's legal framework on quality infrastructure is already almost completely in line with the EU framework. In light of its envisaged entry in the EU on 1 July 2013, Croatia has almost finished the full implementation of its legislation which is aligned with the *acquis* for priority sectors in the field of technical regulations. In Albania, Bosnia and Herzegovina, Kosovo, the Former Yugoslav Republic of Macedonia and Serbia legislation is in place for part of the priority sectors but not all of them. In Montenegro, the framework for the new approach in the priority sectors is still at the draft stage, with work continuing on all sectors of the old approach.

Standardisation

Standards can be defined as objects or ideas that are designated as being authoritative. They are shaped by consensus among enterprises, public authorities, consumers and trade unions – through a consultation process organised by independent, recognised European standardisation bodies at national and European level. Harmonised European standards are elaborated by European standards organisations on request from the EC. Croatia has fully adopted European standards and abolished any conflicting national standards. The Croatian Standards Institute is a member of the European Committee for Standardization (CEN), the European Committee for Electrotechnical Standardization (CENELEC) and the European Telecoms Standards Institute (ETSI). The Former Yugoslav Republic of Macedonia has also fully adopted the European standards but due to political restrictions the Macedonian Standardisation Body (ISRM) has not yet applied to become a full member of CENELEC. The Turkish Standards Institution (TSE) was granted full membership in CEN and CENELEC in January 2012 and Turkey has adopted more than 99% of all European standards. Albania, Montenegro and Serbia are affiliate member of CEN and CENELEC. Albania has adopted more than 90% of EU standards, Serbia more than 50% and Montenegro approximately 35%. Bosnia and Herzegovina has adopted 11 279 European standards, but conflicting national standards still exist. Kosovo has adopted 3 800 standards and has not yet become a member of CEN and CENELEC.

Accreditation

Accreditation bodies support the credibility of conformity assessment bodies. Croatia and Turkey have put effective accreditation bodies into place and achieved signature status to the European Accreditation Multilateral Agreement (MLA). The Former Yugoslav Republic of Macedonia has not yet signed the European Accreditation MLA. In Albania, Kosovo, Montenegro and Serbia horizontal legislation on accreditation has been transposed and accreditation bodies in line with EU requirements have been set up. Furthermore, Serbia has applied for the signature status to the European Accreditation MLA. Bosnia and Herzegovina is not yet a full member of EA and the Law on Accreditation is not yet in line with the horizontal *acquis*.

Conformity assessments

Conformity assessments determine whether a process, product or service meets relevant technical standards or fulfils relevant requirements. Before the product is placed on the market, the assessment must demonstrate that it fulfils all the legislative requirements that apply to it, particularly any health and safety requirements. In Croatia, Serbia and Turkey, national accreditation bodies have positively assessed and accredited the conformity assessment bodies. In the Former Yugoslav Republic of Macedonia conformity assessment bodies are upgraded in priority sectors in accordance with EU requirements. National legislation on conformity has been put into place but horizontal legislation is not yet aligned with the EU framework. In Albania, Bosnia and Herzegovina, Kosovo and Montenegro, transposition of EU horizontal legislation is ongoing, but this legislation is not yet fully in line with the EU framework.

Box 7.1. Croatia's accession to the EU

The EU's relations with the Western Balkans are governed by the Stabilisation and Association process. The Stabilisation and Association Agreement with Croatia was put into force in 2005. The agreement aimed to progressively establish a free-trade area between the EU and Croatia focusing on the liberalisation of trade in goods, regulatory approximation and protecting intellectual property.

The accession negotiations with Croatia were closed in June 2011, as Croatia met the closing benchmarks in the remaining areas to be solved. An accession treaty will enable Croatia to probably join the EU on 1 July 2013 provided that the necessary ratifications procedures have been completed. Croatia has achieved a very high level of preparedness to assume the responsibilities of membership upon accession and meet the economic and *acquis* criteria by 1 July 2013. However, Croatia needs to continue building on reforms implemented and capacities developed during the course of accession negotiations.

Good progress has been made in the field of free movements of goods. Alignment with the *acquis* in this chapter is well advanced. However, further efforts are necessary, particularly on the remaining revisions of the horizontal legislation and on the New and Old Approach product legislation in order to bring national legislation fully in line with the EU *acquis*.

Metrology

Metrology is the science of measurement. Accurate measuring instruments, like water and taxi meters and weighing machines, and consistent units of measurement are essential for transactions by consumers and industry in everyday life. Turkey has an effective metrology

infrastructure and legislation in place. In Croatia, the Former Yugoslav Republic of Macedonia and Serbia, the metrology systems are recognised by relevant international and European institutions. Albania, Bosnia and Herzegovina, Kosovo and Montenegro are continuing to upgrade their metrology bodies and institutes in accordance with EU requirements.

Market surveillance

The objective of market surveillance is to ensure that only safe products are placed on the market. In practice, it consists of a series of interlinked activities and measures taken by national authorities to make sure that products placed on the community market comply with all requirements set out in the relevant harmonisation legislation and do not endanger health, safety or any other aspect of the public interest. Market surveillance is organised and performed at national level, where each economy is responsible for surveillance activities on its territory, including taking any necessary action to bring non-compliant products into compliance, to impose restrictive measures such as bans or withdrawals and to apply sanctions. In the Former Yugoslav Republic of Macedonia, Serbia and Turkey, comprehensive market surveillance systems in accordance with EU requirements are being put in place. In Albania, Croatia, Kosovo and Montenegro, market surveillance systems have been drafted and the transposition of EU horizontal legislation has been adopted. In Bosnia and Herzegovina, legislation on market surveillance is not yet aligned with the 2008 *acquis*.

Administrative and regulatory information

The governments of the Western Balkans and Turkey need to inform companies about the requirements for exports and investment opportunities in the European market. This is particularly true for SMEs which often lack the information needed in order to successfully access the European and international markets. In Croatia, the Former Yugoslav Republic of Macedonia, Serbia and Turkey, an integrated export promotion network with major focus on the Single Market has been established. Chambers and Enterprise Europe Network (EEN) offices provide full and up-to-date online information about Single Market regulations and member states' requirements. In Albania, AIDA is responsible for providing information and training about the EU market and other Single Market issues. In Montenegro, information on export opportunities in the Single Market is mainly provided by the government and via the EEN. In Kosovo, the Investment Promotion Agency is responsible for delivering information on exports and Single Market related regulations. In Bosnia and Herzegovina, exporters are informed by the Export Promotion Agency as well as related departments in the Ministry of Trade and Economic Relations and the Export Council on Single Market opportunities.

Sanitary and phytosanitary standards (SPS) – institutional framework

The World Trade Organisation (WTO) sets constraints on agricultural policies in the form of sanitary and phytosanitary standards (SPS). Sanitary rules relate to food safety (bacterial contaminants, pesticides, inspection and labelling) and phytosanitary rules relate to animal and plant health with respect to pests and diseases. SMEs exporting agricultural products to the EU have to comply with these rules when accessing the Single Market. Croatia, the Former Yugoslav Republic of Macedonia, Serbia and Turkey have well-established SPS bodies with a few limitations but they still need to be fully aligned with European and international standards. Albania, Bosnia and Herzegovina, Kosovo and Montenegro have made further progress in adopting legislation and early implementation

of the legislative framework. National bodies have been set up, but they have some administrative limitations.

Table 7.1. **Scores for Dimension 7: Standardisation and technical regulation**

	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Technical regulations	3.00	3.00	4.00	3.00	3.00	2.00	3.50	5.00
Standardisation	3.50	2.50	5.00	2.00	4.00	2.50	3.50	4.00
Accreditation	3.50	2.00	5.00	3.50	4.00	3.00	3.50	5.00
Conformity assessment	2.50	2.00	4.50	2.00	3.50	2.50	4.00	4.00
Metrology	3.50	3.00	4.00	3.00	4.00	3.50	4.50	5.00
Market surveillance	2.50	1.50	2.50	2.00	3.50	2.50	3.00	3.00
Administrative and regulatory information	3.00	4.00	5.00	2.00	5.00	3.50	5.00	5.00
SPS institutional framework	3.00	3.00	4.00	3.00	4.00	3.00	4.00	4.00
Overall weighted average for 7	3.00	3.75	4.25	2.50	4.00	2.75	4.00	4.50

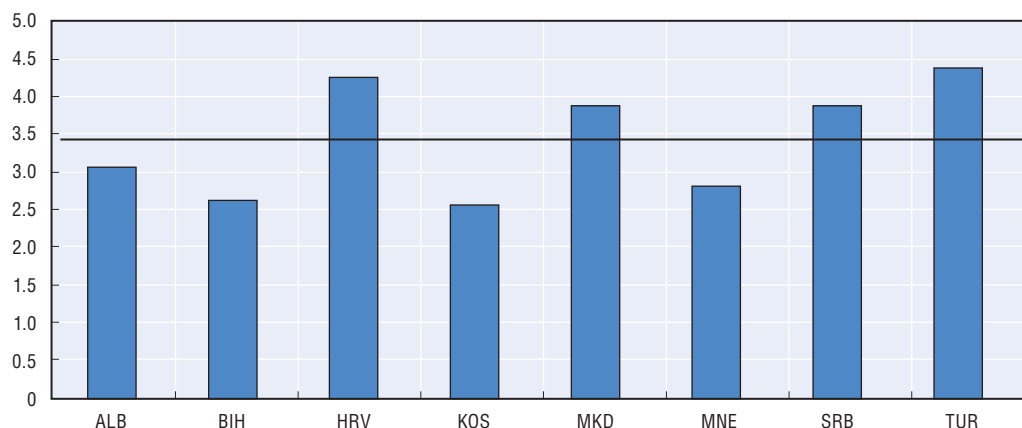
The way forward

As far as technical trade barriers for industrial products are concerned, Croatia and Turkey are the best performing economies in the region. Their strong performance can be explained by the finalisation of accession negotiations with the EU for Croatia and the customs union between the EU and Turkey having strongly promoted bilateral trade and investment relations since it was put in place in 1996. However, there are still further efforts necessary to fully align quality infrastructure with the legislative framework of the EU, in particular for Turkey. For the other beneficiary economies, enhanced approximation with the EU acquis could speed up the accession process with the EU.

In the area of sanitary and phytosanitary rules, the economies of the Western Balkans have achieved considerable progress with respect to aligning their legislation with the EU framework.

Albania, Bosnia and Herzegovina, Kosovo and Montenegro will need to further improve administrative and regulatory information for the business community, particularly SMEs, which have to comply with the legislative environment in the EU.

Figure 7.2. **Overall scores for Principle 7: Standardisation and technical regulation**



Note: The line indicates the regional average of the policy dimension.

Source: SBA assessment 2012.

PART I

Chapter 8

Enterprise skills and innovation

SBA Principle 8: Promote the upgrading of skills and all forms of innovation

This chapter assesses policy areas defined under SBA Principle 8. The principle provides a framework to analyse policies to develop enterprise skills and support innovation in SMEs. The chapter is divided into two policy dimensions: enterprise skills (8a) and innovation (8b). The first policy dimension assesses the policies and practices regarding the development of human capital and their impact on the SME sector. It considers the availability of training, its relevance to SME needs, the quality of the training provided and how well it is targeted for both new and growing enterprises. The second evaluates policies that support innovation and technology transfer, such as the development of a strategic approach to innovation policy, the establishment of innovation and technology centres and the development of a broad range of technical and financial support services.

All the EU pre-accession economies have well-developed training provider networks for management and trade skills with quality assurance frameworks in place. But the assessment found continued weaknesses in intelligence on enterprise skills across most economies. Until governments and businesses finally commit to gathering systematic data on enterprise skills, poor data, including statistics on training for start-ups, will continue to undermine any policy effort to create a skilled and competitive workforce. Innovation policy is at an early stage of development in the Western Balkans and Turkey; budgets for SME innovation support are low and few economies have established a co-ordination body or adopted a sound overarching strategy for innovation. In most economies, innovation policy is limited to small-scale ad hoc initiatives.

DIMENSION 8a: ENTERPRISE SKILLS

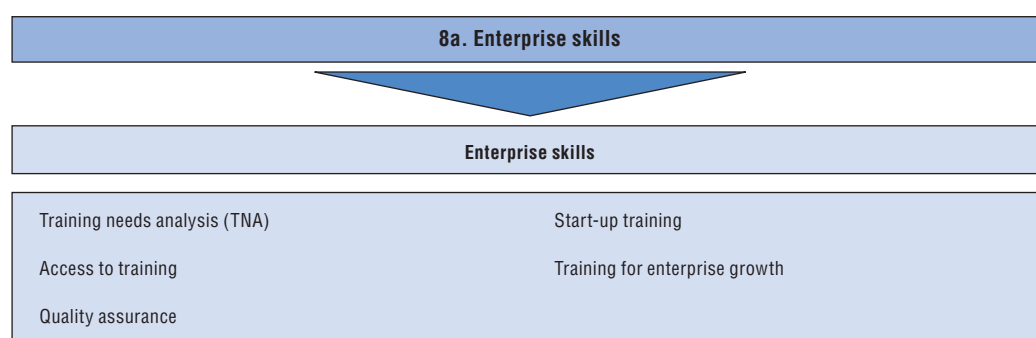
Introduction

Economists and policy makers increasingly consider enhanced knowledge and skills as critical to business performance and wider economic growth. Ready access to quality training services, both vocational and management, is therefore key to building a culture of manpower improvement in the small business sector. This is particularly important for key sectors within each national economy to ensure that businesses can eventually cope with the market forces within the EU internal market following each economy's accession. The Small Business Act lays particular emphasis on improved skills within the small business community. This section considers developments in skills promotion for small businesses. It concludes with follow-up recommendations.

Assessment framework

The assessment framework for enterprise skills addresses five distinct indicators in three sub-dimensions which, taken as a whole, provide a barometer of how each economy is addressing the human capital concerns within the small enterprise sector. First, the assessment considers how information about skills in small businesses is gathered for more informed policy-making. Second, it looks at the availability of training provision to meet enterprise needs and how the quality of that training is assured. Finally, it focuses on training both for start-ups and for expanding enterprises, which is essential in the bid for more and better performing businesses and able to contribute to the twin objectives of growth and jobs.

Figure 8.1. **Assessment framework for Dimension 8a**



Analysis

The key findings of the 2009 assessment were:

- a lack of comprehensive and reliable data on training (including training for start-ups) undermined the potential for better policies to support human capital in the small business sector;

- an institutional framework geared more to training for the unemployed with less developed efforts to upgrade skills for those already employed within small enterprises;
- an evolving drive in most economies to develop quality assurance for training;
- the need for more considered attention to promote skills within small enterprises with potential for growth.

The 2009 report recommended:

- a more concerted effort in all countries to track developments in training in the small business sector resulting in regular and systematic data, backed up with an analytical framework to support the policy-making process;
- improved training provision for occupational and management skills for businesses, including determining how public service training providers can better accommodate the training requirements of those already employed within small enterprises.

Training needs analysis

Any strategic drive to improve skills in the pre-accession region must take as its starting point systematic intelligence and analysis of skills within the economy. Training needs analysis (TNA) aims to provide an empirical basis for improved policy-making and better targeting of resources to support human capital development within and for small businesses. This indicator takes on even more significance since the last assessment with a more invigorated skills drive within the European Union (European Commission, 2008), including the establishment of sector skills' councils and plans to develop an EU-wide "skills panorama" to track skills deficits (European Commission, 2012).

As with the 2009 analysis, it was hard to identify comprehensive statistics on human capital development within small businesses which would allow for a confident assessment of the extent to which enterprises engage in training. Such a deficit of data on manpower issues within small businesses is not confined to the pre-accession region. Research points also to a "scarcity of appropriate data sources" on skills within EU enterprises (CEDEFOP, 2012: 72). Nonetheless, the ongoing support for common skills assessment tools provided by the South East European Centre for Entrepreneurial Learning (SEECCEL) across all economies provides an opportunity for each economy, and the region as a whole, to start a process of more systematic skills tracking. An annual administration of the SEECCEL survey could allow for reliable conclusions to be drawn from the data. The tools could be adjusted to accommodate national interests but these should be accompanied by an agreement to track a common set of variables across the region to allow for comparative assessment.

The initiative of the Croatian Chamber of Economy in establishing enterprise-driven skills intelligence provides a good example of the private sector taking the lead in this area, where it is crucial to engage small enterprises in building up skills intelligence to ensure a better fit between skill needs and training provision. Turkey has a strong public-private sector co-operation framework tied to a five-year industrial strategy. Albania, the Former Yugoslav Republic of Macedonia and Montenegro also have co-operation frameworks but these are looser in structure and less strategic. The role of the regional development agencies in Serbia and the entities of Bosnia and Herzegovina in the data development effort underscores the importance of ensuring the skills agenda is more closely tied to local development objectives. Finally, efforts to track skills by the national investment agency in Albania (AIDA) demonstrate the importance of skills intelligence for inward investment.

All the economies will need to pay more attention to developing intelligence on skills in key sectors. This should address both trade and management skills (see outcomes of OECD company survey at Annex A) and include a) the manpower implications of technology advancements in the sectors concerned and b) the technical knowledge needed to ensure products and services comply with EU internal market and wider international trade requirements. This factor – the internationalisation of small enterprises – provides a new policy reference for all pre-accession economies following EU recommendations for increased trading and co-operation of its small business community at international level (European Commission, 2011).

Table 8.1. **Scores for Sub-dimension 8a.1: Training needs analysis**

		ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Training needs analysis	2012	3.00	2.00	3.00	2.50	3.00	2.50	3.00	3.00
	Change since 2009	+1.00	+0.50	+0.50	0.00	+1.50	0.00	+0.50	n.a.

Access to training and quality assurance

This sub-dimension considers the availability of training provision for small businesses and how the training is quality assured. The assumption is that businesses are more likely to engage in training when it is reasonably accessible and they are assured that training meets certain standards.

All the economies have a well-developed network of training providers, and generally score highly on the “access to training” indicator. Training is primarily provided through the public vocational training system with very limited private sector training support apart from management training. What is not clear is the extent to which small businesses have ready access to the vocational training provision on offer. Services are primarily directed towards those out of work as opposed to those already employed in small businesses. There are three areas where policy makers and the private sector could consider making improvements.

Small business representatives in several of the economies expressed particular concern that training provision was more likely to be tapped by medium-to-large companies than small businesses. Larger companies have two advantages: they have the capacity to define and articulate their training requirements better due to their in-house human resource services and they can connect more easily to the training provider market for training solutions. Small businesses could benefit from “skills brokerage” where an intermediary helps both the business and the training provider to draw up a workable skills development plan (DELNI, 2012).

A second and related issue was the interest of the small business community in a more customised training response to enterprise needs with suggestions that private sector training provision should be more flexible to respond to the market. Sector interest organisations (whether public, private, or public-private) could play a critical role in ensuring that training requirements of small businesses are defined and met by a more responsive training provider market. The establishment of a sector skills council in Croatia takes a step in this direction.

Third, while the assessment uncovered a more developed range of online training provision compared to the 2009 assessment, systemic developments in the area remain far off. Only the plans of the Turkish Foundation for Vocational Training and Small Industry to move beyond individual online training initiatives to more developed provision across a

number of vocational areas suggest moves towards greater innovation in training design and delivery. Policy makers and training providers would do well to consider developing more online training provision both to improve access to training for small business and to increase overall cost efficiency.

Finally, quality assurance for training services is well developed in most economies. A particular factor for improved standards of training providers has been the drive in a number of economies to establish national qualification frameworks. However, there remain gaps in all economies to ensure an all-encompassing quality assurance framework that particularly includes training outside the formal education system. This is the sector which small businesses will increasingly rely on in their bid to improve their products and services within domestic, regional and wider European markets.

Table 8.2. Scores for Sub-dimension 8a.2: Access to training and quality assurance

		ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Access to training	2012	4.00	3.00	4.00	4.00	4.50	2.50	3.00	4.50
	Change since 2009	+3.00	+0.50	0.00	+3.00	+1.50	+1.50	0.00	n.a.
Quality assurance	2012	3.00	3.00	3.50	4.00	4.00	3.50	3.50	3.00
	Change since 2009	+1.00	+1.00	0.00	+2.00	+0.50	+2.50	+0.50	n.a.

Training for start-ups and growing businesses

With new businesses critical for a more dynamic economy the assessment considered the extent to which new start-ups had benefited from training prior to business registration. As with the 2009 assessment, comprehensive data on training for new start-ups remains elusive. Data available in all economies is spread across a range of organisations (primarily training providers) with little effort to synthesise it or correlate it with statistics on newly established businesses. Due to the size of its data sets, reconciliation of statistics on training for start-ups and actual start-ups was only possible in Montenegro. This finds some 52% of new businesses registered in 2009-10 had followed start-up training.

One solution for all economies would be to include a question in the business registration form where new businesses would automatically indicate whether training had featured in their preparations for opening the business. Data collected could be used to direct policy and support in the area.

Data aside, interviews particularly with small business interest organisations underlined how demand for start-up training by public employment agencies and small business support organisations far outweighed supply and linkages between start-up training and access to finance were often sporadic. This can deter aspiring entrepreneurs from starting their businesses. Given the importance of start-ups to an entrepreneurial economy, it would be worth investigating current and future demand for start-up training, including responsibilities and interfaces between the different training providers in the area. More effort should be made to provide training and access to start-up capital within one support package, to include follow-up mentoring support on demand that would see the start-up through its critical early phase of operations. This would not only facilitate the start-up experience but work towards reducing early-phase business failure.

Box 8.1. Applied start-up training support in Turkey

KOSGEB, Turkey's small business agency, provides a start-up package of both training and financial support through its network of local offices. The training involves exercises in such areas as creativity and business ideas development with workshops focusing on market surveys, production and financial planning. The end result is the business plan. Graduates of the training programme are eligible for start-up capital that comprises grant support and loans. The scheme includes preferential lending arrangements with a support ratio of 60% and 70% depending on the development priority of the region where the business is established. For female entrepreneurs and entrepreneurs with special needs, this support ratio is increased by 10%.

For growing businesses, most economies provide dedicated financial support in the form of direct training, subsidies for businesses to engage in training or voucher schemes targeting businesses with growth potential. The criteria used to determine which enterprises qualified for support varied considerably between economies, however. For example, Turkey based it on sales revenues, Kosovo on employment generation and the Former Yugoslav Republic of Macedonia on export orientation. Other criteria had broader application such as Albania's support for businesses co-operating on the creative economy. This mix of criteria across the region undermines the comparative value of the indicator. Before a next assessment, a common set of criteria for promoting training in growth enterprises should be agreed between the participating countries. Alternatively, the indicator could be upgraded to more specifically include the training requirements related to the EU regulatory framework.¹

Table 8.3. Scores for Sub-dimension 8a.3: Training for start-ups and growing businesses

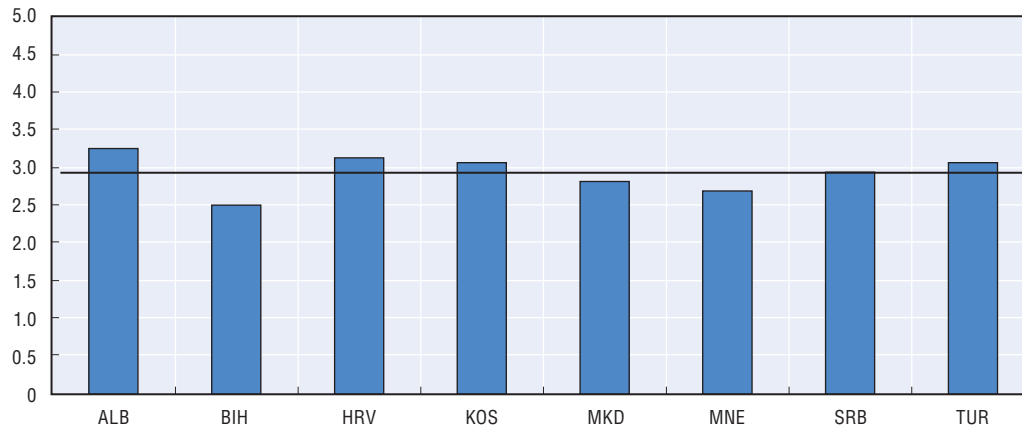
		ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Start-up training	2012	2.00	2.00	2.00	2.00	2.00	3.00	2.00	2.00
	Change since 2009	0.00	+1.00	-0.50	+1.00	0.00	+1.50	+0.50	n.a.
Training for enterprise growth	2012	3.00	1.50	2.50	3.00	3.00	2.50	3.00	3.00
	Change since 2009	+1.00	+1.50	-1.00	+1.00	+1.00	+1.00	+1.50	n.a.

The way forward

There are a number of areas where economies could improve skills promotion for small businesses. First, the enterprise world needs to assume responsibility for developing skills intelligence. The small business community should follow the lead of the Croatia Chamber of Economy and take clear ownership of this area. Along with a data development drive, the enterprise community could play a more proactive role in policy debate and contribute to skills improvement strategies in key sectors. The public sector could support the business community by measures such as establishing sector skills councils, as in Croatia and Serbia. Small enterprise support organisations will need some capacity building here. The capacity-building drive should work towards upgrading the strategic skills of all levels of the workforce of enterprises operating in key sectors related to the EU internal market. Finally, consideration could be given to those

economies co-operating as a group and co-working skills improvement programmes in sectors of common interest. A starting point might be the agri-food sector, which is seen as a priority for reform in each economy's partnership protocol with the European Union.

Figure 8.2. **Overall scores for Dimension 8a: Enterprise skills**



Note: The line indicates the regional average of the policy dimension.

Source: SBA assessment 2012.

DIMENSION 8b: INNOVATION POLICY FOR SMEs

Introduction

Innovation is defined by the OECD Oslo Manual (OECD, 2005) as “the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations”. This definition encompasses a broad spectrum of activities. Innovation, be it in products, processes, marketing or organisation, has a direct impact on firms’ productivity and on income at the aggregate level. Empirical studies on the determinants of innovation have found that smaller firms had a lower propensity to innovation than larger ones. As such, innovation practices in SMEs may be more fragile than in larger firms and they may benefit even more from supportive policies and institutions adapted to their needs and provided by the public authorities. Policy makers can assist SMEs to strengthen their innovative capacities by such measures as developing innovation support services, strengthening links between research centres and SMEs, and facilitating the development of clusters.

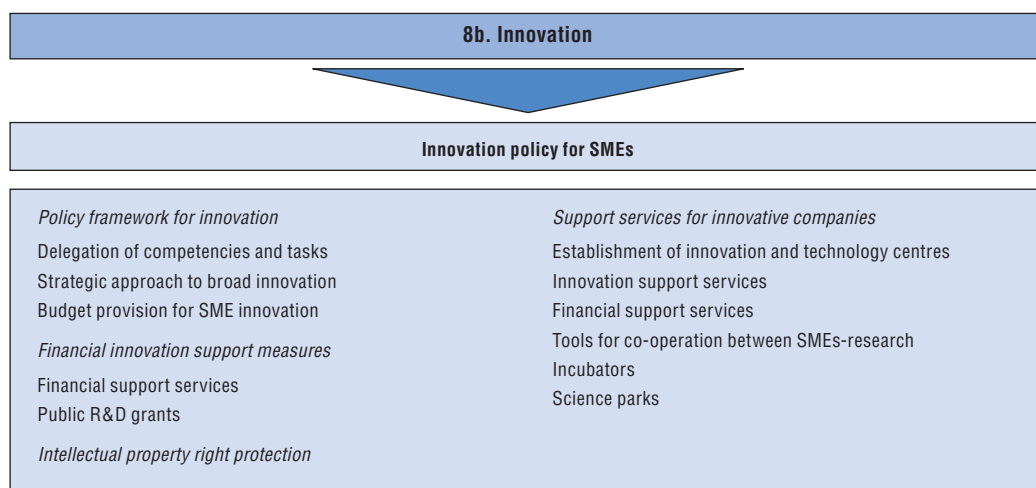
The EU Small Business Act encourages governments to undertake several broad activities in the area of innovation:

- Strengthen programmes to promote innovative clusters and networks, and provide support for high-growth enterprises (particularly SMEs).
- Ensure simplified access to public research infrastructure and national research programmes, and active participation of SMEs in transnational research activities.
- Foster innovative activities and the commercialisation of knowledge through the development of financial and non-technological support services for small businesses.

Assessment framework

In order to gauge the implementation of these broad activities in the EU pre-accession economies, the assessment framework has been divided into four sub-dimensions. The policy co-ordination sub-dimension measures the extent to which an institutional and policy framework is in place to design, co-ordinate and implement innovation-related policy support measures. Two further sub-dimensions examine the implementation of a range of measures to support innovation, financial and non-financial. The final sub-dimension analyses the implementation and enforcement of intellectual property rights.

Figure 8.3. **Assessment framework for Dimension 8b**



Analysis

Policy co-ordination and strategic approach

Governments can create a favourable environment for the growth of innovative enterprises through the implementation of a comprehensive innovation strategy, covering the full spectrum of technological and non-technological innovation activities. Developing a strategic approach to innovation policy is key, as it underpins the government's commitment to foster financial support schemes, and innovation support services for SMEs. Successful development of innovation policy may be achieved through a co-ordinating body, chaired by a high political authority and supported by a well-structured secretariat. Indeed, the effective organisation of innovation support programmes and institutions can allow for practical exchanges between relevant stakeholders, leading to the fulfilment of constructive policy actions to promote innovation and entrepreneurship.

Innovation policy is at an early stage of development in the Western Balkans and Turkey; there is little budget provision for SME innovation programmes and few economies have established a co-ordination body and adopted a sound overarching strategy for innovation. In most economies, innovation policy is limited to small-scale *ad hoc* initiatives.

Croatia, Serbia and Turkey have the most developed innovation policy infrastructure. Croatia and Turkey have set up a co-ordinating body for innovation: Croatia has the Council

for the National Innovation System and Turkey the Supreme Council of Science and Technology.

Furthermore, these economies are implementing overarching innovation strategies, although they have made varying progress. Turkey's and Serbia's are the most comprehensive and offer the most evidence for implementation, closely followed by Croatia's. Albania has set up an innovation steering committee and is in an early stage of implementing its innovation strategy. Albania's strategy was only adopted in February 2011 and implementation is in its infancy: just EUR 0.4 million spent out of a EUR 10 million action plan. The Former Yugoslav Republic of Macedonia is in the process of designing and adopting a comprehensive innovation strategy, based on an innovation policy analysis that was conducted in co-operation with the OECD. Bosnia and Herzegovina, Kosovo and Montenegro largely lack any institutional and policy framework for innovation.

Table 8.4. **Scores for Sub-dimension 8b.1: Policy co-ordination and strategic approach**

	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Delegation of competencies and tasks	3.00	1.50	4.00	1.00	2.50	1.50	3.50	4.00
Strategic approach to innovation policy	3.00	2.00	3.00	1.50	2.50	2.00	3.50	4.00
Budget provision for SME innovation	2.50	1.50	3.50	1.00	2.00	1.50	3.00	3.00
Overall weighted average for 8b.1	2.75	1.75	3.50	1.25	2.25	1.75	3.25	3.75

Innovation support measures

There are several key measures to support innovation in SMEs. With regards to innovation and technology centres, only Croatia and Turkey are very advanced. Croatia has established 6 technology innovation centres and Turkey 29. Serbia is co-operating with the OECD Investment Compact for South East Europe on the establishment of a technology competence centre.

Access to information on innovation support services, whether from public or private sources, is limited in the region. The Croatian Business Innovation Centre (BICRO) and the Turkish Business Centres and Business Innovation Centres stand out with well-structured websites. There is no help desk dedicated to providing information on innovation support services in the region.

Several economies are implementing policy measures or pilots to foster linkages between SMEs and universities or research institutes. The Croatian Research and Development Programme (ICRO) encourages demand for the services of public research institutions and encourages SMEs to invest in research and development (R&D) programmes. Bosnia and Herzegovina is implementing a pilot project to establish three triple-helix partnerships² with the assistance of the OECD Investment Compact for South East Europe. In Turkey, the main policy measure for this purpose is the Support Programme for the Initiative to Build Scientific and Technological Co-operation Networks and Platforms (ISBAP) of the Scientific and Technological Research Council of Turkey (TUBITAK).

Most economies in the region have set up business incubators (see Principle 5). Only Croatia, Serbia and Turkey have incubators specifically serving innovative start-ups although Bosnia and Herzegovina has two pilot incubators and Montenegro has one. There

Box 8.2. Montenegro's SME voucher scheme design

Montenegro's SME Directorate is in the process of implementing a pilot SME voucher scheme to foster non-technological innovation in export-oriented SMEs. The scheme provides small amounts of public subsidy to SMEs to help them to access consultancy support for the development of management and marketing skills.

International evidence suggests that voucher schemes provide a mechanism for helping smaller companies to use external support to develop their innovation capabilities and overcome behavioural biases such as inertia, excessive risk aversion and myopia. Vouchers may act as "bridging tools" between SMEs and external providers, which build or strengthen innovation capacities and promote demand for innovation services and the use and improvement of existing service providers.

Voucher schemes involve the transfer of public funds to SMEs. The rationale and design of a voucher scheme has therefore to be carefully considered. The Montenegrin voucher scheme was designed with the assistance of the OECD Investment Compact for South East Europe under the EC-funded Regional Competitiveness Initiative. First, an international good practice review was conducted to understand key success factors of voucher schemes; second, a survey was carried out among SMEs to identify their needs; and third a study trip to Slovenia was organised to understand implementation challenges from key stakeholders involved in a similar scheme in the past. The findings of these activities were summarised in a feasibility study, which was extensively discussed with local stakeholders. The feasibility study forms the basis for the implementation of the voucher scheme today.

are also government-supported, operational science parks and clusters in Bosnia and Herzegovina, Croatia, Serbia, and Turkey.

Table 8.5. Scores for Sub-dimension 8b.2: Innovation support measures for SMEs

		ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Establishment of innovation and technology centers	2012	2.50	2.00	3.50	1.00	1.50	1.50	2.50	4.00
	Change since 2009	+1.00	-0.50	0.00	0.00	-1.50	-0.50	-0.50	n.a.
Information on innovation support services	2012	2.00	1.00	4.00	1.00	2.00	1.50	3.50	4.00
Tools for SME-research linkages	2012	1.50	2.00	3.00	1.50	1.50	1.50	3.00	4.00
Innovation incubators	2012	1.00	2.50	4.00	1.00	1.00	2.00	3.00	4.00
Science parks/clusters	2012	1.50	3.50	4.00	1.00	1.00	1.00	3.00	3.00
	Change since 2009	0.00	+0.50	0.00	-1.00	-2.00	-1.00	-1.00	n.a.
Overall weighted average for 8b.2	2012	1.75	2.00	3.75	1.00	1.50	1.50	3.00	3.75

Financial innovation support measures

Turkey has made the most progress in developing services to determine financing options for innovative SMEs. Turkish government organisations (MoSIT, TUBITAK, KOSGEB and TTGV) have around 30 support programmes to finance innovative activities and Turkey has established an independent project evaluation system. In Bosnia and Herzegovina, Kosovo, the Former Yugoslav Republic of Macedonia, and Montenegro such support services are largely lacking. There are public R&D grants with a commercial orientation for innovative SMEs in Albania, Croatia, Serbia and Turkey.

Table 8.6. **Scores for Sub-dimension 8b.3: Financial innovation support measures for SMEs**

	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Financial support services	2.50	1.00	3.50	1.50	2.00	2.00	3.00	4.50
Public R&D grants with a commercial orientation	2.00	1.00	4.00	1.00	1.50	1.00	2.00	3.50
Overall weighted average for 8b.3	2.25	1.00	3.75	1.25	1.75	1.50	2.50	4.00

Intellectual property rights³

In today's knowledge-driven global economy, intellectual property (IP) and intellectual property rights (IPR) are a key consideration in the day-to-day operation of SMEs. New products, brands and creative designs appear almost daily on the market and are the result of continuous human innovation. SMEs are often the driving force behind such innovations. Their innovative capacity, however, is not always fully exploited as many SMEs are not aware of the intellectual property system or the protection it can provide for their inventions, brands, and designs (WIPO, 2012).

If left unprotected, a good invention or creation may be lost to larger competitors that are in a better position to commercialise the product or service at a more affordable price, leaving the original inventor or creator without any financial benefit or reward. Protecting a company's intellectual property is a crucial step in deterring potential infringement and in turning ideas into business assets with a real market value. Taking full advantage of the intellectual property system enables SMEs to profit from their innovative capacity and creativity, which encourages and helps fund further innovation (WIPO, 2012).

Croatia, the Former Yugoslav Republic of Macedonia and Serbia are the most advanced in aligning their intellectual property laws and enforcement with that of the EU. Croatia fulfils these requirements particularly well in the field of copyright and neighbouring rights and industrial property rights. It has also made very good progress in enforcing them. It does need to put further emphasis on improving the capacity of the police and prosecutors to build larger cases and raising public awareness of intellectual property rights. The State Intellectual Property Office (SIPO) has good administrative capacity. In the Former Yugoslav Republic of Macedonia, some progress has been made in terms of the legal framework. The framework for licensing collective rights management societies has been improved. Law enforcement institutions continue to co-operate with each other, but their respective responsibilities with regard to enforcement of intellectual property rights remain unclear and counterfeiting and piracy remains widespread. In Serbia, preparations to align its intellectual property law with the EU *acquis* have been progressing well. Serbia adopted a national strategy to provide a comprehensive framework for concerted enforcement by all competent institutions in June 2011 but enforcement still remains weak. In general, the administrative capacity of all enforcement institutions in Serbia needs to be strengthened.

Some progress has also been made in Albania, Bosnia and Herzegovina, Montenegro, and Turkey. Albania has its National Strategy for the Enforcement of the Intellectual and Industrial Property Rights. The Albanian Copyright Office carried out awareness-raising campaigns through training activities for its own staff, collective management agencies, and state authorities including the tax and customs administration, police, the National Council of Radio and Television, the judiciary, and the prosecutor's office. In Bosnia and

Herzegovina, state-level laws governing industrial property and copyright and related rights have come into force and implementing regulations have been adopted. Bosnia and Herzegovina has established three councils to act as advisory and co-ordination bodies of the Institute for Intellectual Property. Training for the council members has begun and the councils have started to implement their work programmes. Further measures were taken to improve the functioning of the Institute for Intellectual Property and to disseminate information about intellectual property. Montenegro has made progress with regards to its intellectual property law and its legislative framework on intellectual property is now partially aligned with the European *acquis*. Turkey has made more limited progress. Its updated draft laws regulating intellectual and industrial property rights, including deterrent criminal sanctions, are still pending. It still needs to adopt a law on IPR enforcement procedures in line with the EU Enforcement Directive. Closer co-ordination and co-operation among IPR stakeholders and public bodies is essential, as well as general awareness campaigns on the risks of IPR infringements. The recently launched IPR Working Group could open an effective IPR dialogue with the EU which could contribute to an improvement in IPR protection in Turkey.

Overall, Kosovo has started efforts to align its legislative framework with European standards in the area of intellectual property rights. It has taken some steps to increase its administrative capacity in this area but its overall capacity remains insufficient and enforcement continues to be a challenge. Counterfeiting and piracy remain issues of serious concern.

Table 8.7. **Scores for Sub-dimension 8b.4: Intellectual property rights protection**

		ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Intellectual property rights	2012	3.00	3.00	4.50	2.00	4.00	3.50	4.00	2.50
	Change since 2009	-0.50	0.00	0.00	0.00	0.00	0.00	0.00	n.a.

The way forward

The capacity to innovate has become particularly important in a globalised world where many economies can compete through low labour and capital costs. In this context, central governments have an important role to play in ensuring that all public policies reward and facilitate innovative activities.

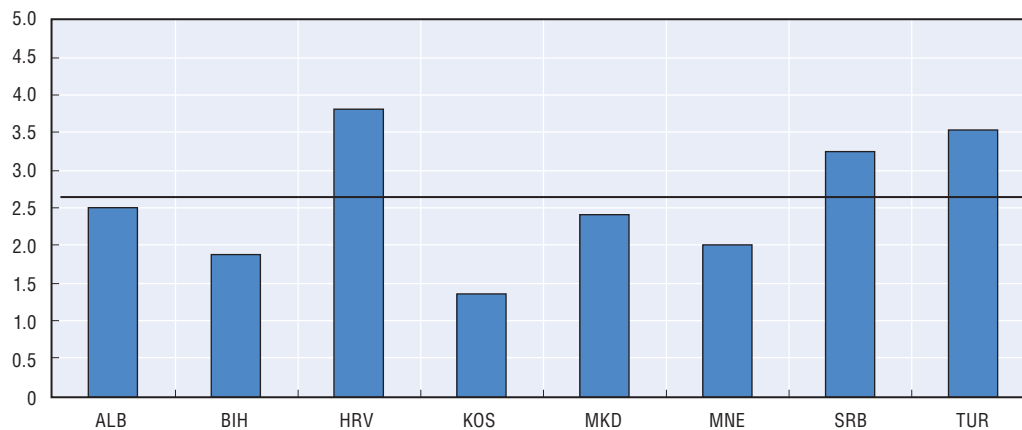
With the exception of Croatia, Serbia and Turkey, which have a policy and institutional framework for innovation in place, economies in the EU pre-accession region are at an early stage of development in this policy area.

The laggards should focus on reviewing their national innovation systems and drafting an overarching policy document for innovation, in order to generate and co-ordinate activities in this field. In Kosovo and the Former Yugoslav Republic of Macedonia the OECD is assisting governments in reviewing their innovation activities and drafting a strategic document under the Regional Competitiveness Initiative (RCI).

The more advanced economies should carefully monitor their innovation measures, in order to gauge their impact and enable prioritisation of these activities in the future. In times of limited public budgets, this is of particular importance. Regional fora, such as the RCI Innovation Working Group, provide opportunities for peer learning.

In the area of IPR protection, all economies need to make further efforts to meet the criteria for EU accession.

Figure 8.4. **Overall scores for Dimension 8b: Innovation policy for SMEs**



Note: The line indicates the regional average of the policy dimension.

Source: SBA assessment 2012.

Notes

1. The indicator in the 2009 assessment included reference to the EU regulatory framework but as footnote that may have diluted the significance of this factor within the descriptor of the indicator.
2. Partnerships between academia/research, government and the private sector.
3. The analysis of intellectual property rights protection and enforcement is based directly on the 2011 EU Progress Reports for the Pre-Accession economies.

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PART I

Chapter 9

SMEs in a green economy

SBA Principle 9: Enable SMEs to turn environmental challenges into opportunities

This chapter assesses the policy areas defined under SBA Principle 9. The principle assesses the approaches of governments to fostering green growth and strengthening the absorptive capacities of SMEs. This chapter analyses the extent to which the EU pre-accession region has taken steps to implement and promote green models to the business community.

Overall, with the exception of Turkey, the economies score poorly on this dimension. Current enterprise policy documents make little mention of eco-efficiency and eco-innovation, particularly in SME strategies. Governments in the region have not put in place any environment-related measures specifically targeting SMEs. The assessment also shows that information on environmental issues remains scarce in many economies. Even when the information is available, it tends to cover general issues such as energy efficiency or climate change rather than more specific issues which directly affect SMEs. Businesses in all eight economies remain largely unaware of how they could improve their environmental performance through environmental management systems and standards.

Introduction

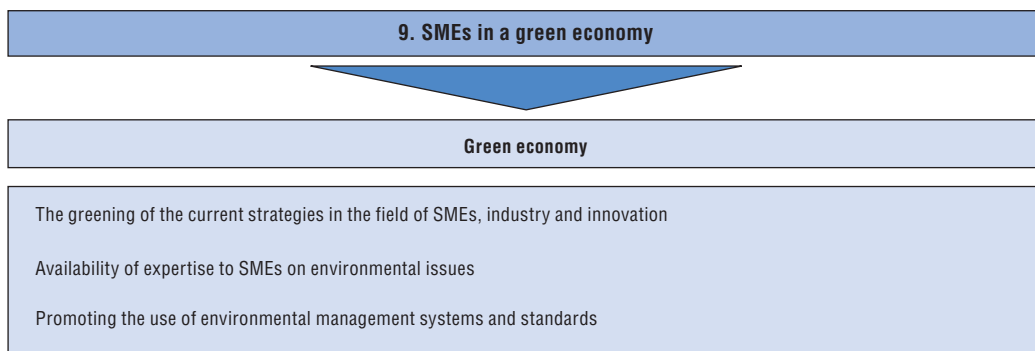
SMEs need to rapidly respond to environmental challenges. On the one hand, it is essential to improve their environmental performance because SMEs constitute a vital part of the enterprise sector and can collectively contribute to sustainable development. On the other hand, the demand for environmentally-friendly products and services is increasing, generating new business opportunities for them.

SMEs face difficulties in addressing environmental issues, however. They are often insufficiently aware of new energy efficient and environmentally friendly solutions. They also tend to lack the time, human and financial resources to comply with environmental standards and exploit new business opportunities. To help small businesses overcome these obstacles and improve their environmental performance, governments can provide information on environmental issues as well as concrete assistance and incentives.

Assessment framework

This dimension was not covered in previous assessments. It was included in this assessment as government support for green growth has become crucial to enhance the competitiveness of the SME sector. The objective is to assess how economies currently perform and be able to measure progress in future assessments. To evaluate government approaches towards fostering green growth and strengthening the absorptive capacities of SMEs in the Western Balkans and Turkey, the analysis is based on three indicators: 1) the “greening” of existing strategy documents to include eco-efficiency and eco-innovation, 2) the availability of environment-related information and expertise to SMEs, and 3) governments’ efforts to promote environmental management systems and standards.

Figure 9.1. **Assessment framework for SBA Principle 9**



Analysis

Overall, economies score poorly under this principle. Efforts to integrate eco-efficiency and eco-innovation in national policy frameworks have been limited, information on

environmental issues remains scarce and businesses are largely unaware of what instruments are available to improve their environmental performance.

The greening of strategies

Current enterprise policy documents, particularly SME strategies, place little emphasis on eco-efficiency or eco-innovation. Governments have not yet put in place any environment-related measures specifically targeting SMEs. This suggests that environmental protection and SME development are still perceived as separate policy areas.

In most economies, policy frameworks for green growth are still at an early stage of development. Bosnia and Herzegovina has produced several environmental policy documents but they make no reference to eco-efficient business or eco-innovation. The SME strategies of Kosovo and Montenegro, and Albania's Business and Investment Development Strategy do mention the promotion of energy efficiency and environmental sustainability but none of these documents outline concrete actions or targets.

Croatia, the Former Yugoslav Republic of Macedonia and Serbia perform slightly better. In Croatia, the Strategy for Sustainable Development (2009) identifies sustainable production and energy efficiency as priorities. In the Former Yugoslav Republic of Macedonia, the development of eco-products and services for sustainable development are one of the key areas for intervention under the Strategy for Industrial Policy (2009-20). In Serbia, the Industrial Development Strategy and Policy (2011-20) and the Strategy for Scientific and Technological Development (2010-15) both cover energy efficiency and environmental protection. These documents all assign more concrete targets and actions to these general objectives although none of these economies mention eco-efficiency in their SME strategies.

Box 9.1. Ireland's environmental infrastructure

Enterprise Ireland supports locally established businesses in acquiring environmental management certification. It covers half of the funding to hire an independent consultant to install an environmental management system (EMS) certified to ISO 14001 or EMAS.

EnviroCentre.ie is an environmental information portal from Enterprise Ireland, designed to enhance environmental awareness in Irish industry, especially SMEs. It provides information on legislation, standards, green public procurement, environmental consultants and best practice guides to improve environmental performance, as well as useful links to relevant institutions.

The Environmental Protection Agency's Cleaner Greener Production Programme aims at encouraging Irish firms, particularly SMEs, to achieve better environmental performance by enhancing their business practices. The programme seeks to promote environmentally friendly production through the application of environmental management, increased resource productivity, waste reduction, recycling of materials, energy management and a change of culture within organisations. Firms can get financial support for staff training, capital investment and publicity activities related to greener production.

Source: http://ec.europa.eu/environment/emas/toolkit/further/further_2_12.htm.

In Turkey, the Industrial Strategy Document for 2011-14 mentions eco-products and environmentally-friendly technologies. Its new SME Strategy and Action Plan also plans the development of a roadmap to assess the environmental impact of SMEs.

The availability of environmental expertise to SMEs

SMEs are often ill-informed about environmental issues. SMEs also tend to lack the in-house capacity to successfully address these issues. Governments can therefore play a crucial role in facilitating access to both environmental information and expertise.

In Albania, Bosnia and Herzegovina and Kosovo, very little information is available about environmental issues and tools. While a few environmental non-governmental organisations (NGOs) are active in disseminating environment-related information, governments play only a minor role in the provision of information. The only form of environmental expertise available is commercial.

In the Former Yugoslav Republic of Macedonia and Montenegro, the government provides information on environmental issues, regulations and tools through the relevant ministries and chambers of commerce. In Montenegro, the Environmental Protection Agency is required to publish information on international agreements, national and EU environmental regulations and monitoring data. The Aarhus Centres in Podgorica and Niksic also provide information on environmental protection to government authorities, citizens and businesses.

In Croatia and Serbia, general information about the environment is available on the websites of the relevant ministries and agencies, chambers of commerce, donor-funded projects, and NGOs. In Croatia, chambers of commerce and local authorities also advocate the interests of SMEs in the preparation of environmental legislation and organise seminars to help small businesses comply with regulations. In Serbia, the Committee on Environment and Sustainable Development in the Serbian chamber of commerce keeps its members regularly informed about environmental issues through seminars, training and online information.

In Turkey, general information about the environment is also available through various sources. Companies which provide environmental services need to be certified with the “Environment Proficiency Certificate”. The Technology Development Foundation of Turkey (TTGV) also provides expertise for environmental technologies and energy efficiency projects.

At the regional level, the EU-sponsored GREEN project, which aims at “greening business” through the Enterprise Europe Network, has disseminated environmental information and expertise to SMEs and environmental service providers in the food industry and the manufacturing of building materials through workshops and trainings.

The promotion of environmental management systems and standards

Environmental management systems (EMS) and standards provide businesses with a means to systematically improve their environmental performance and advertise their environmental efforts to stakeholders and society. ISO 14001 and the EU EMAS – which has recently been extended to organisations outside of the EU – are the most commonly used EMS standards. Governments can support the adoption of EMSs and standards through awareness-raising activities, direct financial support and incentives (see Box 9.1).

The business communities in Albania, Bosnia and Herzegovina, Kosovo, the Former Yugoslav Republic of Macedonia, and Montenegro, have limited awareness of EMSs and standards and there are no government measures to encourage their adoption. Expertise on environmental standards is also scarce. Nevertheless, some positive signs have been observed. In Bosnia and Herzegovina, a few companies have been certified with ISO 14001 by foreign certification bodies. In the Former Yugoslav Republic of Macedonia, workshops were organised in 2008 by the European Business Association, chambers of commerce and the International Finance Corporation (IFC) to promote international environmental standards.

In Serbia and Croatia, companies are more aware of EMSs and standards. In Croatia, there are an increasing number of companies certified with ISO 14001 in the industrial sector. In Serbia, 203 companies have received ISO 14001 certification. In both countries, information and expertise on ISO and EMAS certification are also more widely available. Neither government provides specific support for EMS certification but Serbia plans to support companies to prepare for EMAS certification from early 2012.

In Turkey, KOSGEB provides consultancy and training support to SMEs which can cover compliance with standards. TTGV does not offer direct support for EMS certification but a number of its training programmes include EMS-related sessions.

Table 9.1. **Scores for Dimension 9: SMEs in a green economy**

	ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
The "greening" of the current strategies in the field of SMEs, industry and innovation	2.00	1.00	3.00	2.00	2.50	2.00	2.50	3.50
Availability of expertise on environmental issues to SMEs	2.00	1.50	3.50	1.50	3.00	3.00	3.50	3.50
Promoting the use of environmental management systems and standards	1.50	1.50	3.00	1.00	2.00	2.00	2.50	3.50
Overall weighted average for 9	1.75	1.25	3.25	1.50	2.50	2.25	2.75	3.50

The way forward

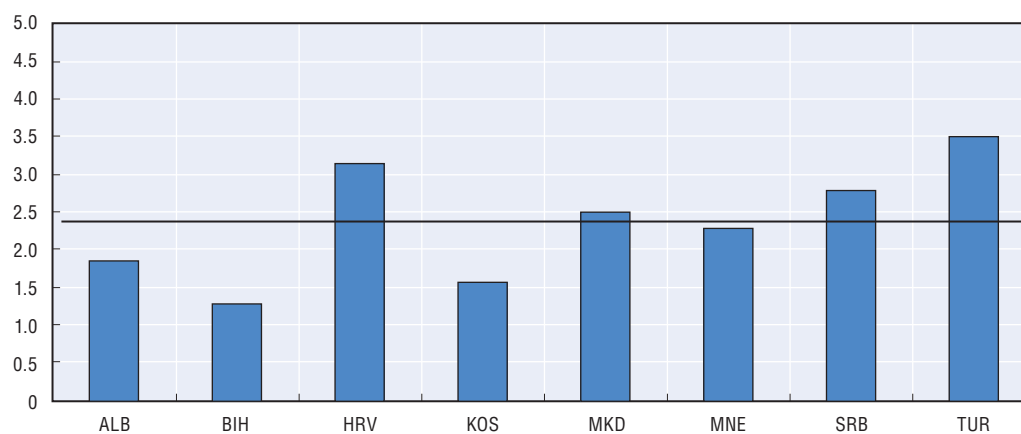
Governments' efforts to foster green growth and strengthen the absorptive capacities of SMEs have been insufficient. The policy frameworks for green growth in the SME sector need to be strengthened. Eco-efficiency and eco-innovation should be highlighted as priorities in enterprise policy documents – particularly in SME strategies – and associated with clear measures and targets in action plans.

While general information on energy efficiency, climate change and environmental protection is important, SMEs should also have easier access to information on existing and forthcoming legislation which might affect them, tools to enhance environmental management, and funding opportunities for green innovations and best practices. With regard to the availability of environmental expertise, the capacity of SME support organisations to provide environmental support to SMEs should be enhanced.

Finally, all governments need to support the implementation of effective EMSs. As a first step, information about EMS and standards should be made more widely available as

businesses remain largely unaware of them. After that, financial support could be put in place for companies wishing to acquire ISO 14001 or EMAS certification.

Figure 9.2. **Overall scores for Principle 9: SMEs in a green economy**



Note: The line indicates the regional average of the policy dimension.

Source: SBA assessment 2012.

PART I

Chapter 10

Internationalisation of SMEs

SBA Principle 10: Encourage and support SMEs to benefit from the growth of markets

This chapter assesses the policy areas defined under SBA Principle 10. The principle focuses on government support towards promoting export-oriented SMEs and helping them access international markets. This chapter focuses on government activities in promoting exports by SMEs through specific export promotion programmes or participation in international fairs and national SME promotion events.

In general, all economies have export promotion policy and measures in place. However, the level of implementation of the strategies and financial allocation to export promotion activities differ throughout the pre-accession region. The most advanced economies in internationalisation of SMEs are Turkey, Serbia and Croatia, providing a wide-range of well-financed export promotion services. The governments in Albania, the Former Yugoslav Republic of Macedonia and Montenegro score slightly lower in this dimension, as they allocate less financial resources, often relying on external or donor funding. The export base in Bosnia and Herzegovina and Kosovo is still limited.

Introduction

As they move towards full integration into the EU, SMEs in the Western Balkans and Turkey need to be able to cope with increasing competition from developed and emerging economies. There is a direct link between internationalisation and increased SME performance. International activities reinforce growth, enhance competitiveness and support the long-term sustainability of companies.

In order to help SMEs to tap into external markets, many governments put in place programmes to encourage export. Generally, there are informational, administrative and technical barriers to enter the external markets. Most of these barriers will affect SMEs disproportionately due to their limited resources, weaker management skills and lack of information. Government programmes should therefore be directed towards providing those skills and knowledge which are most needed by SMEs.

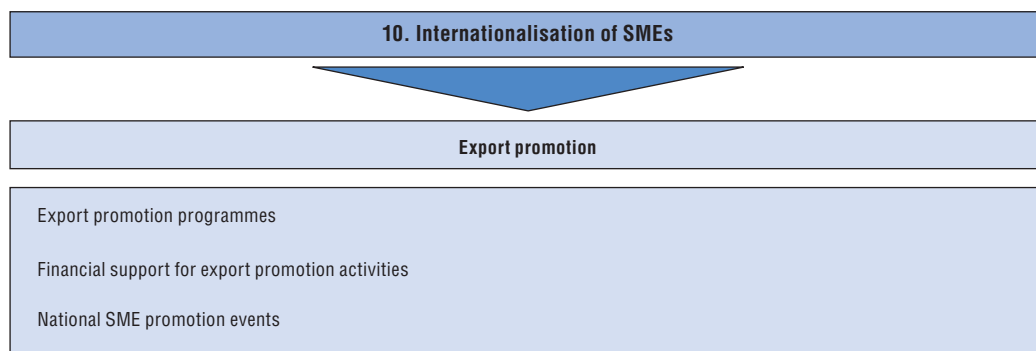
Assessment framework

This section explores the provision of services to export-oriented companies. The assessment framework for this principle has been slightly modified since 2009; the indicator on SME competitiveness programmes has been replaced by financial support for export promotion activities.

Export promotion programmes typically include provision of trade information, assistance to exporters, organisation of trade missions, support for participation in international trade fairs, training of managers and staff responsible for export sales, and adoption of technical and quality standards with internationally recognised certification. This section assesses the range of available export programmes, their comprehensiveness and co-ordination, and the degree to which they remain funded by donors.

A government should provide direct financial support to SMEs and closely collaborate with the banking sector for the granting of financial support for a wide range of export promotion activities.

Figure 10.1. **Assessment framework for SBA Principle 10**



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

Analysis

The 2009 report found that the Western Balkan economies had approved integrated multi-year export promotion strategies or expanded their existing programmes. In 2012 the situation is similar, with only marginal improvements having been made over the past three years.

Overall, Croatia, the Former Yugoslav Republic of Macedonia, Serbia and Turkey have the most complex programmes in place. Turkey has a large and effective programme of export promotion activities for SMEs. The Ministry of Economy and the SME agency KOSGEB provide a wide range of services and an advanced financial support programme to export-oriented companies. The Serbian Investment and Export Promotion Agency (SIEPA) has implemented its programme to encourage competitiveness and internationalisation of the Serbian economy. SIEPA organised and subsidised the participation of 138 Serbian companies at 12 international trade fairs abroad in 2010. The Croatian Programme for Promotion of International Competitiveness and Internationalisation 2011-12 is funded by the Croatian state budget and encompasses a wide range of services to entrepreneurs. Furthermore, the Croatian Bank for Reconstruction and Development has a number of programmes to support export activities of SMEs. There have been structural changes, however, as the Croatian export promotion agency was shifted to the Ministry of Economy, Labour and Entrepreneurship. Along with a variety of export promotion events and programmes, the Macedonian government has adopted a specific strategy for export promotion of domestic software and IT services. The Macedonian Bank for Support of Development implements projects focusing on export factoring, insurance of loans for export preparation, insurance of loans for foreign buyers of Macedonian products.

Box 10.1. The Western Balkans and Turkey in the Enterprise Europe Network

With the accession of Albania and Bosnia and Herzegovina to the Enterprise Europe Network (EEN) in 2011, six Western Balkan economies (the other four are Croatia, the Former Yugoslav Republic of Macedonia, Montenegro and Serbia) plus Turkey are currently participating in the network. The EEN comprises 600 partner organisations from 50 countries.

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

Source: EEN website <http://portal.enterprise-europe-network.ec.europa.eu/>.

This group is followed by Albania and Montenegro, performing at around the overall regional average. Albania's export promotion programme is an integral part of the Business Development and Investment Strategy 2007-13 and is mainly financed by the Albanian

government. National SME promotion events are organised by the Albanian chambers of commerce, AIDA or donor agencies. Further, the Ministry of Economy, Trade and Energy organised a European SME Week in 2010 and 2011. Montenegro adopted its Export Promotion Programme within the Strategy for SME Development. The programme defines activities aimed at improving export product quality, enhancing competitiveness, marketing and education plans, informing enterprises about export markets, and organising presentations to trade fairs and trade missions in the economy and abroad. But budget constraints meant that its financial support decreased from 2010 to 2011.

In Bosnia and Herzegovina and Kosovo the export base is still very limited and export promotion initiatives are still conducted on an *ad hoc* basis. The Investment Promotion Agency of Kosovo (IPAK) drafted an export promotion strategy but it has not yet been approved by the government. In addition, there is not yet any financial support from the government for export promotion so implementation of the strategy will rely heavily on donor contributions. Kosovo has organised a European Week of SMEs in 2010 and Small Business Days in 2011. The Export Promotion Agency and the Export Council of Bosnia and Herzegovina provide basic trade information and export promotion services (such as trade missions and representation at major trade fairs). Besides the financial support by the Export Promotion Agency of BiH, the Ministry of Industry, Energy and Mining in the Republika Srpska distributed about EUR 3.5 million to more than 200 companies for export support under the Strategy of Export Stimulation 2009-12.

Table 10.1. **Scores for Dimension 10: Internationalisation of SMEs**

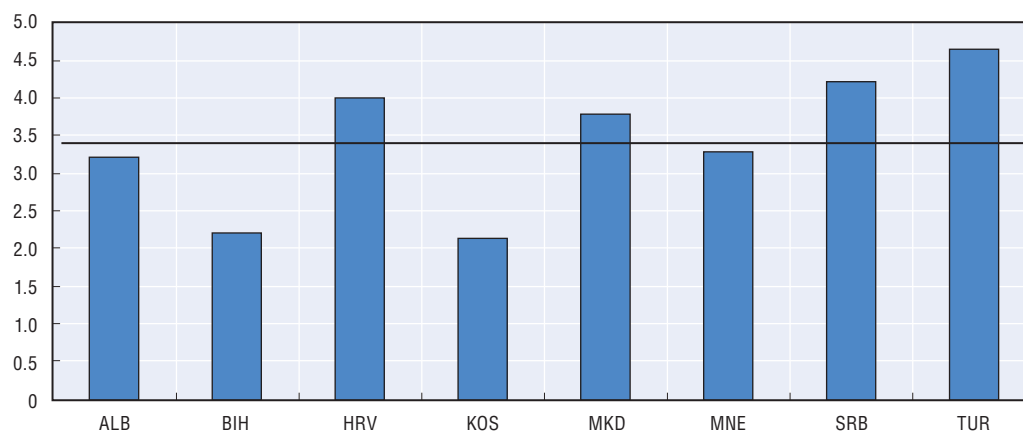
		ALB	BIH	HRV	KOS	MKD	MNE	SRB	TUR
Export promotion programmes	2012	3.50	2.50	4.00	2.00	4.00	4.00	4.50	4.50
	Change since 2009	0.00	+0.50	0.00	0.00	+0.50	+0.50	0.00	n.a.
Financial support for export promotion activities	2012	3.00	2.00	4.00	2.00	3.50	2.50	4.00	5.00
National SME promotion events	2012	3.00	2.00	4.00	3.00	4.00	3.50	4.00	4.00
	Change since 2009	+0.50	-0.50	-0.50	+0.50	0.00	+0.50	0.00	n.a.
Overall weighted average for 10	2012	3.25	2.25	4.00	2.25	3.75	3.25	4.25	4.75

The way forward

As most of the economies in the EU pre-accession region have export promotion programmes in place (with the exception of Bosnia and Herzegovina and Kosovo), it is crucial that they offer a variety of services to export-oriented SMEs according to their needs, and allocate sufficient funds for their realisation.

Export promotion agencies in the Western Balkans could further improve the capabilities of domestic firms to compete internationally, improving their access to trade finance and export insurance, helping them obtain creditworthiness, rating potential international partners, providing international market information, fostering research and development and implementing international quality standards.

In the future all export promoting activities of various government and non-government agencies need to be visible and well co-ordinated in order to avoid overlap and reach maximum efficiency. All economies should set up monitoring and evaluation mechanisms to make it easier to assess the effectiveness of their export promotion programmes.

Figure 10.2. **Overall scores for Principle 10: Internationalisation of SMEs**

Note: The line indicates the regional average of the policy dimension.

Source: SBA assessment 2012.

PART II

Profiles of the EU pre-accession region

PART II

Chapter 11

SBA profile: Albania

Overview

Of all the economies in the region, Albania appeared to be least affected by the global financial crisis. Its GDP expanded by 3.6% in 2009 when the rest of the region was in recession and this relatively robust growth was sustained into 2010. More recent macroeconomic figures suggest economic activity is decelerating, as a result of deteriorating economic conditions in Italy and Greece. These are Albania's two main trading partners, key sources of foreign direct investment (FDI) and host large communities of Albanian expatriate workers. Real GDP grew by an estimated 3.1% in 2011, but it is expected to slow to an estimated 1.2% in 2012. Trade activity is showing signs of weakening. Export growth has slowed down in the past few months, as have imports, while domestic demand is weakening in part due to a decline in remittances, a vital source of income for many Albanians.

The business environment has steadily improved over the last few years, but still suffers from weak law enforcement and high perceived levels of corruption. Albania ranks 82nd out of 183 economies in the World Bank's *Doing Business 2012* report. Albania performed strongly in indicators related to access to credit and protecting investors and was in line with the regional average on other indicators, but performed poorly in indicators related to obtaining construction permits, getting electricity, registering property and paying taxes. The latest EBRD/World Bank Business Environment and Enterprise Performance Survey (BEEPS IV) carried out in 2008/09 pointed to serious concerns among business managers in the area of land titling and ownership, while power supply remained problematic, partly due to the high level of non-payment and theft. Despite recent improvement in its score, Albania still ranks 95th out of 183 economies on the Transparency International Corruption Perceptions Index (CPI), significantly below the OECD average. While the judiciary and customs services have improved their transparency, firms participating in the BEEPS survey still reported above-average levels of corruption in the tax administration. Small and medium enterprises (SMEs) play a very important role in the economy. Law No. 1042, dated 22.12.2008 classifies SMEs according to the number of employees and turnover and/or balance sheet. According to the latest Eurostat figures, about 99.9% of companies are SMEs, the majority of which (96%) are micro enterprises.¹ Of non-financial enterprises, micro, small and medium businesses generated nearly 57% of value added, compared to 58.5% in the 27 EU economies. They provide 82% of the official employment, compared to 67% for the EU27.

In 2010, there were 75 400 active enterprises with 269 600 employees, 46% of which worked in medium-sized enterprises, those with at least 20 employees. These medium-sized enterprises represent 71% of total investments and dominate the industry and construction sectors. Enterprises with four or fewer employees represented 91% of the total enterprises and are dominant in the services sector.

Table 11.1. **Enterprises, employees, turnover and investments by size of enterprises**
2010

	Enterprises		Employees		Turnover		Investments	
	Num.	%	Num.	%	Num.	%	Num.	%
Total	75 361	100	269 634	100	1 251 952	100	85 756	100
1-4 employees	68 616	91	101 250	38	207 341	17	5 588	7
5-19 employees	5 080	7	44 922	17	294 556	23	18 940	22
20+ employees	1 666	2	123 462	46	750 055	60	61 228	71

Source: Results on structural survey of economic enterprises, 2010, National Statistical Office.

Table 11.2. **Main macroeconomic indicators for Albania, 2008-12**

		2008	2009	2010	2011	2012 (proj.)
GDP growth	%, y-o-y	7.7	3.6	3.6	3.1	1.2
CPI inflation	%, average	3.4	2.3	3.5	3.5	1.8
Government balance	% of GDP	-5.5	-7.0	-4.2	-3.5	n.a.
Current account balance	% of GDP	-15.4	-15.4	-11.8	-13.2	n.a.
Net FDI	EUR million	594.6	664.7	825.6	695.7	n.a.
External debt	% of GDP	27.6	34.1	36.6	36.5	n.a.
Nominal GDP	EUR billion	8.8	8.7	8.9	9.3	n.a.

Source: EBRD 2011 (data collected from World Economic Outlook (IMF), World Bank, National Statistical Agencies and Central Banks).

SBA assessment results

This section outlines the main results for Albania from the 2012 SBA assessment of the EU pre-accession region. The assessed policy dimensions were reassembled and grouped under five wider SME policy areas. Special attention was given to access to finance, due to the impact of the EU financial crisis on the economies of the Western Balkans and Turkey.

Strengthening institutions and mechanisms for SME policy making

Institutional policy framework

The institutional structure for SME policy has changed in Albania to some extent since the 2009 report. The former SME policy implementation agency Albinvest was dissolved by the government and replaced by the Albanian Investment Development Agency (AIDA). AIDA became operational in May 2011 and employs 29 staff members. Its role is to facilitate and provide support for direct investment, increase the competitiveness of SMEs, promote and support export of services and products, and support the promotion of a climate conducive to business.

As before, the Department of Business Promotion in the Ministry of Economy, Trade and Energy (METE) is in charge of elaborating SME policy. A special working group of 24 different institutions is responsible for the implementation of the Small Business Act.

SME sector development falls under the Business and Investment Development Strategy 2007-13. There is a budget of EUR 367 million to implement this strategy. In 2012 it is planned to elaborate a new strategy for business and investment development for the period 2013 to 2020. Just 19 out of 81 policy measures from the strategic programme for 2007-10 have been implemented, while 47 are in the process of realisation.

Albania has several strategies and laws to tackle the informal economy. For example, the law On the Legalisation of Capital and Pardoning of Part of Customs and Tax Debts was passed in 2011 and the national strategic document On the Investigation of Financial Crimes was approved in 2009 under the Common Strategy on the fight against organised crime, trafficking and terrorism. A working group to implement the strategy was established in 2010. Albania is encouraged to provide further emphasis on monitoring the enforcement and on evaluating the impact of these laws and strategies.

Legislative simplification and regulatory impact analysis

The Albanian government approved the Action Plan on Regulatory Reform in 2006. As a result, it established the National Registration Center and the National Center for Licenses. In 2011 it extended legislative simplification into the area of inspections. The Law on Inspections restructures the inspection system in order to further reduce administrative barriers and related costs.

The Albanian government has undertaken a legislative guillotine initiative on the licensing system, drastically eliminating a large number of licenses and permissions. The Law on Licenses, Authorization and Permits removed more than 230 licensing requirements and established one-stop shops for licensing.

In 2011 the Albanian government introduced a simple lightweight regulatory impact analysis (RIA) system and plans to implement a full-blown RIA scheme after 2013. The Albanian authorities are seeking to adopt a law on RIA, establish a central RIA co-ordination unit and have RIA units in all line ministries. However, the extension to full-scale RIA will depend on the outcome of the current RIA pilot. In addition, Albania plans to carry out an SME test with the purpose of analysing the effects of a legislative proposal on SMEs.

Public-private consultation framework

The dialogue between public and private sector representatives is well established through the Business Advisory Council (BAC) under the Council of Ministers. It provides a permanent consultative platform for SMEs and adequately represents the business community in different sectors. Although the private sector has the opportunity to formally comment on draft legislation in BAC meetings, there is little evidence that their comments are integrated into draft legislation.

Establishing a conducive operational environment for SMEs

Company registration and business start-up process

The company and business start-up process in Albania is efficient and business friendly. Following the reform initiated in 2007, a single business registration agency is in charge of the registration and notification process. The agency has a head office in Tirana and 31 branches across the economy. Albania has introduced a single registration number and online registration. Registration fees are less than EUR 10, but start-up costs overall are still substantial due to tax pre-payment charges with the municipal tax office at the time of registration. Albania's progress has been incremental in this area, as it already recorded a high performance in the 2009 assessment.

Provision of e-government services

Over the last three years Albania has extended the range of e-government services available to business users and completed the legal and regulatory framework for the introduction of e-signatures. E-tax filing has been successfully extended to all VAT payers and a wide range of e-procurement services are already available.

Bankruptcy procedures and second chance

Legislation on bankruptcy procedures is at an early stage of implementation. The procedures are judged and reviewed by the trade sections of the debtor's district court. According to the World Bank's *Doing Business 2012* report the bankruptcy time is two years, the cost of bankruptcy is 10% of the business estate and the recovery rate is 40.2%. The government states that some measures have been established to promote the second chance principle, but provided no detailed information. According to information provided by the government, legislation on discharge from bankruptcy is in force and provides well-defined procedures for termination of bankruptcy procedures, announcement of decisions and notification to interested bodies. It provided no information on the time taken to discharge. Entrepreneurs who underwent non-fraudulent bankruptcy can receive loans and support from institutions only after debt clearance. Deregistration from the insolvency register is not automatic. There are no discriminatory provisions against entrepreneurs who underwent non-fraudulent bankruptcy in access to public procurement.

Facilitating SME access to finance and developing the legal and business environment

The crisis has affected the development of sources of external finance so there has been no significant improvement since the 2009 assessment. Albania has made notable progress in improving the legal and regulatory framework. Credit information services were established in 2009 and their coverage has significantly increased, and the efficiency of the cadastre and land registration have improved in the past two years. The government has also made noticeable efforts to assess and improve financial literacy.

Sources of external finance for SMEs

SME finance is mainly provided by commercial banks, although on a limited scale. The banking system is highly concentrated with the top five banks holding 74% of assets. The Albanian banking sector got through the global financial crisis with sufficient liquidity and the system recovered from a sharp decline in deposits at the start of the crisis, although lending dropped significantly in mid-2009. Non-performing loans remain a challenge, deteriorating to around 14% of total lending at the end of 2010, and reaching 18.9% at the end 2011. The ratio of domestic credit to GDP has nevertheless increased since 2008, reaching 39% of GDP in 2011.

Leasing activity remains low at 1% of GDP and is restricted mainly to auto leasing. Leasing activity was also affected by the crisis due to both lack of funding and deterioration in portfolio quality. There are six specialised leasing companies in Albania under the supervision and regulation of the Bank of Albania. Microfinance facilities are also regulated by the law on banks in Albania. According to the Bank of Albania, 17 microfinance institutions are operating in Albania and non-bank financial institutions represent almost 4% of the financial system loan portfolio. Around 58% of their capital is financed through grants from the government or foreign donors; the rest is self-sustained.

The Italian-Albanian Programme and the United States Agency for International Development (USAID) provide credit guarantee schemes and start-up support. The Italian-Albanian programme involves a line of credit for SMEs, a guarantee fund, and grants for technical assistance. A challenging business environment, limited investment opportunities and poor exit prospects have had a negative impact on the availability of risk capital. There is no significant private equity activity in the economy and venture capital is practically nonexistent. Company financing through capital markets also remains weak. Tirana Stock Exchange has been trading since 2002 but its activity outside government securities is very limited.

Legal and regulatory framework

A cadastre registry is in place and so far around 97% of private land has been documented. Improvements have been made since last year as time limits were set for the land registry to register a title. There is a registry of security charges, governed by the law on collateral; however its information is not easily accessible. The Bank of Albania regulates collateral and provisioning requirements and typically banks ask for coverage of at least the full amount of the loan and its interest.

The Bank of Albania established a public credit registry in 2009 and it has gradually increased its coverage, reaching 12% of adults in 2011. Up to two years data is available to public and financial institutions. Creditors' rights are ensured by the Albanian Bankruptcy Law² stating that creditors' consents must be observed when a borrower files for reorganisation and that creditors have some influence over whether the management will remain in charge of the debtor company during reorganisation or not. However, effective enforcement of creditor rights remains a challenge.

Other factors that affect demand and supply of finance

A survey carried out by the Bank of Albania during 2011 to assess financial literacy showed that it has improved following the collapse of financial pyramid schemes. Young people are more aware of complex financial products than the rest of the population. Women, the elderly and people on low incomes generally have lower financial literacy than other groups. Efforts are underway to increase awareness about the significance of financial literacy and to prepare for a national co-ordinated approach to financial education as part of the curriculum.

Promoting a culture of entrepreneurship and skills development

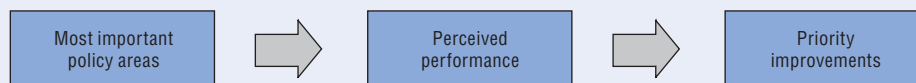
The education, employment and economy ministries have taken an important step towards bringing forward the entrepreneurial learning agenda through a co-operation agreement which addresses both policy and implementation issues. Entrepreneurship has recently been introduced as a subject across the secondary school curriculum. Good efforts have been made in vocational education, especially in business education programmes, although teachers should have more opportunity to nurture creativity and innovation among students through the curriculum. Developing the entrepreneurship key competence and more advanced business skills will both need to be addressed in equal measure. The Institute for Education Development will play an important role in co-ordinating and supporting the promotion of the entrepreneurship key competence, building on the experience of the South East European Centre for Entrepreneurial Learning (SEECLE) pilot schools. This will be a major task requiring leadership, finance and logistical

Box 11.1. **SME perception of effectiveness of government policy in Albania**

Survey results: In parallel with the assessment, the OECD conducted a survey in Albania with the support of AIDA, questioning SMEs on their operating environment, business environment conditions and their perception of government policies that affect them directly.

Profile of SMEs: The sample included 36 companies, with the average firm operating for 13 years, currently employing 73 people and generating a turnover of EUR 0.8 million. Of the firms sampled, 83% were exporters.

Most important business environment conditions: Survey respondents identified the following priorities: stronger consumer demand, better export promotion, a more stable economic environment, business friendlier loans from banks and greater support for business innovation.



Most important government policies: Several government policies for SMEs were identified as most important; the top three were: supporting export promotion, promotion of entrepreneurial learning and enhancing the benefits from the Single Market.

Perceived performance of government policies: Firms perceived government initiatives in the area of export promotion, entrepreneurial learning and benefitting from the Single Market to be fair. Efforts to simplify procedures for businesses were perceived best, while those dealing with enhanced bankruptcy procedures, the promotion of environmental management systems and standards ranked last.

Priority improvements for government policies: In order to improve, government policies supporting access to finance and export promotion need more financial resources while support programmes for improving the business regulation need to be better co-ordinated.

support and where donor interest could be engaged. The training drive should ensure that the teaching profession a) understands why the EU has established the key competence policy drive and its importance to wider socio-economic development in Albania, and b) through the teacher training bodies, trains teachers (and support institutions such as the curriculum and qualifications organisations) directly on entrepreneurship key competence promotion across the schooling system. Universities which have a role in pre-service teacher training should be involved in any teacher development drive. This could engage the wider university environment in accommodating the principles and objectives of the SBA entrepreneurial learning agenda.

The national gender strategy provides the basis for developing women's contribution to the economy and the labour ministry has a dedicated office to support its development. It will be important to reinforce the women's entrepreneurship policy to include an action plan and a monitoring and evaluation framework. While the assessment highlighted good efforts to promote access to finance for women entrepreneurs, as well as developments in networking in the small traditional crafts sector, these efforts need to be scaled up if they are to have any impact. A multi-stakeholder reflection on both issues, including

representatives from the banking sector, would be useful in working towards system-based improvements in access to finance.

Both the Albanian Investment Development Agency and the national employment service are tracking requirements for enterprise skills, providing an important means to connect up demand and supply. However, these efforts are mainly donor-driven and not yet sustainable; they should be reinforced with a sector skills assessment framework focusing on those sectors and enterprises with greatest trade potential with the EU. It will be important to improve management and trade skills at all levels in selected sectors. This should include support for upgrading the technical knowledge associated with the sectoral EU regulatory framework for enterprises within the selected sectors.

Enhancing SME competitiveness

Business information and services

Albania's policy framework for business support services is still incomplete. The Business and Investment Strategy mentions the development of business support services but does not provide any concrete measures. The development of a broader range of SME support services also suffered from the dismantling of Albinvest. Some improvement was recorded regarding business incubators. The recently approved Strategic Programme for the Development of Innovation and Technology of SMEs (2011-16) plans the establishment of new incubators. Other forms of start-up support are still very weak. With regard to information services, the AIDA portal needs to be fully activated to facilitate access to SME-relevant information.

Public procurement

In order to encourage the participation of SMEs in public procurement procedures, where a contract is made up of a set of homogenous works serving a similar purpose, there is an obligation to divide a contract into lots. The law generally requires that they have to be proportionate to the nature and size of the contract and there are no SME-specific rules. According to the government, information on public procurement is well advertised by the Public Procurement Agency and is available free of charge but it was not possible to verify this information because the website does not function.³ It reports that all procedures related to public procurement are conducted electronically except the negotiated procedure without prior publication. The procurement legislation does not allow for any discrimination based on nationality and hence foreign operators have access on an equal basis with national companies to public procurement procedures. Unfortunately no progress has been achieved with regard to combating late payments although a law on late payments is to be drafted in 2012.

Innovation

Albania has recently established a foundation for innovation policies. An Innovation Steering Committee is in place, containing key actors (METE, ARTI, AIDA, Regional Development Agencies, Chambers, Polytechnic University), the Agency for Research, Technology, and Innovation (ARTI) was set up, and a first National Strategy of Science Technology and Innovation 2009-15 was adopted in 2009. Implementation is still at an early stage, however. There is a national strategy for the enforcement of intellectual and industrial property rights and the Albanian Copyright Office carried out awareness-raising

campaigns through training activities for its own staff and for collective management agencies and state authorities.

Green economy

Eco-efficient business and eco-innovation are poorly embedded in the national policy framework. The Business and Investment Strategy highlights the need to ensure environmental sustainability but does not outline concrete measures to reach this objective. Information on environmental issues and tools remains scarce. A few NGOs are active in the field but the government plays only a minor role in providing environment-related information to businesses. Green growth in the SME sector is also constrained by a lack of expertise on environmental issues. Finally, businesses are largely unaware that they could improve their environmental performance through environmental management systems (EMSs) and standards and the government has not yet put measures in place to encourage their adoption.

Export promotion

Export promotion programmes are integrated into the Business Development and Investment Strategy 2007-13 and largely funded by the Albanian government, alongside donor contributions. In 2010 and 2011 the Ministry of Economy, Trade and Energy held SME Week as part of a national promotion event.

Single Market opportunities

As far as technical regulations are concerned, Albania has already partly aligned its legislation with the framework of the EU. In various priority sectors, the relevant directives still need to be transposed. More than 90% of EU standards have been adopted but the Albanian standard body has not yet applied to become a full member of the European Committee on Standardization (CEN) or the European Committee on Electrical Standardization (CENELEC).

Albania's accreditation body is still working on corrective actions emerging from pre-peer evaluation by the European Co-operation for Accreditation and it has not yet received membership. Although there is legislation on technical requirements and conformity assessment, it is not yet in line with the EU framework.

Metrology bodies and institutes are being continuously upgraded in accordance with EU requirements. The government has drafted a strategy on market surveillance and adopted the transposition of EU horizontal legislation.

AIDA is responsible for promoting investments and exports, providing information and training about the EU market and other Single Market-related issues. In the area of sanitary and phytosanitary standards (SPS), further progress in adopting legislation and early implementation of the legislative framework has been made. National bodies have been set up, but still suffer from administrative limitations.

The way forward

Over the last three years Albania has made progress in SME policy implementation and policy convergence towards EU standards and practices. However, its performance has been uneven across the policy dimensions covered by the SBA. Albania's performance has been relatively strong in those areas related to improving the operational environment. It

has strongly improved the company registration and business start-up process. It has also done well in the area of bankruptcy procedures, regulatory reform and simplification, and access to finance. The improvement of the operational environment has certainly contributed to the vitality and resilience of the SME sector over the last three years. Weaknesses do still persist in areas such as the provision of SME support services, innovation policy and promotion of environmental standards.

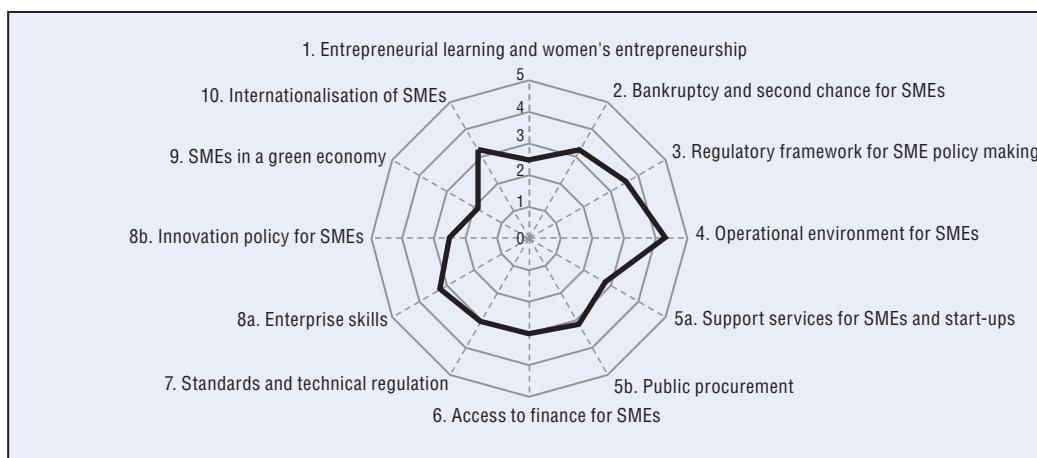
One of the major recent institutional developments has been the dissolution of the investment promotion and SME development agency Albinvest and its replacement by the Albanian Investment Development Agency (AIDA) in May 2011. AIDA is expected to play a major role in SME advocacy and provision of business services and it is therefore vital that the AIDA continues to receive strong support from the Albanian government during this transition period and that its SME mandate is fully developed alongside its investment promotion one.

Women's entrepreneurship could be helped by addressing the training and access to finance concerns as a package whereby access to finance would be conditional on start-up, early phase and enterprise growth training and follow-up mentoring services. More dedicated support for skills and knowledge development in sectors with potential for improved trade in the EU's internal market could be considered. The innovation and competitiveness funds could play a role here.

Albania should continue to focus on improving the business environment, moving towards the systematic introduction of a full regulatory impact assessment for all legislation with direct implications on business operations, while at the same time continuing to improve the transparency and efficiency of the tax administration.

It is also vital that Albania pursues the implementation of the innovation strategy it approved in 2009 and introduces a set of business services supporting those SMEs with the highest growth and export potential. Albania's manufacturing sector, made up mostly of companies operating in the textiles, garment and leather industries, needs to move upwards in the international supply chains and break its dependence on suppliers and buyers from Italy and Greece. It should put in place a range of new targeted business support services, covering technical innovation, incorporation of technical and quality standards, provision of training and skill development schemes, and export promotion services.

Figure 11.1. **SBA scores for Albania**



Source: SBA assessment 2012.

Notes

1. SBA Factsheet Eurostat 2010-2011.
2. The Albanian Bankruptcy Law (8901-May 23 2002), as amended by Law 9919 – 19 May 2008.
3. See www.app.gov.al.

Bibliography

IFC/World Bank Doing Business 2012 survey: The Doing Business Project objectively measures business regulations and their enforcement across 183 economies and selected cities at the sub-national and regional level.

EBRD/World Bank Business Environment and Enterprise Performance Survey (BEEPS IV): The Business Environment Survey (BEEPS) is a joint initiative of the European Bank for Reconstruction and Development (EBRD) and the World Bank Group (the World Bank).

Transparency International Corruption Perceptions Index (CPI): Transparency International is the global civil society organisation leading the fight against corruption. It publishes the Corruption Perception Index (CPI) annually, ranking countries by their perceived levels of corruption as determined by expert assessments and opinion surveys.

PART II

Chapter 12

SBA profile: Bosnia and Herzegovina

Overview

Bosnia and Herzegovina (BiH) has been affected by the global financial crisis, with the economy contracting by 2.8% in 2009. Following a year of anaemic growth of just 0.7% in 2010, the Bosnian economy showed some signs of revival in early 2011. However, weaker growth in the euro zone has had a negative impact on Bosnia's exporting activity and capital inflows in the second half of 2011 and the beginning of 2012. Bosnia and Herzegovina's exports are dominated by semi-processed goods, such as metal and metal forging, which are subject to cyclical swings. Exports fell by 8.6% between the second and the last quarter of 2011. According to the Economic Planning Directorate, foreign direct investment (FDI) inflows fell by 42.5% in 2011 compared to the previous year. At the same time, domestic consumption has remained subdued, largely owing to the austerity measures implemented by the authorities in the past two years as well as to falling remittances. As a result, overall growth in 2011 remained at a modest 1.8% and growth is projected to weaken even further to about 0.5% in 2012.

The quality of the business environment in Bosnia and Herzegovina remains highly problematic and it continues to lag behind other economies in south-eastern Europe (SEE) according to various cross-border surveys. In the latest World Bank's *Doing Business 2012* report, Bosnia and Herzegovina ranked 125th out of 183 economies, reflecting its deep-rooted problems. Its performance is particularly weak in indicators such as starting a business, dealing with construction permits and getting electricity. Corruption is a major challenge and Bosnia and Herzegovina is ranked 91st in Transparency International's 2011 Corruption Perceptions Index, the lowest rank in the SEE region after Albania. In the latest round of the Business Environment and Enterprise Performance Survey (BEEPS IV), out of 15 possible obstacles, more than one-quarter of the enterprises surveyed identified political instability as the main problem affecting their operations. General elections held in 2010 resulted in a prolonged political stalemate that delayed the formation of a new government for over a year and paralysed legislative activity and institutional development, particularly at state level. Many respondents also considered tax rates a serious obstacle as well as competition from the informal sector and access to finance.

Table 12.1. **SMEs in Bosnia and Herzegovina**

Number of employees	Total number of legal entities	% of the total number of SMEs
1-9	151 107	93.6
10-49	8 712	5.5
49-249	1 476	0.9
Total	161 295	100

Note: Data from 2007.

Source: Small and Medium-Sized Enterprise Development Strategy in Bosnia and Herzegovina 2009-11.

Data on SMEs is very scarce and the government has no official definition of SMEs. According to the Small and Medium-Sized Enterprise Development Strategy in Bosnia and Herzegovina 2009-2-011 micro-enterprises (those with fewer than 10 employees), account for 93.6% of all SMEs. The majority of SMEs are found in the trade sector.

Table 12.2. **Main macroeconomic indicators for Bosnia and Herzegovina, 2008-12**

		2008	2009	2010	2011 (est.)	2012 (proj.)
GDP growth	%, y-o-y	5.7	-2.8	0.7	1.8	0.4
CPI inflation	%, average	7.5	-0.1	2.1	3.6	3.0
Government balance	% of GDP	-4.2	-2.2	-4.5	-3.1	n.a.
Current account balance	% of GDP	-14.2	-6.2	-5.6	-8.3	n.a.
Net FDI	EUR million	710.2	184.2	12.8	317.3	n.a.
External debt	% of GDP	37.9	46.6	56.9	46.6	n.a.
Nominal GDP	EUR billion	12.6	12.3	12.5	12.9	n.a.

Source: EBRD 2011 (data collected from World Economic Outlook (IMF), World Bank, National Statistical Agencies and Central Banks).

SBA assessment results

This section outlines the main results for Bosnia and Herzegovina from the 2012 SBA assessment of the EU pre-accession region. The assessed policy dimensions were reassembled and grouped under five wider SME policy areas. Special attention was given to access to finance, due to the impact of the EU financial crisis on the economies of the Western Balkans and Turkey.

Strengthening institutions and mechanisms for SME policy making

Institutional policy framework

Overall, no notable progress has been made in the field of institutional and policy co-ordination at the state level since the previous two reports. Although the SME Development Strategy is completed, it has not been endorsed at the state level. The formally established SME consultative committee, bringing together all the key actors in SME policy, is still not yet fully operational. In addition, there is no official definition of SMEs at the central level; instead the two Bosnian entities, Republika Srpska (RS) and the Federation of Bosnia and Herzegovina (FBiH), use their own SME criteria based on entity laws.¹

At the state level SME policy is the responsibility of the Sector for Economic Development and Entrepreneurship of the Ministry for Foreign Trade and Economic Relations (MoFTER). MoFTER is responsible for policy elaboration related to SMEs and entrepreneurship and promotes SMEs in foreign markets. The entities, as well as Brcko District, co-ordinate their own specific policies through the entity or district governments:

In the Republika Srpska the Department for SMEs and Entrepreneurs under the Ministry of Industry, Energy and Mining (previously Ministry of Economy, Energy and Development) is responsible for policy making. In 2009, the government of RS established the Council for the Development of SMEs and Entrepreneurship with the aim of integrating entrepreneurial and competitive dimensions into existing and new policies and legislation. In the FBiH, the Department of Entrepreneurship and the Department of Crafts under the Ministry of Development, Entrepreneurship and Craft, elaborate and co-ordinate SME

policy. Brcko District has bodies for the elaboration and co-ordination of the SME policy within the Ministry of Economic Development, Sport and Culture.

The Council of Ministers of Bosnia and Herzegovina approved the SME Development Strategy in Bosnia and Herzegovina 2009-11 in April 2009. The government of RS has also drafted a new SME Strategy for the period 2011-13 (as the previous strategy expired in 2010) to be adopted by the end of 2011. The government of FBiH directs SME development through the strategic document Development of SMEs in FBiH.

Although the SME Development Strategy in Bosnia and Herzegovina 2009-11 was supposed to create a state SME agency to co-ordinate the strategic framework, and establish a Development and Entrepreneurship Fund and an SME Council, none of these have yet been realised. At entity level, only the Republika Srpska has an SME agency, the Republic Agency for the Development of SME (RARS). It has 18 local agencies and is in charge of implementing SME support activities. The FBiH is planning to establish an SME agency, as it was in the previous report.

There is neither a strategy nor a plan in Bosnia and Herzegovina to tackle the informal economy. Donor agencies have been supporting *ad hoc* initiatives, however. In the RS the Legislative Guillotine project identified key regulatory barriers for businesses.

Legislative simplification and regulatory impact analysis

The SME Development Strategy in BiH 2009-11 foresees a review and simplification of current legislation but provides no information about the plan will be realised. In the RS in 2009 the EU Legislative Guillotine project identified and removed regulatory barriers to businesses. The RS carried out a legislative guillotine in six municipalities and eliminated 25% of unnecessary formal procedures for businesses, as well as 58% of unnecessary inspection procedures. The government of the FBiH and IFC launched a regulatory reform project in 2009 with the goal of reducing bureaucracy and simplifying business procedures. A central co-ordinating body for regulatory reform was set up to review existing regulations. The parliament of FBiH amended 34 laws in July 2010, simplifying and streamlining 35 priority administrative procedures. By 2011, 7 bylaws had been adopted in various ministries to streamline over 100 business-related administrative procedures, and some administrative improvements have also been implemented at canton and municipal levels.

Despite the commitments made by Bosnia and Herzegovina in the European Partnership Agreement, it has not yet introduced regulatory impact analysis (RIA). In November 2011 the RS government prepared a Strategy on Regulatory Reform and Introduction of RIA in RS 2012-15, which was submitted to Parliament for adoption in December 2011. No systematic regulatory impact analysis exists in the FBiH. Given the immature use of RIA in Bosnia and Herzegovina, the introduction of a specific SME test is not under consideration.

Public-private consultation framework

In Bosnia and Herzegovina, two main bodies represent the interest of the business community at state level: the Association of Employers and Foreign Trade Chamber. Both mainly concentrate on medium and large companies so SME representation at state and entity levels is rather limited. At state level there is no formal consultation system in place. The newly established consultative committee for SMEs stopped functioning after a short period of time.

In RS, FBiH and Brčko District, the Economic and Social Council (ESC) are in charge of public-private consultations (PPCs) and of reviewing draft laws and regulations. Only members of the ESCs are invited to the PPCs. Overall, it is mainly large and influential companies and selected associations which are represented at the ESCs. Some attempts are made to inform the private sector about upcoming PPCs, for example through announcements on the government website, but access to the PPCs is still restricted.

Establishing a conducive operational environment for SMEs

Company registration and business start-up process

The business registration and start-up process in Bosnia-Herzegovina remains cumbersome and costly and no progress has been recorded since the 2009 assessment. The issue of double registration has not been solved. New enterprises are still required to register with the local court and with the municipality and to take care of all the notification procedures themselves, although there are simplified procedures for craft registration. Minimum capital requirements remain high at 29.4% of *per capita* national income.

Provision of e-government services

Bosnia and Herzegovina is still at a very early stage in the organisation and provision of e-government services. No services apart from tax filing are currently available online and the legal and regulatory framework for the introduction of e-signatures is still at a very early stage.

Bankruptcy procedures and second chance

Bankruptcy and insolvency in Bosnia and Herzegovina are governed by the Law on Bankruptcy of the FBiH and the RS of 2005. The insolvency law contains many of the elements that international insolvency standards recognise as critical to a well-functioning insolvency legal regime. However, there is room for improvement in the area of reorganisation proceedings. According to the World Bank's *Doing Business 2012* report, the bankruptcy time is estimated to be 3.3 years; the cost of bankruptcy is 9% of the estate and the recovery rate 35% of the estate. There is no evidence that the public authorities have conducted information campaigns about second chance issues. According to the law on bankruptcy proceedings, the debtor shall be discharged of his remaining obligations after the satisfaction of the creditors in the bankruptcy proceedings.

There are no legal barriers for entrepreneurs who underwent non-fraudulent bankruptcy to receive loans. The time for completion of bankruptcy proceedings is one year for companies with assets of less than EUR 2.5 million and two years for larger companies. The court determines the removal from the insolvency register. There are no discriminatory provisions in the Law on Bankruptcy Proceedings in FBiH and RS for entrepreneurs who underwent non-fraudulent bankruptcy. No information has been provided on discriminatory provisions with regard to public procurement and support schemes.

Facilitating SME access to finance and developing the legal and business environment

As elsewhere in the region, the economic crisis has negatively affected the expansion of sources of finance for SMEs since the last assessment in 2009. This includes leasing, microfinance and the availability of risk capital. Public support through credit guarantee schemes has improved. Progress has been made in the efficiency of the cadastre and the

registration system for movable assets with the establishment of a unified collateral registry in 2009. However, the legal framework remains quite complex due to the two different government systems.²

Sources of external finance for SMEs

Despite significant improvement in access to finance, lending to SMEs accounted for only about 16% of total bank lending in 2010. After a sharp decline in 2009 (negative in nominal terms), lending growth has slowly resumed, reaching 18% at the end of 2011. The share of non-performing loans rose significantly from 6% in 2009 to 12% at the end of 2011, impacting on bank risk taking and economic performance. The banking agencies in both entities still operate independently of each other although they have signed a Memorandum of Understanding which establishes a framework for co-ordination with the central bank. There is some degree of co-operation and data sharing between the two agencies through a Standing Committee on Financial Stability, but standards of supervision and the harmonisation of supervisory practices still need to improve.

The leasing regulatory framework is established under the Law on Leasing of the FBiH and RS that came into force at the end of 2008. The leasing industry has largely followed the development path of the banking sector as the main leasing companies are subsidiaries of foreign banks. Leasing activity was significantly affected by the crisis and the total leasing market declined by 40% in 2009. Other sources of finance, such as availability of risk capital, have yet to develop. While active capital increased in 2010 to 0.8% of GDP from 0.3% in 2009, mainly due to one large transaction, private equity remains at a low level. Venture capital is entirely absent. Although Bosnia and Herzegovina has a stock exchange and the relevant regulations are in place, SMEs have limited access to it. The total market capitalisation represented 44% of GDP in 2010, but the market remains illiquid.

Regional development agencies and foreign donors provide guarantee schemes to SMEs. Five credit guarantee funds currently operate in the economy offering credit in amounts ranging from EUR 2 500 to EUR 50 000 and covering up to 50% of each individual loan. There is pilot public start-up funding project with limited impact. Plans to encourage a business angel network remain insufficient although the SME development strategy has recognised that business angels could contribute to the improvement of access to capital and the development of the economy and employment.

Microfinance is an essential source of finance for SMEs in Bosnia and Herzegovina; 18 microfinance institutions (MFIs) operate in the economy. The main MFI network is the Association of Microfinance Institutions of Bosnia and Herzegovina, covering 98% of MFIs and collecting information on their activities. Two separate banking agencies supervise the sector. There is no consolidated information the overall volume of microfinance although, according to the Microfinance Information Exchange (MIX), microlending (including from ProCredit bank) fell from USD 1 billion in 2008 to about USD 627 million in 2010. MFIs did not actively use the credit information from the credit bureau, which has led to excessive lending and over-indebtedness in the past.

Legal and regulatory framework

The Bosnian cadastre has improved since the 2009 assessment with the computerisation of files in 2009 and the reduction of delays in property registration in 2011. Public and private registries have been in place since 2006 and 2000 respectively and their respective coverage reaches 36% and 40% of adults. They hold positive and negative data

on firms and individuals but there is room for improvement in their effectiveness in determining the creditworthiness of data subjects. Borrowers have no legal right to inspect their information.

The pledge registry was created in 2009, sponsored by USAID. The Law on Pledges regulates the pledge registry which is supervised by the Ministry of Justice. The collateral registry is centralised and unified geographically. The definition of collateral is relatively flexible and microfinance loans do not have to be secured with collateral. Insolvency legislation is established in Bosnia and Herzegovina. The capacity and skills of the bankruptcy administrators remain weak when it comes to reorganisation procedures and most companies enter bankruptcy too late to be reorganised.

Other factors that affect demand and supply of finance

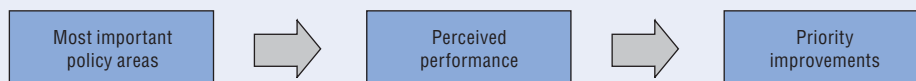
The Central Bank of Bosnia and Herzegovina and USAID's Partnership for Advancing Reforms in the Economy (PARE) are collaborating to help advance financial literacy. However, there is little distinction between financial education and commercial advice and the promotion of financial education throughout the economy remains challenging.

Box 12.1. SME perception of effectiveness of government policy in Bosnia and Herzegovina

Survey results: In parallel with the assessment, the OECD conducted a survey in Bosnia and Herzegovina with the support of EEN, questioning SMEs on their operating environment, business environment conditions and perception of government policies that affect them directly.

Profile of SMEs: The sample included 48 companies, with the average firm operating for 18 years, currently employing 90 people and generating a turnover of EUR 3.5 million. Of the firms sampled, 63% were exporters.

Most important business environment conditions: Survey respondents identified the following priorities: business friendlier loans from banks, stronger consumer demand, more stable and accessible regulatory conditions, a more stable economic environment and better qualified personnel.



Most important government policies: Several government policies for SMEs were identified as most important, the top three being: promoting entrepreneurial learning, easing access to finance and improving business regulation.

Perceived performance of government policies: Firms perceived government initiatives in the area of improving business regulation and supporting export promotion as poor. Policies on ease of access to finance were ranked slightly better but were still considered poor.

Priority improvements for government policies: In order to improve, government policies on access to finance and export promotion need more resources while support programmes for improving access to the Single Market need to be better co-ordinated.

Promoting a culture of entrepreneurship and skills development

The adoption at state level of an entrepreneurial learning strategy covering all levels of education is an important development in the area of human capital. An important factor in the strategy formulation drive has been a comprehensive state-wide Strategic Working Group comprising policy officials and practitioners from both formal and non-formal education areas with excellent stewardship by the Ministry of Civil Affairs. More specific areas of university-enterprise co-operation and “cross campus” entrepreneurship developments could be embedded within an upcoming review of legislation on higher education and where the Agency for Higher Education could play an important role in subsequent developments. Entrepreneurship promotion is more developed in vocational education. General secondary education could borrow from the curriculum and expertise of vocational schools and twinning arrangements could be considered. The “catch-up” drive by general secondary education, nonetheless, requires a concerted effort by education authorities, their teachers and school directors to accommodate the EU entrepreneurship key competence provisions already piloted at the SEECEL-supported schools in Bosnia and Herzegovina.

Turning to women’s entrepreneurship, training, access to finance and more strategic networking should be given more consideration. To this end, a multi-stakeholder discussion involving state and entity authorities (economy, education, employment), business organisations, the banking sector and civic interest groups could be considered to define a more comprehensive set of steps to bring forward the women’s entrepreneurship agenda. This should build on the policy work and structures already developed with earlier United Nations Development Programme (UNDP) support.

A state-wide effort to address management and trade skills for those sectors of the economy with potential for growth should be considered. This should include a concerted effort by all stakeholders to build and share intelligence, with a dedicated office at state level to collate, analyse and report on developments and requirements for strategic manpower developments in Bosnia and Herzegovina. Particular attention should be given to training (all levels) for sectors where enterprises and public authorities responsible for quality and standards will need to ensure that products and services meet the required standards to trade in the EU internal market. The agri-food sector stands out in particular, where enterprises trading with Croatia in the dairy, meat and poultry markets will be affected following Croatia’s accession to the European Union in July 2013.

Enhancing SME competitiveness***Business information and services***

The policy framework for business support services remains underdeveloped. The state level SME strategy mentioned business support services but they have never been implemented. Regional and local agencies receive financial support from a range of donors and the local public sector but the overall choice and quality of SME support services is still limited. The network of business incubators is relatively well developed, with five incubators in RS and eight in FBiH, but their legal status is not yet defined. Other forms of start-up support are weak. A small-scale voucher scheme for SME support services was launched in July 2011 as part of the EU-sponsored EURELSMED project. The government also provides grants to start-ups in the different entities but the total budget allocated for

grants is very small. Finally, no major efforts have been made to enhance the quality and accessibility of SME-relevant information.

Public procurement

Splitting tenders into lots is a common practice. Publication of public procurement offers is assured and all procurement is managed by the Public Procurement Agency. Information is disseminated for free and centralised at national level. There have been notable improvements in e-procurement. Notices for public procurement are sent electronically. The reform seems to be ongoing, gradually increasing the number of e-procurement tenders. No information has been provided on whether there is a coherent policy framework to combat late payment, making it impossible to assess this indicator, but there doesn't seem to be one. The market is only partially open to foreign operators and domestic companies will have preferential treatment until 2012. No information has been provided about the establishment of proportionate qualification levels and financial requirements for SMEs, again making it difficult to assign a score for this indicator.

Innovation

Innovation policy in Bosnia and Herzegovina is in its infancy. The delegation of competencies and tasks for innovation is unclear and there is no strategic policy document structuring innovation policy at either state or entity level. There have been positive efforts to establish innovation incubators and competitive clusters. An innovation incubator has been set up in Tuzla and Banja Luka and several clusters are operational throughout the economy. In addition, three triple helix partnerships have been established within the OECD Regional Competitiveness Initiative. With regards to intellectual property rights (IPR) protection, three councils were established as advisory and co-ordination bodies of the Institute for Intellectual Property and began to implement their work programmes. Training of these council members has begun. Further measures were taken to improve the functioning of the Institute for Intellectual Property and to disseminate information about intellectual property.

Green economy

Eco-efficient business and eco-innovation are poorly embedded in the national policy framework. Several environmental policy documents have been produced but these do not include references to eco-efficient business or eco-innovation. Information on environmental issues and tools remains scarce. While a few NGOs are active in the field, the government plays a minor role in providing environment-related information to businesses. Green growth in the SME sector is also constrained by a lack of expertise on environmental issues. Businesses are largely unaware that they could improve their environmental performance through environmental management systems (EMSs) and standards and the government has not yet put in place measures to encourage their adoption.

Export promotion

The Foreign Trade Chamber of Bosnia and Herzegovina (CFT) and the Bosnia and Herzegovina Export Council³ are the two most active institutions in the field of export promotion. A draft Bosnia and Herzegovina Export Growth Strategy 2012-15 was prepared by the Export Council in December 2011. It absorbs the Bosnia and Herzegovina

Development Strategy and the RS Export Encouragement Strategy 2009-12. No similar strategy has been produced for FBiH. It is assumed that the Bosnia and Herzegovina Export Growth Strategy will provide appropriate guidance for the FBiH government in the matter of developing and promoting their exports.

The Export Promotion Agency under the CFT provides information on trade regulation and foreign markets as well as monetary assistance for export promotion. In addition, the Agency for Development of SMEs of RS financially supports export-oriented companies in RS in marketing and participation in international fairs. National SME promotion events occur on a rather *ad hoc* basis and are mainly donor driven.

Single Market opportunities

As far as technical regulations are concerned, various directives have already been transposed into the legislation of Bosnia and Herzegovina. The Institute for Standardisation of Bosnia and Herzegovina adopted 11 279 European standards, but conflicting national standards still exist. Bosnia and Herzegovina is not yet a full member of the European Co-operation for Accreditation (EA). The Law on Accreditation dates back to 2011 and is most probably not in line with the horizontal *acquis* of 2008. Horizontal legislation on conformity assessment has also still to be aligned with the respective *acquis* of 2008.

The state-level Institute of Metrology was granted full membership of the European Association of National Metrology Institutes (EURAMET). There is still legislation that needs to be harmonised with the *acquis*, however, and no strategy for the development of the metrology system has been adopted. Legislation on market surveillance is not yet aligned with the 2008 *acquis*. The Export Promotion Agency provides information and services for exporters alongside related departments in the Ministry of Trade and Economic Relations and the Export Council. In the area of sanitary and phytosanitary standards (SPS), there has been further progress in adopting legislation and early implementation of the legislative framework. National bodies have been set up, but they have administrative limitations.

The way forward

Bosnia and Herzegovina continues to perform below the region in most of the dimensions covered by the SBA, as the two previous assessments found in 2007 and 2009. While it has made incremental progress in areas such as company registration or access to finance, the overall picture is one of policy stagnation, in contrast with the progress made by all the other economies in the region.

The Dayton Constitution assigns competences on SME and enterprise policy to the entities. While this arrangement has favoured institutional development and the introduction of schemes to support SMEs at the local level, particularly in the Republika Sprska, it has severely constrained the improvement of the business environment across the economy. The regulatory environment remains complex and the regulatory burden on SMEs heavy, particularly in the Federation. Enterprises continue to face obstacles and administrative barriers to conducting business across entities. Policy actions have been fragmented and uncoordinated.

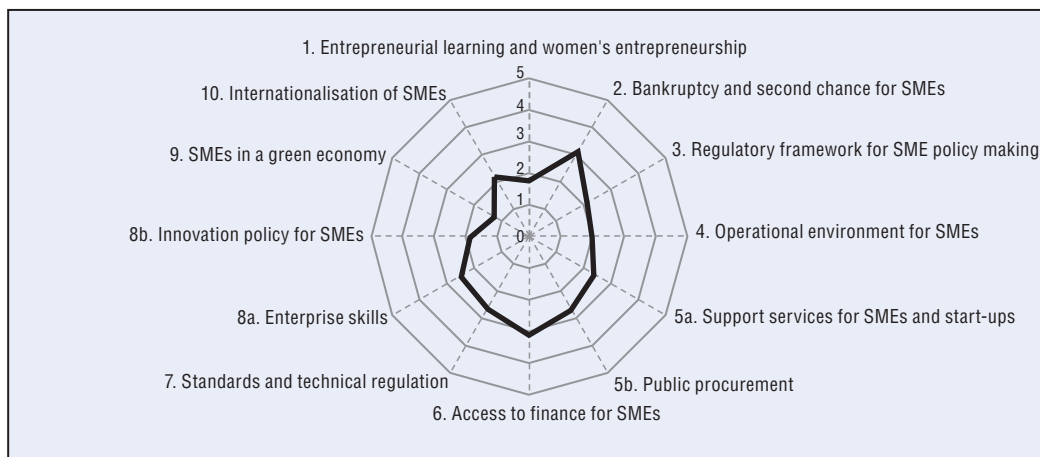
The main stumbling block is the development of a comprehensive policy framework to co-ordinate and harmonise policy interventions at state, entity and sub-entity level.

Attempts to move towards greater co-ordination have so far brought about no significant results. A first positive sign, however, is the recent establishment of a consultative committee bringing together the representatives of the SME policy community at state and entity level, although the committee needs to meet more regularly and develop a shared agenda.

Unless this stumbling block is resolved in a way consistent with the institutional framework, it is unlikely that Bosnia and Herzegovina will be able to develop a comprehensive approach to SME policy. It could still make progress in specific policy dimensions, such as the provision of targeted business services or in the area of access to finance thanks to the supervisory role of the central bank. However, the risk will remain that actions aimed at improving the overall business environment, from company registration procedures to regulatory simplification and the provision of e-government services, will continue to be neglected or be introduced mainly at entity level, and in a limited, uncoordinated and fragmented fashion.

In the area of human capital, following the adoption in March 2012 of the entrepreneurial learning strategy, the Forum for the Development and Promotion of Entrepreneurship could reinforce this commitment to lifelong entrepreneurial learning by establishing a Committee on Entrepreneurial Learning. The tasks of this committee would be to keep abreast of all policy developments at European level, draw up activity plans, ensure monitoring and evaluation while providing an overall policy advisory service. This committee should build on the existing expertise and capacity of the Strategic Working Group. Further capacity building of the Group will be important. Second, a strategic joint review of access to finance and training for women entrepreneurs should determine barriers to access and propose options to improve on both areas. Finally, given the challenges facing enterprises trading in the agri-food sector following Croatia's accession to the EU, a fast-tracked sector skills development programme should be considered as part of the wider bid to maintain and widen access to the market to the EU market.

Figure 12.1. **SBA scores for Bosnia and Herzegovina**



Source: SBA assessment 2012.

Notes

1. SMEs in Republika Srpska are defined in the “Law on support to Development of SMEs” (*Official Gazette of RS*; No. 119/2008. SMEs in FBiH are classified in the “Law on development of small enterprises of the FBiH” (*Official Gazette of Federation B&H*, No. 19/06 and 25/09).
2. The two entities, FBiH and Republika Srpska, have their own legal systems in addition to the state.
3. *Bosnia and Heregovina Export Council* was founded by the Council of Ministers and governed by Ministry of Foreign Trade and Economic Relations.

Bibliography

IFC/World Bank Doing Business 2012 survey: The Doing Business Project objectively measures business regulations and their enforcement across 183 economies and selected cities at the sub-national and regional level.

EBRD/World Bank Business Environment and Enterprise Performance Survey (BEEPS IV): The Business Environment Survey (BEEPS) is a joint initiative of the European Bank for Reconstruction and Development (EBRD) and the World Bank Group (the World Bank).

Transparency International Corruption Perceptions Index (CPI): Transparency International is the global civil society organisation leading the fight against corruption. It publishes the Corruption Perception Index (CPI) annually, ranking countries by their perceived levels of corruption as determined by expert assessments and opinion surveys.

PART II

Chapter 13

SBA profile: Croatia

Overview

After two years of negative growth in 2009-10, the Croatian economy grew by a mere 0.1% in 2011. Its deep structural problems have not yet been addressed. The outlook is very uncertain given the protracted crisis in the euro zone and the risks on the downside are high. At best, only minimal growth can be expected in 2012, while several independent forecasters are predicting a return to recession this year. Exports accelerated in the first half of 2011 but they slowed down again in the second half. Capital inflows rose substantially in 2011 reversing the downward trend seen during the crisis. Despite this, foreign direct investment (FDI) to Croatia remains well below pre-crisis levels, at less than a quarter of the net flows recorded in 2008.

The business environment in Croatia has improved in recent years but it remains challenging in several respects. International surveys continue to place Croatia in a disappointing position relative to its peers in central Europe, considering it will become a EU member in July 2013. Croatia was ranked 80th out of 183 economies in the World Bank's *Doing Business 2012* report. The most serious constraints are difficulties with construction permits, high social costs and labour inflexibility. There are general and deep-seated problems with labour market rigidities. The 2008/09 Business Environment and Enterprise Performance Survey (BEEPS IV) identified a number of concerns of business owners and managers on the ground. Businesses regard their main obstacles to doing business to be tax rates, administration and competition from the informal sector. Croatia continues to face challenges in the sphere of judicial reform and the fight against corruption. The courts system still needs to be fully reformed and the judiciary made more accountable and the overall dispensation of justice for citizens still needs to be improved. According to Transparency International's Corruption Perception Index 2012, Croatia ranked 66th of 183 economies. This is above average for transition countries and better than many of its regional neighbours, but below all but four EU member states (Italy, Romania, Bulgaria and Greece).

Table 13.1. **SMEs in Croatia**

	Number of employees		Annual income in million EUR		Assets (active/long-term assets) in million EUR	
	EU	Croatia	EU	Croatia	EU	Croatia
Micro	0-9	0-9	2	1.92	2	0.96
Small	10-49	10-49	10	7.4	10	3.7
Medium	50-249	50-249	50	29.49	43	14.79

Source: Small Business Development Promotion Act (Official Gazette No. 29/02; 63/07); exchange rate 1 EUR = 7.3 Croatian Kuna, http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm.

Micro, small and medium enterprises (MSMEs) play an important role in the economy as they account for 99.8% of enterprises and 67% of total employment. They also contribute

57% to the overall economy as measured by the value added. The definition for SMEs is based on the EU definition (see Table 13.1):

Table 13.2. Main macroeconomic indicators for Croatia, 2008-12

		2008	2009	2010	2011	2012 (proj.)
GDP growth	%, y-o-y	2.2	-6	-1.2	0.1	-0.6
CPI inflation	%, average	6.1	2.4	1	2.1	1.8
Government balance	% of GDP	-1.3	-4.1	-5	-5.5	n.a.
Current account balance	% of GDP	-8.8	-5.3	-1.1	0.9	n.a.
Net FDI	EUR million	3 204.0	1 180.3	339.8	1 023.7	n.a.
External debt	% of GDP	85.0	99.1	102.1	93.8	n.a.
Nominal GDP	EUR billion	47.6	45.6	45.7	45.9	n.a.

Source: EBRD 2011 (data collected from World Economic Outlook [IMF], World Bank, National Statistical Agencies and Central Banks).

SBA assessment results

This section outlines the main results for Croatia from the 2012 SBA assessment of the EU pre-accession region. The assessed policy dimensions were reassembled and grouped under five wider SME policy areas. A special attention was given to access to finance, due to the impact of the EU financial crisis on the economies of the Western Balkans and Turkey.

Strengthening institutions and mechanisms for SME policy making

Institutional policy framework

Overall the institutional policy set up in Croatia is well developed. SMEs are defined by the Small Business Development Promotion Act whose criteria correspond with the EU definition in terms of employment size. The Ministry of Economy, Labour and Entrepreneurship (MELE) is in charge of SME policy elaboration and inter-governmental co-ordination. The Croatian Chamber of Economy, Croatian Agency for SMEs (HAMAG), Business and Innovation Centre of Croatia (BICRO), other ministries, and regional development agencies are also involved in the policy elaboration process.

The SME development strategy is defined within the Programme for the Promotion of Small and Medium Entrepreneurship 2008-12. Within the programme, the government adopts the annual Operational Plan for the Promotion of SMEs, defining projects, measures and budget to be implemented in the following year. HAMAG is responsible for implementing the SME strategy and monitoring the implemented activities. Its responsibilities encompass issuing guarantees for entrepreneurial credits and grants, developing business infrastructure, co-financing advisory services, education and development of a small business advisors network, and supporting start-up businesses. However, there is not yet a clear division of responsibilities between MELE and HAMAG, as MELE is also engaged in executing operational programmes.

Several laws contain measures to tackle the informal economy, such as preventing tax evasion, social benefits contributions evasion and moonlighting. In 2011 the government adopted a Law on Prohibition and Prevention of Conducting Unregistered Activities. The measures to prevent the grey economy include fines ranging from HRK 20 000 to HRK 50 000 (EUR 2 662 to EUR 6 655) for performing activities not registered by the court.

Legislative simplification and regulatory impact analysis

The Croatian government implemented a regulatory guillotine process but has not completed it. The government's action plan to reduce regulatory burdens by streamlining legislation and eliminating unnecessary regulations started in 2007, slowed down in 2009 and has stagnated since then. So far 1 450 areas of regulation have been examined and the task force has delivered 800 recommendations, of which 500 were accepted and more than 360 implemented.

According to the Rules of Procedure of the government of Croatia in 2009 it is mandatory to carry out qualitative impact assessments of new legislation covering financial, economic, social and environmental impacts on businesses, citizens and civil society. The EU Project, under IPA OP IIIC, Improvement of Administrative Efficiency on National Level, is carried out in collaboration with MELE and other key ministries. Its aim is to develop impact assessment capacity in relation to SME Policy Instruments and ultimately improve the current decision making process related to regulatory system of the Republic of Croatia. Croatia has also passed a law on impact assessment that implies that no regulations will be passed by the government and parliament without a defined process of consultations. In 2009 a regulatory impact assessment (RIA) pilot project examined some SME laws.

Public-private consultation framework

The public-private consultation (PPC) framework in Croatia is well established due to the EU project SMEPED (PHARE 2006) that institutionalised the SME Public-Private Dialogue Forum. The forum takes place at least once a year during the annual National Conference on Economy and Entrepreneurship, and also upon request from its participants. The forum works as a mandatory body consisting of a small number of nominated representatives from SME support institutions and relevant central and local administrative bodies.

Establishing an operational environment conducive to SME development***Company registration and business start-up process***

Croatia operates an efficient company registration and business start-up system, although it is relatively expensive, particularly for limited liability companies due to the relatively high notarisational fees and minimum capital requirement. Registration procedures for crafts are highly simplified. Businesses can register online and the business register operates as a one-stop shop, taking care of the notification procedures. A single identification number was introduced in 2009. Overall, progress since the 2009 assessment has been incremental.

Provision of e-government services

Croatia has introduced a wide range of e-government services for the business community as part of the Hitrorez programme. Since 2010, business taxpayers are allowed to compensate for tax credit and liabilities while e-filing their tax and social contribution returns. Electronic signatures are fully operational and the legislative and regulatory framework complies with EU legislation.

Bankruptcy procedures and second chance

A bankruptcy law has been established in compliance with commercial and company law. In 2010, the Croatian government proposed further amendments to the Bankruptcy Act allowing more efficient and quicker bankruptcy proceedings. According to the World Bank's *Doing Business 2012* report, closing a business takes on average 3.1 years, the cost of bankruptcy is approximately 15% of the business estate and the recovery rate is 29.7%.

As far as giving entrepreneurs a second chance is concerned, the Croatian Competitiveness Council, on the initiative of the SME Policy Centre, presented the EU directive on second chance to its stakeholders on several occasions. According to information from the government of Croatia, discharge from bankruptcy is done after the final court decision and removal from the court register. Guidelines to assist entrepreneurs (2010) in difficulties can be applied to companies that meet the requirements for initiating bankruptcy procedures. According to operational plans on incentives for SMEs, there are no administrative barriers to companies restarting after bankruptcy, but they cannot apply for support from the government.

Facilitating SME access to finance and developing the legal and business environment

Croatia scores amongst the highest of the region in this dimension. Public support for SMEs is available and the economy has also developed alternative sources of finance to bank lending, especially leasing. Since 2009, however, the score for access to finance has suffered a minor decline partly due to the insertion of new indicators but also because of the impact of the crisis on the availability of risk capital. The legal environment has improved, in particular the cadastre system and the availability of information from the registry of movable assets.

Sources of external finance for SMEs

Access to bank finance for SMEs has been affected by the limited liquidity and increased risk aversion in the financial system due to the crisis. Bank lending declined significantly in 2009 and annual credit growth remained negative in the first quarter of 2010, recovering somewhat to about 5% towards the end of 2011. The banking sector remains quite concentrated with the top five banks holding 75% of the assets. Private credit accounted for 72% of GDP in 2011. After bank financing, leasing is the main source of external finance for SMEs, at 14.3% of GDP. The sector is monitored by the Croatian Financial Services Supervisory Agency.

There are several public financial support programmes for SMEs. The Croatian SME agency runs nine credit guarantee programmes, including one specifically targeting start-ups. These schemes target different areas from agriculture to new technologies and the amount of credit and guarantee coverage differ for each scheme. For microcredit, the guarantee scheme covers up to 70% of the credit principal and it is issued for the maximum credit amount of HRK 2 million (EUR 266 287). In the case of new entrepreneurs, the guarantee is issued for the maximum credit amount of HRK 1.8 million (EUR 239 589), covering up to 70% of the credit principal.

The legal framework for microfinance institutions needs to be improved as they currently operate under the legal status of co-operative Savings and Loans. The Croatian

Bank for Reconstruction and Development and programmes from the Ministry of Entrepreneurship and Crafts also provide microfinance.

There are few private equity transactions and they have suffered from the global financial crisis, with active capital and capital available for investment both estimated at just over 0.3% of GDP. Local institutional investors, including pension funds, insurance companies and other corporate bodies are increasingly participating in investment but the levels are still limited. There is nevertheless a reasonable conformity with OECD Principles of Corporate Governance. Venture capital is almost nonexistent. The Zagreb stock exchange has a market capitalisation of 42% of GDP but low turnover. The market shows high compliance with the IOSCO principles and relatively high effectiveness in applying the laws and regulations.

Legal and regulatory framework

The legal and regulatory framework is established and well developed overall. Since the 2009 assessment, the economy has seen improvements in cadastres and private credit bureaus. Indeed, an online cadastre, e-Katastar, is in place and fully functioning. The financial agency FINA handles the registration of movable assets and the register is available online. In general terms, borrowers have to supply collateral of 150% of the loan amount but guarantee schemes benefit from a more flexible definition. A private credit bureau has also been in place since 2007, founded by 20 Croatian banks. It covers 100% of adults and started collecting information on firms but access is limited to financial institutions. There is no legal framework to control the operations of the credit bureau other than the 2003 Act on Personal Data Protection. Participation in the system is determined by the internal bureau regulations. Challenges remain in terms of ensuring creditors' rights efficiency. According to DB 2012, secured creditors are not paid first (i.e. before general tax claims and employee claims) when a debtor defaults outside an insolvency procedure.

Other factors that affect demand and supply of finance

In October 2011, a draft of the national strategic framework for consumer financial literacy was prepared and submitted to the Croatian government. The Entrepreneurial Learning Project of the Ministry of Entrepreneurship and Craft provides some training on financial literacy for start-ups. The National Council of Consumer Protection has already started some initiatives in order to develop a National Strategy for Consumer Protection for the period 2009-12 with the purpose of strengthening consumer protection in financial services and financial literacy in the economy.

Promoting a culture of entrepreneurship and skills development

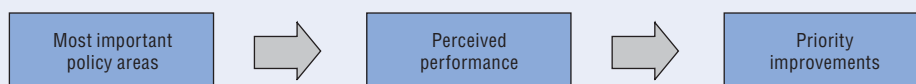
On its last assessment before accession to the European Union, Croatia's performance on human capital and women's entrepreneurship has been good all round. Its lifelong entrepreneurial learning strategy interfaces with its SME development, employment and women's entrepreneurship strategies as well as its national youth programme and is a core feature of the national curriculum framework. Good efforts are being made on the entrepreneurship key competence in primary and secondary schools (especially vocational education) but monitoring and evaluation will be important as it is rolled out across the school system as planned. The vocational streams have the most advanced promotion of business knowledge and skills, with online resources for vocational teachers and students

Box 13.1. SME perception of effectiveness of government policy in Croatia

Survey results: In parallel with the assessment, the OECD conducted a survey in Croatia with the support of EEN, questioning SMEs on their operating environment, business environment conditions and perception of government policies that affect them directly.

Profile of SMEs: The sample included 48 companies, with the average firm operating for 12 years, currently employing 63 people and generating a turnover of EUR 16.5 million. Of the firms sampled, 58% were exporters.

Most important business environment conditions: Survey respondents identified the following priorities: stronger consumer demand, a more stable economic environment, more stable and accessible regulatory conditions, business friendlier loans from banks and better qualified personnel.



Most important government policies: Several government policies for SMEs were identified as most important, the top three being: improving business regulation, easing access to finance, and transparent public procurement and SME support services.

Perceived performance of government policies: Firms perceived government initiatives in the area of improving business regulation and simplifying procedures for business as fair. Policies addressing easing access to finance and promoting transparent public procurement and SME support services were considered poor. Programmes supporting export promotion ranked the lowest.

Priority improvements for government policies: In order to improve, government policies for access to finance and export promotion require more financial resources, while support programmes for improving the business regulation need to be better co-ordinated. Support programmes dealing with access to the Single Market need to be better designed.

underlining innovation in entrepreneurship promotion. The general secondary education system could be most easily helped to catch up through the transfer of know-how from the vocational system. The higher education community will need to engage better with the SBA assessment process to support the entrepreneurial learning agenda. Despite this, individual universities have shown excellent commitment to promoting entrepreneurship.¹

Croatia's strategy for women's entrepreneurship reinforces a gender equality strategy that brings together a range of policy concerns whose broad objective is the empowerment of women, politically and economically. The value of the entrepreneurship strategy lies in the interdependence with other strategies, particularly the national SME strategy and support lines that allow for improved access to training and finance. The government, the SME community, civic interest groups and the banking sector need a more developed dialogue to improve women's access to finance. The Croatian Chamber of Economy's "best women entrepreneur" awards stand out as good practice in promoting awareness and recognition of women entrepreneurs. Meanwhile, the Ministry of Entrepreneurship and Crafts offers financial support to a national businesswomen's network, underlining its importance to the policy drive.

Finally, the Chamber of Economy provides an important pillar of the economy's wider efforts to build intelligence on enterprise skills. A training provider market is well

developed across the regions with signposting provided by the employment, regional development and VET agencies, the Chamber of Economy and the Ministry for Economy and Crafts. With Croatia's entry to the European Union in July 2013, greater demand for training is likely as the economy directly accommodates additional support for human capital development from the EU social fund. The government, the small business community and the training provider market will need to be ready to work together on developments, in line with the skills provisions of the EU employment guidelines. In this regard, Croatia's efforts to support sector skills councils are an important step towards addressing the supply and demand sides of the skills equation.

Enhancing SME competitiveness

Business information and services

Croatia has a well-developed and competitive business services market in which both national and international consulting companies offer a broad range of support services. It has made no further progress regarding business incubators; the 24 incubators in operation continue to primarily provide basic services rather than high value-added support and limited efforts have been made to develop exit strategies for tenants. Other forms of start-up support are relatively well developed. Consultants certified under the HAMAG Business Consultant Project offer advisory support to new businesses through centres for entrepreneurship, development agencies, incubators and technological parks. Start-ups can also receive financial support in the form of grants, guarantees and subsidised loans. With regard to information services, the Croatian government still needs to set up a centralised portal specifically dedicated to SMEs to facilitate access to relevant information.

Public procurement

Contracting authorities in Croatia commonly cut tenders into lots and award contracts separately for each group or lot. This system enables SMEs to take part in big value contracts. Joint bidding is allowed and it can be used in order to meet financial and qualification requirements. All contracts equal or greater to HRK 70 000 are published in the Electronic Public Procurement Classifieds (EPPC) and are centralised at national level. From the date of publication of a contract notice, the contracting authority must offer unrestricted and full electronic access to the tender documents and any necessary additional documents. This service is available free of charge. The Public Procurement Act opened the market to all economic operators and does not differentiate between domestic and foreign enterprises. A new payment act was adopted in November 2009, but it is not reported if and how it regulates late payments.

Innovation

Croatia has among the most advanced innovation policies in the region. The Science and Technology Policy of Croatia was well implemented under the supervision of the Council of the National Innovation System, which was established in 2008. In addition, the Croatian government is currently co-operating with the OECD on reviewing its national innovation system, in order to design a new innovation strategy. A range of innovation-related policy initiatives are operational, including three innovation incubators, four export-oriented clusters, and five science and technology parks. With regard to intellectual property rights (IPR) protection, Croatia fulfils the *acquis* requirements particularly well in the field of copyright and neighbouring rights and industrial property rights. Very good progress can be

reported in the field of enforcement. Further emphasis should be put on the capacity of the police and prosecutors to build larger cases and on raising public awareness of intellectual property rights. The State Intellectual Property Office (SIPO) has good administrative capacity.

Green economy

Efforts have been made to integrate green growth into the national policy framework. The Strategy for Sustainable Development (2009) identifies sustainable production and energy efficiency as priorities. However, the Programme for SME Development (2008-12) does not include provisions on eco-efficiency, suggesting that environmental protection and SME development are still perceived as disconnected policy areas. Information on environmental issues and tools is available through the Agency for Environmental Protection, the Ministry of Environmental and Nature Protection, local authorities, donor-funded projects and NGOs. Chambers of commerce and local authorities also defend the interests of SMEs in the preparation of environmental legislation and organise seminars to help SMEs comply with new regulations. Companies are relatively more aware of environmental management systems (EMSs) and standards than in the rest of the region, as evidenced by the increasing number of Croatian firms certified with ISO 14001. However, the government still needs to put in place specific measures to encourage the adoption of environmental standards.

Export promotion

Croatia has adopted the Programme for Promotion of International Competitiveness and Internationalization of Croatian Economy 2011-12 which is funded by the Croatian state budget. The programme encompasses activities such as participation in trade fairs and marketing activities in international markets, including financial services, export promotion and marketing. In addition, the Croatian Bank for Reconstruction and Development has a number of programmes to support the export activities of SMEs. There are a number of well-established national and local SME promotion events, with the Annual Conference on SMEs having been held since 1997.

Single Market opportunities

With the finalisation of accession negotiations, Croatia is expected to join the EU on 1 July 2013. It has almost finished the full implementation of the relevant sectoral legislation which is aligned with the *acquis* for the priority sectors in the area of technical regulations. The adoption of European standards has been finalised, conflicting national standards have been abolished and the Croatian Standards Institute is a member of the European Committee for Standardization (CEN), the European Committee for Electrotechnical Standardization (CENELEC) and the European Telecoms Standards Institute (ETSI). Croatia's accreditation body operates effectively and has achieved signature status of the European Co-Operation for Accreditation Multilateral Agreement (MLA). National accreditation bodies positively assess conformity assessment bodies and designated and accredited assessment bodies have also been put in place. The Croatian State Office for Standardisation and Metrology is recognised by relevant international and European institutions. A market surveillance strategy has been drafted and the transposition of EU horizontal legislation has been adopted.

The government decided to disband the Agency for Trade and Investment in 2010 and replaced it with the new portal “Invest in Croatia”, providing an integrated network with a strong focus on the EU Single Market. National sanitary and phytosanitary standards (SPS) bodies are well established with a few limitations. They still need to make some efforts to fully align with European and international standards.

The way forward

Croatia has performed above regional level in the 2012 SBA assessment, confirming the strong performances already recorded in the 2007 and 2009 assessments based on the Charter for Small Enterprises. Overall progress in the policy dimensions covered both by the Charter and the SBA, has been relatively modest, however, and concentrated in the areas closer to the *acquis communautaire*. This may be explained by the need to focus over the last three years on the completion of the EU accession process and the response to domestic consequences of the global financial crisis.

As Croatia moves towards EU membership, it needs to upgrade its SME policy further, taking EU levels as its benchmark rather than regional performances. Its main priority should be the improvement of the business environment. In particular the government should resume the programme of regulatory simplification which it started with well-targeted measures in 2007, but which has stagnated since 2009. The regulatory guillotine process should be completed with the elimination of redundant regulations and it should plan new rounds covering local regulations.

Bankruptcy procedures could be further streamlined: according to the *Doing Business* 2012 report, closing a business takes 3.1 years in Croatia while it takes on average 1.7 years in the OECD. The recovery rate is also low, amounting to only about 30%. Having efficient bankruptcy procedures in place is an important condition to facilitate exit and re-entry of businesses in the market. It also affects access to finance: if bankruptcy procedures are imperfect, lenders are reluctant to extend loans to enterprises as they would have no legal recourse in case of failure of the borrower to repay the loan.

Croatia has traditionally performed well in providing business services, developing a wide range of services for SMEs, but these are still largely oriented towards low value-added support. It should focus its support much more on high-quality services. For instance, instead of providing mainly basic support, business incubators could focus on high-quality services and innovation support to new, science-based companies.

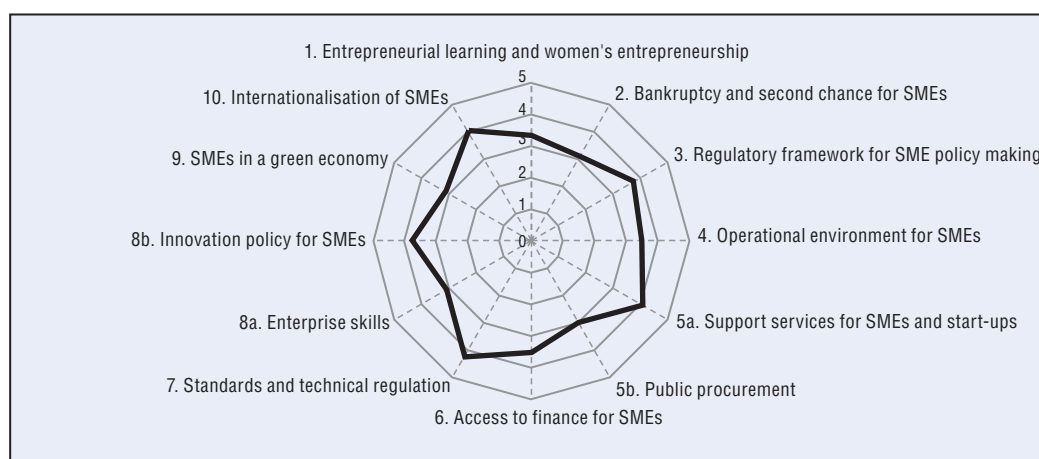
Support for innovation should be further improved in the near future thanks to the elaboration of a new innovation strategy and the access to full range of EU schemes and facilities. Support for private equity and venture capital funds should be maintained. The Croatian government has recently launched a new initiative to support the development of private equity and venture capital markets through Economic Cooperation Funds (ECFs). Through these, the government will invest as a public investor alongside private investors in private equity (PE) and venture capital (VC) funds, significantly increasing the potential venture capital supply. These efforts should be continued and directed towards the creation of a base facilitating the access to the schemes included in the Community Innovation Programme.

The government should strengthen the policy framework for green growth. The Programme for SME Development (2008-12) does not include provisions on eco-efficiency, suggesting that environmental protection and SME development are still perceived as

disconnected policy areas. Eco-efficiency and eco-innovation should be clearly integrated within SME policy.

Finally in the area of human capital, the government and education communities should consider developing an entrepreneurship educators' network. With leadership in the university environment taking time to strategically engage collectively in the entrepreneurial learning drive, an entrepreneurship educators' network could help fill the gap. The network could generate greater awareness of the importance of the entrepreneurship agenda while allowing for expertise development and sharing of good practice. While initially focusing on third-level education, the network should eventually be extended to the remaining levels of education to ensure a lifelong entrepreneurial learning sequence. Meanwhile, a dedicated dialogue involving government, business, civic interest groups and the banking sector should examine options for improved access to finance for women entrepreneurs.

Figure 13.1. **SBA scores for Croatia**



Source: SBA assessment 2012.

Note

1. The University of Osijek is recognised as a centre of excellence in promoting entrepreneurial learning with key staff contributing to analysis and international debate through the 2011 Global Entrepreneurship Monitor.

Bibliography

IFC/World Bank Doing Business 2012 survey: The Doing Business Project objectively measures business regulations and their enforcement across 183 economies and selected cities at the sub-national and regional level.

EBRD/World Bank Business Environment and Enterprise Performance Survey (BEEPS IV): The Business Environment Survey (BEEPS) is a joint initiative of the European Bank for Reconstruction and Development (EBRD) and the World Bank Group (the World Bank).

Transparency International Corruption Perceptions Index (CPI): Transparency International is the global civil society organisation leading the fight against corruption. It publishes the Corruption Perception Index (CPI) annually ranking countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys.

PART II

Chapter 14

SBA profile: Kosovo

Overview

The global financial crisis had only a relatively small impact on Kosovo's real growth, largely due to the economy's limited international integration. Kosovo's economy has shown significant progress in maintaining macroeconomic stability, but the economy is still highly dependent on inflows of remittances and donor activity. Real GDP growth slowed from close to 7% in 2008 to about 3% in 2009, before recovering to 4% in 2010. This performance was mostly due to high domestic demand reinforced by higher government spending and remittances from Kosovars living mainly in Germany, Switzerland, and the Nordic economies. Unemployment remains a challenge affecting more than 40% of the population.

The business environment in Kosovo remains challenging in several respects. Kosovo was ranked 117th out of 183 economies in the World Bank's *Doing Business 2012* report. The main obstacles to doing business were perceived to be protecting investors, dealing with construction permits and starting a business.

According to the Law on Amendment and Supplementation of the Law No. 02/L-5 on Supporting the Small and Medium Enterprises, SMEs are classified according to the number of employees as follows:

- Micro: up to 9 employees.
- Small: 10-49 employees.
- Medium: 50-249 employees.

Different public authorities use different definitions for SMEs. SMEs are essential for a sustained economic development as they represent around 99% of the businesses in Kosovo. This sector is particularly dominated by micro enterprises.

Table 14.1. **Main macroeconomic indicators for Kosovo, 2008-12**

		2008	2009	2010	2011 (est.)	2012 (proj.)
GDP growth	%, y-o-y	6.9	2.9	4.0	n.a.	n.a.
CPI inflation	%, average	10.6	4.0	4.0	n.a.	n.a.
Government balance	% of GDP	n.a.	n.a.	n.a.	n.a.	n.a.
Current account balance	% of GDP	n.a.	n.a.	n.a.	n.a.	n.a.
Net FDI	EUR million	365	303	362	n.a.	n.a.
External debt	% of GDP	n.a.	n.a.	n.a.	n.a.	n.a.
Nominal GDP	EUR billion	3.7	3.9	5.5	n.a.	n.a.

Source: EBRD 2011 (data collected from *World Economic Outlook* (IMF), World Bank, National Statistical Agencies and Central Banks).

SBA assessment results

This section outlines the main results for Kosovo from the 2012 SBA assessment of the EU pre-accession region. The assessed policy dimensions were reassembled and grouped under five wider SME policy areas. Special attention was given to access to finance, due to the impact of the EU financial crisis on the economies of the Western Balkans and Turkey.

Strengthening institutions and mechanisms for SME policy making

Institutional policy framework

In general, Kosovo has made some improvements in this sub-dimension, due to the adoption of the SME Development Strategy 2012-16. This document has 7 strategic goals and 140 targets. The SME Agency SMESA, which is part of the Ministry of Trade and Industry, is in charge of executing the strategy. It allocated EUR 1.3 million and the donor community committed a further EUR 30 million to this task. In 2012, SMESA is expected to merge with the Investment Promotion Agency (IPAK).

The Government Programme and Action Plan for Prevention of the Informal Economy 2010-12 were approved in September 2010. The government Permanent Group for Prevention of Informal Economy was established and meets on a regular basis. The Kosovo Tax Administration carried out legislative measures against the informal economy in 2009 and 2010. This process involves preventative measures such as controlling and confiscating goods without coverage, opening of criminal proceedings against those who avoid taxes purposely, banks reporting payments above EUR 500, fiscal cash registers and provision of fiscal numbers.

Legislative simplification and regulatory impact analysis

Kosovo has made some progress in the simplification of current legislation since the 2009 report. Based on the Legislative Strategy 2011, Kosovo started to implement its plan to review and simplify primary legislation on enterprise policy. Twelve draft laws have been or are in the process of being reviewed. The government has established inter-ministerial working groups to review laws. Nevertheless, the guillotine process is not applied in Kosovo. Furthermore, regulatory impact analysis has not yet been introduced, although its introduction is planned under the Strategy of Development of SMEs in Kosovo 2012-16. Kosovo has no SME test.

Public-private consultation framework

In Kosovo public-private consultations (PPCs) are held on a quarterly basis. A consultative council was established within the Ministry of Trade and Industry in 2008, representing public, private and donor agencies. Kosovo should consider opening PPCs to other relevant stakeholders and ensure that any proposals for draft laws and amendments are properly considered.

Establishing an operational environment conducive for SMEs

Company registration and business start-up process

Company registration procedures have improved since the 2009 assessment. The Business Registration Agency is now fully operational and company registration centres have been set up in 22 municipalities. Company registration fees are inexpensive and company registration certificates are issued within a few days. However, companies are still required to take charge of the notification procedures and to obtain a municipal license in order to start operations. Compliance costs remain quite high and this explain the low ranking of Kosovo in the Starting a Business section of the World Bank's *Doing Business* 2012 report.

Provision of e-government services

Kosovo is still at an early stage in the provision of e-government services to the business community. VAT e-filing was introduced on an experimental basis in September 2009, and there is a strategic plan to extend e-filing services to other taxes and introduce online payments. Public procurement services are also available online. A draft law on electronic signatures has been prepared, but the legal and regulatory framework is still largely incomplete.

Bankruptcy procedures and second chance

In Kosovo, laws or procedures around distressed companies, receivership and bankruptcy laws are formally in place, but the legislation is perceived as not systematic and at an early stage of implementation. According to the World Bank's *Doing Business 2012* report, the bankruptcy time is estimated to be two years, the cost of bankruptcy 15% of the estate and the recovery rate is 57.4%.

The public administration has not yet conducted a campaign to promote a positive attitude towards giving entrepreneurs a second chance. Discharge from bankruptcy is done after a final court decision on the discharge and the removal from the court register. Businesses may have difficulties obtaining a bank loan, as the Kosovo Credit Registry keeps data on defaults. Entrepreneurs who start a new business may take part in tenders with small values, but cannot participate in most of the larger tendering processes.

Facilitating SME access to finance and developing the legal and business environment

There have been no significant changes in access to finance since 2009. Sources of external finance for SMEs have remained generally similar except that a leasing law was adopted in 2009 and public support has decreased slightly. Moderate progress has been achieved in the legal and regulatory environment as the coverage of the credit information system has slightly improved since 2010.

Sources of external finance for SMEs

The banking system in Kosovo has been developing since 1999 and is regulated by the Central Bank of Kosovo (CBK). This sector is dominated by foreign banks which account for around 90% of all banking assets. The banking system is also highly concentrated although levels have declined in recent years. However, the cost of mediation in the banking system remains high. Poor information on borrowers' creditworthiness, such as a lack of proper accounting and audited financial statements, makes it hard to measure risk which leads to higher interest rates on loans. Conservative lending policies by banks and a strong supervision also contributed to the low level of non-performing loans (NPLs) at 3% of total loans in 2008. However, the financial crisis adversely affected the Kosovo economy and the proportion of NPLs increased to 5.9% of total loans by June 2011. This resulted in an increase of interest rates in early 2011. Between 2007 and the end of 2010 credit growth slowed significantly, from 40% to 12%, and remained low in 2011.

Public support of SMEs comes through international donors. USAID has developed several programmes to improve SME access to finance, including the Youth Entrepreneurship Programme and the Development Credit Authority (DCA). The DCA provides 50% risk guarantees to agri-business projects. International organisations also provide funding to start-ups through programmes such as Start-up Pristina.

The microfinance sector in Kosovo has been operating since 1999. Most microfinance institutions (MFIs) were established by international humanitarian organisations. There are 14 MFIs operating mainly in rural areas and they are regulated by the UNMIK Regulation 2008/28 and the CBK. Microfinance represents an 18% share of the financial sector in terms of number of loans and a 7% share in aggregate loan amount. The legal framework on leasing has improved since the adoption of the Law on Leasing 2009. The CBK regulates the leasing sector.

Other sources of finance, such as risk capital and capital markets, are non-existent. Kosovo has no functional stock exchange. A law regulating the stock market is under preparation and the Ministry of Finance and the CBK are implementing a plan to launch the first stock exchange with the assistance of USAID experts. This planned exchange could potentially operate on a joint basis in Kosovo and Montenegro or even become a regional stock exchange.

Legal and regulatory framework

The Kosovo Cadastral Agency was established in 2000 by UN-Habitat. It operates under the Ministry of Environment and Spatial Planning and UNMIK. The launch of an online service is planned in the near future. The cadastre has been supported by a number of international and development agencies. There have been no significant improvements in this area since 2009.

The Kosovo Credit Information Service (KCIS) was created in 2000 as an association of banks and MFIs. Its coverage has improved since 2010 but remains low, at only 20.5% of adults, and it distributes information exclusively to financial institutions. Beside KCIS, a Pledge Filing Office was established in 2002 on the basis of the UNMIK Pledge Regulation with the support of the World Bank and USAID. At present security interests are regulated by Law No. 03/L-154 on Property and Other Real Rights, which was promulgated on 15 July 2009. This Law has replaced the UNMIK Regulation for Pledge and Regulation for Mortgage. The pledge is perfected by its registration with the pledge registration office. The Pledge Registration Office is operated by the Kosovo Business Registry Agency. While the registration process is simple, online and free, improving the quality of the data collected and its reliability remains a significant challenge. Another negative feature of the registration system is a provision of the law stating that the pledge registration is valid only for three years from the date of registration. Upon the expiry of such period, the registration has to be renewed by the parties. Collateral requirements remain high. As a general rule, banks require 150% to 200% of a loan amount as collateral.

Creditor rights in the context of a liquidation or reorganisation of a corporate debtor are governed by the law adopted by the Assembly of Kosovo on Liquidation and Reorganisation of Legal Persons in Bankruptcy. The law provides that, upon a submission of a petition for a bankruptcy case, “any acts to realize, seize, or sell any pledged or mortgaged property of the debtor’s estate” shall be suspended. Therefore, secured creditors are not able to seize collateral during reorganisation proceedings, although some protective measures are available to holders of security interests. Any creditor may object to a filing for reorganisation made by the debtor. Secured creditors’ claims take priority over other claims in case of liquidation. The management of the debtor does not retain rights to administer the debtor’s property during bankruptcy and reorganisation proceedings.

Other factors that affect demand and supply of finance

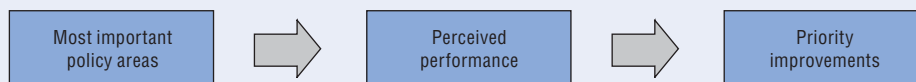
Although commercial banks organise educational campaigns to inform consumer of different financial products and they are obliged to disclose financial information through their website and to the CBK, Kosovo has no national strategy to assess financial literacy.

Box 14.1. SME perception of effectiveness of government policy in Kosovo

Survey results: In parallel with the assessment, the OECD conducted a survey in Kosovo with the support of SMESA, questioning SMEs on their operating environment, business environment conditions and perception of government policies that affect them directly.

Profile of SMEs: The sample included 38 companies, with the average firm operating for 18 years, currently employing 50 people and generating a turnover of EUR 2.2 million. Of the firms sampled, 79% were exporters.

Most important business environment conditions: Survey respondents identified the following priorities: business friendlier loans from banks, stronger consumer demand, a more stable economic environment, more stable and accessible regulatory conditions and better export promotion.



Most important government policies: Several government policies for SMEs were identified as the most important, the top three being: improving business regulation, easing access to finance and supporting export promotion.

Perceived performance of government policies: Firms perceived government initiatives in the area of supporting export promotion, improving business regulation, and simplifying procedures for business as fair, policies on the ease of access to finance were ranked last and as poor. Policies geared at simplifying procedures for businesses were ranked the best.

Priority improvements for government policies: In order to improve, government policies over access to finance and export promotion need more financial resources while support programmes for improving business regulation need to be better co-ordinated.

Promoting a culture of entrepreneurship and skills development

Turning to the human capital developments, the assessment notes a waning in the momentum to promote lifelong entrepreneurial learning which characterised developments in the 2009 review. A cross-stakeholder framework, nonetheless, remains intact and a renewed commitment by all partners, as a collective, is required to take developments forward. This should include the higher education community which remains very much on the fringe of the SBA policy process and where a more concerted effort is needed to ensure that the best of Kosovo's talent is integrated into a national entrepreneurship drive. Leadership of the partnership process is crucial to ensure entrepreneurial learning remains high on the policy radar. In this regard, the education ministry has an important role with collective engagement and support from other key actors (employment and enterprise policy institutions, small business and civic interest groups).

In terms of delivery of entrepreneurial learning, an important achievement has been the inclusion of the entrepreneurship key competence within the national framework curriculum. This is already having effect with lower and upper secondary schools already making good efforts to accommodate the entrepreneurship key competence provisions. Meanwhile, vocational schooling provides a good reference for the rest of the formal education system in supporting more developed business knowledge and skills, including school-enterprise co-operation. The planned establishment of an entrepreneurship academy by the Kosovo Chamber of Commerce to support entrepreneurial learning through the school and university system provides an important support function to the wider entrepreneurial learning drive in the economy. It should also reinforce education-business co-operation.

The assessment found excellent grass roots support for women's entrepreneurship where the Kosovo Women's Entrepreneurship Association (SHE-ERA) is playing a particular role in terms of policy push and wider advocacy. The SME strategy (2012-16) provides an opportunity for more serious consideration to be given to women's entrepreneurship and where improved access to finance and training, through the government's annual programming exercise, will be important to deliver on the SBA policy provisions.

Finally, the SME agency has taken an important step to build systematic intelligence on the skills' base of the small business community. Data here should be combined with the intelligence gathered through a) the sector skills' drive of the Kosova Alliance of Employers and b) the regional employment offices, to maximise the value of overall intelligence the national authorities and business world to more confidently respond to the skills' gaps. While the SME strategy gives good attention to management skills, vocational skills which are critical to enterprise performance and a "growth and jobs" agenda, warrant equal consideration.

Enhancing SME competitiveness

Business information and services

The national policy framework is poor when it comes to business support services. The measures related to business support services in the SME strategy are broad and not associated with clear targets. SME support services remain limited and heavily dependent upon donor support. Support for start-ups is particularly underdeveloped. The four existing incubators are still in their pilot phase and the voucher scheme implemented by the SME Support Agency in 2010 was discontinued in 2011. Finally, the lack of comprehensive, easily accessible and regularly updated information on issues relevant to SMEs is a significant constraint for small businesses operating in Kosovo.

Public procurement

Article 29 of the public procurement law enshrines the division of contracts into lots. The regulation also includes provision on proportionate qualification levels and financial requirements, as well as the possibility of joint bidding. Information about public procurement is disseminated via a dedicated website (www.ks-gov.net/krpp) and a help desk offers advice and legal interpretations for all interested parties. Tenders are published electronically and in major newspapers in two official languages, and in English in the case of major contracts, but it is not possible to bid electronically. The public procurement

market is open to foreign operators and all large value contracts are also prepared in English. No consistent policy approach exists with regard to combating late payment.

Innovation

Innovation policy in Kosovo is in its infancy. The delegation of competencies and tasks promoting innovation is unclear and there is no strategic policy document structuring innovation policy. There are plans to conduct a comprehensive innovation policy assessment and to draft an innovation strategy in 2012, with the assistance of the OECD under the OECD Regional Competitiveness Strategy. Overall, Kosovo has started efforts to align its legislative framework with European standards in the area of intellectual property rights. Some steps have been taken to increase administrative capacity in this area. Overall capacity remains insufficient and enforcement continues to be a challenge. Counterfeiting and piracy remain issues of serious concern.

Green economy

The national policy framework places little emphasis on eco-efficiency and eco-innovation. The promotion of energy efficiency is mentioned in the SME strategy and action plan but not associated with concrete measures. Information on environmental issues and tools remains scarce. Indeed, while a few environmental NGOs are active in the field, the government plays only a minor role in providing environment-related information to businesses. Green growth in the SME sector is also constrained by a lack of expertise on environmental issues. Businesses are largely unaware of how they could improve their environmental performance through environmental management systems (EMSs) and standards and the government has not yet put in place measures to encourage their adoption.

Export promotion

Kosovo made some progress in internationalising SMEs. For example, in recent years Kosovo has organised several national SME promotion events, such as the European Week of SMEs in May 2010 and Small Business Days in November 2011. IPAK has drafted an export promotion strategy that still needs to be approved by the Ministry of Trade and Industry. Nonetheless, export promotion activities rely heavily on donor funding.

Single Market opportunities

Kosovo recently approved the law for technical requirements for products and conformity assessment, completing the sectoral legislation for a part of the priority sectors pertaining to technical regulations. Kosovo has adopted 3 800 European standards but due to political restrictions, it has not yet become a member of CEN and CENELEC. It has transposed horizontal legislation on accreditation and set up an accreditation body in accordance with EU requirements. The Directory of Kosovo Accreditation is a member of the European Co-operation for Accreditation (EA) but it has not yet gained EA Multilateral Agreement signature status. The transposition of EU horizontal legislation on conformity assessment is ongoing.

Kosovo continues to upgrade its metrology bodies and institutions in accordance with EU requirements. The Department of Metrology of Kosovo is a member of the European Organisation of Metrology. A market surveillance strategy has been drafted and

transposition of EU legislation adopted. The Department for Promotion of Exports works within IPAK to organise international fairs, business to business meetings and conferences in order to export more easily in third markets. In the area of sanitary and phytosanitary standards (SPS), Kosovo has made further progress in adopting legislation and has achieved early implementation of the legislative framework. It has set up national bodies but they still have administrative limitations.

The way forward

Kosovo's performance in the 2012 SBA assessment has been generally below the regional level, in line with the performance recorded in the 2007 and 2009 assessments based on the EU Charter for Small Enterprises. Kosovo started SME policy development much later than other Western Balkan economies. It introduced its first SME policy in 2006-07, but the SME Development Agency only became operational in 2008 and the first multi-year SME strategy was only elaborated in 2010.

Over the medium term Kosovo should focus on the improvement of the business environment, making sure that as it develops new legislation and regulations, they are efficient and transparent. The government should move towards introducing some form of regulatory impact assessment on new legislation, starting with a soft form, while building capacity in the public administration. It should further enhance the public-private dialogue process, expanding the role of the Consultative Council and regularly consulting private sector representatives in the preparation of laws and regulations directly affecting business activities. Particular attention should be paid to the enforcement of laws and regulations, making sure that the production of new legislation and regulation does not run ahead of the capacity of the public administration to manage and enforce it.

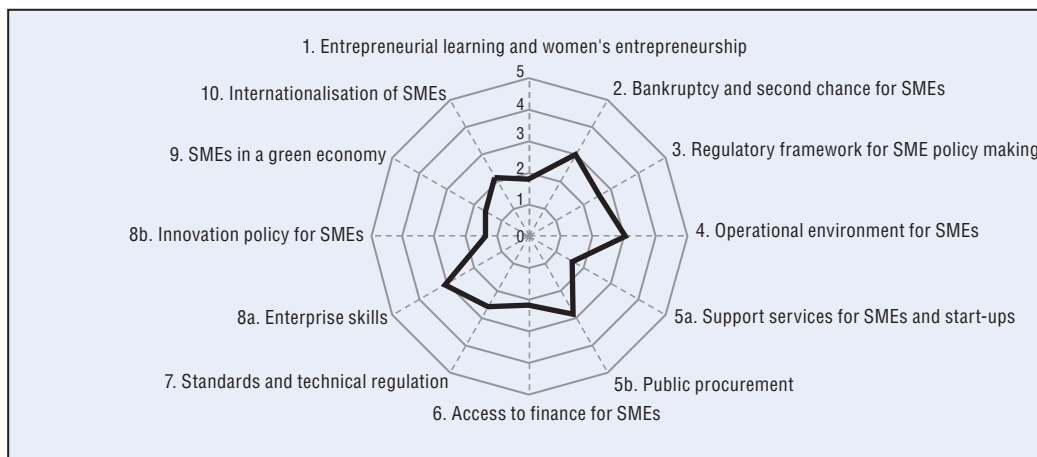
At the same time Kosovo should continue to develop its institutional framework for SME policy implementation. The government has decided to merge the agencies for SME development and investment promotion; this should be done in a way that they can adapt quickly to the structural changes without affecting the operational workflow. The implementation of the SME development strategy and action plan should be ensured and monitored. There should be an annual assessment of the impact of the SME Strategy and the Government Programme for Prevention of Informal Economy on the private sector in close consultation with the SME community. In addition, the private sector's recommendations about business legislation should wholeheartedly be considered.

Particular attention should be paid to increasing the capacity of the SME Development Agency to implement and monitor SME support programmes and schemes, progressively taking over the activities that donors are currently funding and also often directly managing. The agency should start with the provision of basic information; business services and training courses for the small business community establish local networks and extend the scope of its operations beyond the capital Pristina.

A new partnership momentum involving education, economy and employment policy authorities in co-operation with social partners, civic interest groups and the world of enterprise is necessary to re-establish the policy drive which was a particular feature of Kosovo's early work under the European Charter for Small Enterprise. The Ministry of Education, Science and Technology has a particular role here in terms of leadership and strategic direction as the entrepreneurial learning agenda takes on further importance at EU level. Women's entrepreneurship promotion will need to be further embedded into the

economic agenda and where dedicated financial support for training and improved access to finance will be important factors to address. Finally, the movement towards more sector-based considerations in the human capital agenda by both by the Economic and Social Committee and the Kosovo Alliance of Employers bodes well with developments at EU level on sector skills' councils. In this regard, more formal recognition and support for sector skills' development should be considered, with the enterprise world particularly engaged in the policy and delivery arrangements.

Figure 14.1. **SBA scores for Kosovo**



Source: SBA assessment 2012.

Bibliography

IFC/World Bank Doing Business 2012 survey: The Doing Business Project objectively measures business regulations and their enforcement across 183 economies and selected cities at the sub-national and regional level.

EBRD/World Bank Business Environment and Enterprise Performance Survey (BEEPS IV): The Business Environment Survey (BEEPS) is a joint initiative of the European Bank for Reconstruction and Development (EBRD) and the World Bank Group (the World Bank).

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PART II

Chapter 15

SBA profile: The Former Yugoslav Republic of Macedonia

Overview

The global financial crisis had a limited impact on the Former Yugoslav Republic of Macedonia, with the economy contracting by 1% of GDP in 2009. Economic growth resumed in 2010 (+1.8%) and strengthened in the first half of 2011, as overall GDP growth exceeded 5% year on year. But a slowdown occurred in the second half of the year reducing full year growth to 3%. Signs of impending slowdown are evident in a number of macroeconomic indicators. Growth in exports is losing momentum, as demand in the economy's main EU export market is slowing down. Domestic consumption has remained weak; unemployment is still very high at over 30% in early 2011 and consumer confidence has been weak and falling. Inflation accelerated considerably in the first half of 2011 to above 5% year on year, but has begun moderating again more recently to 1.4% year on year as of March 2012.

The business environment has improved substantially over the past few years, particularly with regard to tax administration, business registration, simplifying regulations and customs. These improvements are reflected in the World Bank's *Doing Business 2012* report, which ranks the Former Yugoslav Republic of Macedonia 22nd out of 183 economies in ease of doing business. However, it will need to make improvements to the judicial system and the functioning of courts to bring the economy up to EU standards as well as to increase its attractiveness as an investment destination. The latest round of the Business Environment and Enterprise Performance Survey (BEEPS IV) found that dealing with the courts is a severe constraint on businesses. Legal procedures are still slow, hampering contract enforcement. Corruption continues to be a significant problem for business development in some areas although there have been signs of progress recently. In 2012, Transparency International ranked the Former Yugoslav Republic of Macedonia 69th in its Corruption Perceptions Index.

The Former Yugoslav Republic of Macedonia has adopted the EU definition of SMEs. SMEs accounted for about 99.8% of companies, and 74% of employment as of the end of 2008. Micro and small enterprises (fewer than 50 employees) dominate the manufacturing and agriculture sectors.

Table 15.1. **Main macroeconomic indicators for the Former Yugoslav Republic of Macedonia, 2008-12**

		2008	2009	2010	2011	2012 (proj.)
GDP growth	%, y-o-y	5.0	-1.0	1.8	3.0	1.3
CPI inflation	%, average	8.3	-0.8	1.6	3.9	1.6
Government balance	% of GDP	-0.9	-2.7	-2.5	-2.6	n.a.
Current account balance	% of GDP	-12.8	-6.7	-2.8	-2.8	n.a.
Net FDI	EUR million	408.5	133.5	219.5	307.2	n.a.
External debt	% of GDP	51.1	47.4	59.0	63.5	n.a.
Nominal GDP	EUR billion	6.7	6.8	6.9	7.4	n.a.

Source: EBRD 2011 (data collected from *World Economic Outlook* (IMF), World Bank, National Statistical Agencies and Central Banks).

SBA assessment results

This section outlines the main results for the Former Yugoslav Republic of Macedonia from the 2012 SBA assessment of the EU pre-accession region. The assessed policy dimensions were reassembled and grouped under five wider SME policy areas. Special attention was given to access to finance, due to the impact of the EU financial crisis on the economies of the Western Balkans and Turkey.

Strengthening institutions and mechanisms for SME policy making

Institutional policy framework

Overall, the institutional setup is well established in the Former Yugoslav Republic Macedonia. SMEs are defined by the Law on Trade Companies, corresponding to the EU SME definition in terms of number of employees. The Department for Entrepreneurship and Competitiveness at the Ministry of Economy (MoE) is responsible for SME policy elaboration and co-ordination. It is in charge of drafting strategies and for multi-annual and annual programmes for SME support. The Department for Entrepreneurship and Competitiveness also participates in the implementation of some programme activities, together with the Agency for Promotion of Entrepreneurship.

The Revised National Development Strategy for Small and Medium-Sized Enterprises (2002-2013) sets the strategy framework for SME development. It is complemented by a multi-annual SME Programme (2011-13) that defines specific activities and measures. The Agency for Promotion of Entrepreneurship (APPRM), established in 2004, is responsible for the implementation of annual programmes supporting entrepreneurship, competitiveness and innovation within SMEs. These activities are funded by the government from the state budget but there are also many donor activities that are funded through grants. APPRM co-operates with institutions related to entrepreneurship and small enterprises, including regional centres, enterprise support agencies and business start-up centres.

The government adopted an annual action plan to tackle the informal economy that should be effective as of 2012 and reviewed on a quarterly basis.

Legislative simplification and regulatory impact analysis

Since the 2009 report the Macedonian government has shown good results in simplifying current legislation. It has implemented the measures of the third phase of the regulatory guillotine. At the beginning of 2012 it launched the fourth stage of the regulatory guillotine, titled Advantage to the Small Ones, focusing on simplifying operating conditions for SMEs. The Ministry of Information, Society and Administration took over the role of improving regulatory reforms from the Vice Premier Minister's Cabinet.

The Former Yugoslav Republic Macedonia has made great progress in implementing regulatory impact analysis (RIA). Over the past three years the government has adopted 451 laws using RIA. During the Better Business Regulation in Macedonia project (launched in October 2010) it designed a number of manuals to improve the consultation process in drafting regulations. In addition, the national electronic register of regulations (ENER) makes a total of more than 1 700 regulations partly available to the public.

Public-private consultation framework

Regular consultations are conducted with the private sector through inter-ministerial working group meetings. The three year Programme for Entrepreneurship and

Competitiveness plans to revitalise the SME forum and actively interact with the private sector. In the Former Yugoslav Republic Macedonia, all draft laws submitted to the government must include comments from the private sector, otherwise they are not accepted for further processing. The new initiative “visit of 150 companies” identified the main constraints that companies are facing with the aim of preparing appropriate measures to overcome the obstacles and improve regulations.

Establishing a conducive operational environment for SMEs

Company registration and business start-up process

Since the 2009 assessment, the company registration and business start-up process has further improved and it is currently operating in line with the highest international standards. When it comes to starting a business, the Former Yugoslav Republic of Macedonia ranks among the top six countries in the World Bank’s *Doing Business 2012* report. The company registration system is organised as a one-stop shop and companies are assigned a single identification number, valid for all interactions with the public administration. Companies have been able to register online since June 2011.

Provision of e-government services

The Former Yugoslav Republic of Macedonia has a relatively well developed range of e-services for the business community. Online tax services are available and have been progressively extended to cover a large section of corporate tax payers. A dedicated website covering all employment services has been established with the support of USAID and a range of online public procurement and cadastre services are available. The legislative and regulatory framework for electronic signatures is in place and the e-signature system has been operational since 2006, although the level of take up is still relatively low.

Bankruptcy procedures and second chance

A bankruptcy law established in 2006 regulates transparent bankruptcy procedures which are effectively and systematically carried out and has reduced the average duration of bankruptcy cases. According to the World Bank, recent amendments to this law which came into force in 2011 have made the bankruptcy procedures even faster and bankruptcy cases can be concluded within a maximum of 18 months.

According to the World Bank’s *Doing Business 2012* report the bankruptcy time is estimated to be two years, the cost of bankruptcy 10% of the estate and the recovery rate is 42%.

Facilitating SME access to finance and developing the legal and business environment

Since the last assessment in 2009, sources of external finance for SMEs including bank lending have suffered a significant decrease due to the crisis. There are currently no public credit guarantee schemes in operation and other sources of finance, such as leasing and risk capital, have declined due to the unfavourable domestic and external environment. Some progress has been made in the legal and regulatory environment. The credit information system has improved considerably with the recent establishment of a fully functioning private bureau.

Sources of external finance for SMEs

The banking sector is largely foreign owned (about 93% of assets) mainly by the large European parent groups. Greek subsidiaries account for about 20% of total assets but banks

are less reliant than those in neighbouring economies on external funding. Before the global financial crisis, the banking sector market had experienced strong and stable growth. Credit to the private sector increased annually by 30 to 35% during the period 2006-08. However, credit growth slowed significantly in 2009 and during the first quarter of 2010, which had only 3.6% year-on-year growth. Annual credit growth recovered at the end of 2010 but remain limited at about 10% in nominal terms at the end of 2011. Bank lending is affected by decreasing and more expensive funding sources especially from foreign parents amid the eurozone crisis, particularly in Greece, and declining portfolio quality. Non-performing loans rose to almost 11% in the third quarter of 2010, and remain high at 9.5% of total loans as of September 2011. The banking sector is highly concentrated with the top three banks controlling two-thirds of the market. Bank supervisory standards are largely harmonised with the Basel accord and EU directives but despite these improvements, commercial banks still face problems with the enforcement of financial collateral and with cumbersome, albeit improving, court procedures.

Commercial banks generally offer only limited lending to the micro, small and medium enterprise (MSME) sector as medium and small enterprises have difficulty meeting the collateral requirements of commercial banks and lack liquidity. Some businesses access credit through microfinance institutions, albeit with high provision and interest rates. In response to the crisis, in 2009 the government increased the funding of the Macedonian Bank for Development Promotion (MBPR) for co-financing and guarantee schemes applicable to SMEs but banks were reluctant to use the scheme due to complicated procedures and the interest rate ceiling it imposed. The MBPR guarantee scheme, established together with the Swedish Investment Fund, and the mutual scheme involving mainly US capital have both ceased to operate. The Ministry of Labour and Social Policy provides some support for new businesses but it is limited to the unemployed.

Leasing is insufficiently developed to serve as an alternative source of external funding for SMEs. As of June 2011, 11 leasing companies were operating in the economy, mainly focused on the automobile sector. Microfinance is mainly provided by commercial banks. Specialised banks (some of which are supported by the EBRD), such as Procredit Bank, have a strong focus on the micro and SME segment. According to Microfinance Information Exchange (MIX), microlending, including from banks, amounted to about 2.5% of GDP in 2010.

Other sources of finance are in the early stages of development. A commercial private equity sector has not yet developed and the economy has not attracted significant interest from international private equity funds. Active capital and capital available for investment were estimated at 0.34% and 0% of GDP respectively in 2010. Venture capital is almost non-existent. USAID is supporting the Macedonian Innovation Centre in drafting a plan to foster the creation of a business angel network. This could constitute a first step to develop venture capital in the economy.

SMEs have no real access to the Macedonian stock exchange which has been in place since 1995. The domestic equity market has a sizable capitalisation of 29.1% of GDP as of the end of 2010 but its low turnover (the turnover ratio in 2010 stood at 0.02) deters investors, and limits the attractiveness of public equity offerings as a source of capital. The Former Yugoslav Republic of Macedonia demonstrates high compliance with the IOSCO principles, and a relatively high quality of laws and regulations.

Legal and regulatory framework

The Agency for Real Estate Cadastre is implementing an online cadastre. The Former Yugoslav Republic of Macedonia has a registration system for movable assets in place, but access to it is not free. A fully functioning private credit bureau has been in place since 2011. It contains positive and negative credit information and covers approximately 64% of adults. It gives the public and financial institutions access to no more than two years of historical data. The public bureau, established in 1996, covers approximately 34% of adults and offers historical data for a period of more than two years. However, significant changes in credit information are not reported, risking undermining the accuracy and validity of credit information. The Former Yugoslav Republic of Macedonia's insolvency law is one of the most developed in the south-east Europe (SEE) region but it lags behind international standards with regard to rules concerning reorganisation. There is no restraint on suppliers, no facility for ongoing finance, no restriction on the voting powers of connected creditors and no provision for post-approval modification of a plan of reorganisation.

Other factors that affect demand and supply of finance

Research institutes have conducted surveys to assess financial literacy and found low levels. There is no national strategy to assess and improve financial literacy levels.

Promoting a culture of entrepreneurship and skills development

Turning to human capital, a co-operation protocol has been agreed between the education and economy ministries specifically to work together on the entrepreneurial learning agenda. A second initiative has been the establishment of the National Centre for Innovation and Entrepreneurial Learning. This provides both expertise and support to teachers and trainers on promoting entrepreneurship. Taken together, both the leadership role embedded within the inter-ministerial agreement and the support framework provided by the Centre provide an excellent basis for the entrepreneurial learning agenda to move forward. This should also guard against the sort of segmentation which has characterised developments to date. There are continuing good efforts to promote the entrepreneurship key competence in primary and secondary education. Meanwhile, at tertiary level, legislation introduced in 2011 will contribute to reinforced university-business co-operation including support for university spin-offs. Further, the establishment of an entrepreneurship teachers' network doubles-up as a good practice-sharing environment and bodes well given wider EU developments on entrepreneurship teacher development. However, more consideration of the "all faculty" approach to entrepreneurial learning by the higher education community would provide a significant boost to the wider efforts by the education system.

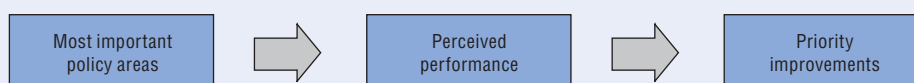
While policy on women's entrepreneurship remains to be developed, the establishment of a national mentors' network for women entrepreneurs is an important step in ensuring a flexible, customised service for women entrepreneurs. Although still early days, the mentors' network could provide guidance on more systemic support for women's access to finance and where a more developed discussion involving all stakeholders, including the banking sector, would be an initial step forward. However, strategic developments on women's entrepreneurship will require a policy-enabling environment to allow for step-by-step developments, including financial support from the public budget for concrete initiatives. In this regard, a policy advocacy group would be important particularly in early-phase policy design, monitoring and evaluation.

Box 15.1. **SME perception of effectiveness of government policy in the Former Yugoslav Republic of Macedonia**

Survey results: The OECD conducted a company survey in Former Yugoslav Republic of Macedonia with the support of EEN, questioning SMEs on their operating environment, business environment conditions and perception of government policies that affect them directly.

Profile of SMEs: The average firm in the sample had been operating for 10 years, currently employing 12 people and generating a turnover of EUR 2.7 million. Of the firms sampled, 51% were exporters.

Most important business environment conditions: Survey respondents identified the following priorities: stronger consumer demand, a more stable economic environment, business friendlier loans from banks, more stable and accessible regulatory conditions and better qualified personnel.



Most important government policies: Several government policies for SMEs were identified as most important, the top three being: improving business regulation, easing access to finance and supporting export promotion.

Perceived performance of government policies: Firms perceived government initiatives in the area of business regulation and entrepreneurial learning as fair. Policies that aim to ease the access to finance were perceived as poor, while policies geared toward simplifying procedures for businesses were ranked the best.

Priority improvements for government policies: In order to improve, government policies on access to finance and export promotion need more financial resources while support programmes for improving business regulation need to be better co-ordinated. Support programmes for transparent public procurement and SME support services need to be better promoted.

Finally on enterprise training, intelligence on small business skills requires a more systemic approach. A working group on training needs' assessment should be consolidated and directly integrated within the existing (and follow-up) SME strategy to provide a permanent manpower observatory for the small business community. While public sector authorities (employment service and SME promotion agency) will be important partners in the process, business representative organisations should lead in the intelligence development drive. With good performance on the "access to training" indicator, in terms of a well-developed training network operated by the employment authorities, the extent to which this network meets the specific needs of small businesses requires investigation. Efforts to support training for expanding businesses should be reinforced in the bid to promote growth and employment.

Enhancing SME competitiveness

Business information and services

In the Former Yugoslav Republic of Macedonia, the policy framework for SME support services remains incomplete. The SME Strategy does not include clear operational targets

to enhance SME support. Since the last assessment, no progress has been made on the range of SME support services. In addition to donor support programmes, SMEs continue to rely on APPRM's support through its regional centres and a voucher programme which provides co-financing for business services. Support specifically targeted at start-ups remains at an early stage of development but the government plans to expand such support through the establishment of new incubators. There is still no centralised SME portal, making it difficult to obtain information specifically relevant to SMEs.

Public procurement

Splitting tenders into lots is common practice, with 30% of public procurement tenders divided into lots in 2010. The law on qualification levels and financial requirements has been mostly aligned to the current European directives on public procurement.

Information on public tenders is available online via the website www.e-nabavki.gov.mk and is free of charge. Tenders over EUR 20 000 for goods and EUR 50 000 for services must be published in the electronic system. The government has made a concerted effort to increase the penetration of e-procurement solutions. It practises e-publications, e-offers and e-auctions, enabling bidders to decrease the originally offered price in real time. It plans that, as of 2012, 100% of published procurements will be subject to the e-auction system.

The system of public procurement is open, transparent and does not discriminate between foreign and domestic economic operators. There are no specific rules to combat late payments.

Innovation

In 2011 the Former Yugoslav Republic of Macedonia built the foundation for innovation by conducting a comprehensive evaluation of its national innovation system and drafting an innovation strategy and action plan under the OECD Regional Competitiveness Initiative. Implementation of specific innovation support measures, however, has been sparse to date. Some progress was made in terms of the legal framework for protecting intellectual property rights (IPR). The framework for the licensing of collective rights management societies was improved. Law enforcement institutions continue to co-operate, but there are no clear boundaries around their respective responsibilities over enforcing IPR and counterfeiting and piracy remains widespread.

Green economy

Efforts have been made to integrate green growth into the national policy framework. The development of eco-products and services is one of the priorities under the Strategy for Industrial Policy (2009-20). However, the SME Strategy does not contain any provisions on eco-efficiency, suggesting that environmental protection and SME development are still perceived as disconnected policy areas. The government provides information on environmental issues and tools through the relevant ministries and chambers of commerce but green growth in the SME sector remains constrained by a lack of expertise on environmental issues. Companies remain largely unaware of environmental management systems (EMSs) and standards and the government has not yet put in place measures to encourage their adoption.

Export promotion

The Macedonian government has several programmes to support export promotion in place that are largely co-financed by international donor community. Moreover, a strategy specifically supporting the export of IT services was adopted. The government and the international donor community provide financial support for export promotion for traditional Macedonian sectors. Under the government programme for 2011-15, it is financing a series of measures and projects, such as export factoring, and grant schemes for SME exports. In addition, the Ministry of Economy launched the Investment Development and Export Advancement Support (IDEAS) project, financed by USAID. Two industrial sectors will be promoted at the selected foreign markets.

SME promotion events such as the Global Entrepreneurship Week, the Entrepreneur of the Year, Start-up Weekend, European SME Week and craft days take place on an annual basis. These events aim to promote entrepreneurship in general but also focus on export promotion. In 2012 a virtual fair for SME promotion is planned.

Single Market opportunities

In the Former Yugoslav Republic of Macedonia, the legal framework on quality infrastructure is in line with EU legislation. Sectoral legislation is in place for some of the priority sectors, but not all of them are covered. Although the adoption of European standards has been finalised, the Macedonian Standardisation Body (ISRM) has not yet applied to become a full member of CEN and CENELEC due to political restrictions.

The accreditation body IARM has applied for but not yet signed the European Accreditation Multilateral Agreement. Conformity assessment bodies in priority sectors are being upgraded in accordance with EU requirements and national legislation on conformity assessment has been put into force. However, horizontal legislation is not yet aligned with the EU framework.

International and EU institutions recognise the Macedonian metrology bodies and institutions but some of the legislation on metrology has not yet been approved as being in line with the EU framework. In addition, the law on market surveillance still needs to be revised in order to be fully aligned with the horizontal framework.

An integrated network for export promotion has been established which mainly concentrates on the Single Market. Chambers of commerce and Enterprise Europe Network (EEN) offices provide complete and up-to-date online information on issues related to the Single Market. National bodies on sanitary and phytosanitary standards (SPS) are well established with a few limitations but efforts are still needed to fully align with European and international standards.

The way forward

The Former Yugoslav Republic of Macedonia has made substantial progress over the last three years in harmonising its SME policy with the SBA principles. However, while progress has been remarkable in the policy dimensions linked to the institutional framework, the operational environment and the adoption of EU technical standards and regulations, the Former Yugoslav Republic of Macedonia performs relatively poorly in areas of provision of SME support services, innovation and access to finance.

Over the last few years the government has focused on improving the business environment, by implementing a comprehensive regulatory reform, introducing RIA,

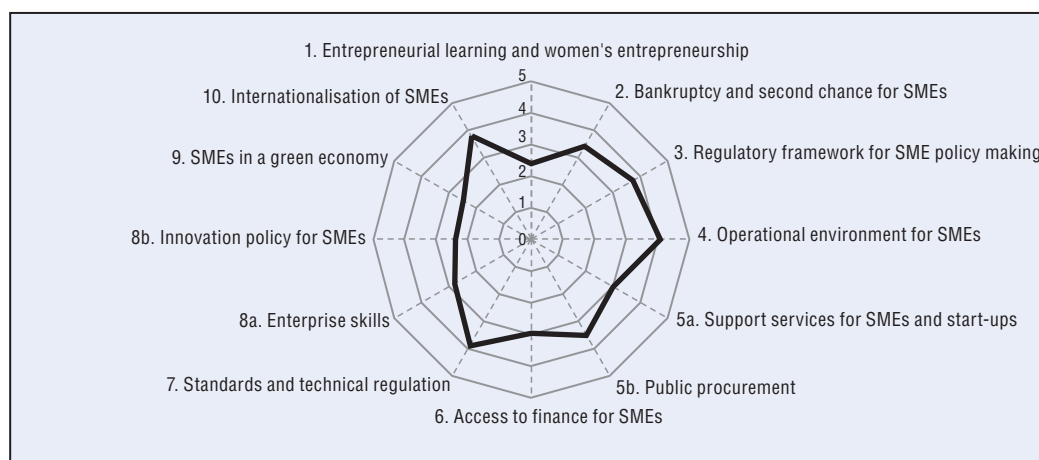
establishing a one-stop shop for company registration including online registration and widening the range of the e-government services. This improvement in the business environment may have helped to support the economy in the post-crisis phase.

In order to raise the economy's growth potential, this policy should be complemented by interventions supporting the most dynamic and export-oriented SMEs. The government should therefore consider expanding the range of services provided by the APPRM from the provision of basic services and the promotion of entrepreneurship. It could provide tailored services, for instance redesigning its current limited voucher scheme programme in close consultation with private sector associations. The government should also complete the elaboration of its new innovation strategy and develop new schemes supporting the technological absorption capacity of SMEs.

While the regulatory and legislative framework is largely in place to enable access to finance, efforts should be made to widen the range of financial products offered to SMEs. Leasing and factoring services are currently underdeveloped while credit guarantee schemes have very limited operations. Given the current near total lack of equity supply, it is important that the government supports the current efforts to launch a business angel network and contributes to creating conditions favourable for external equity financing.

The Centre for Innovation and Entrepreneurial Learning provides an important support framework for the Macedonian entrepreneurship agenda. Financial support for the Centre could be considered to establish a policy-monitoring role that would assist the authorities with continuous improvements and developments in the area. Secondly, although still relatively new, the entrepreneurship educators' network is good practice and warrants support from the government and business world. The drive to promote more women in business will require strong advocacy particularly to move forward with a policy agenda. Options to borrow from the expertise of the women entrepreneurs' mentor network for advocacy purposes could be considered. Next-phase support for the small business sector should give specific attention to training and advisory services for companies with growth potential linked to EU trade.

Figure 15.1. **SBA scores for the Former Yugoslav Republic of Macedonia**



Source: SBA assessment 2012.

Bibliography

IFC/World Bank Doing Business 2012 survey: The Doing Business Project objectively measures business regulations and their enforcement across 183 economies and selected cities at the sub-national and regional level.

EBRD/World Bank Business Environment and Enterprise Performance Survey (BEEPS IV): The Business Environment Survey (BEEPS) is a joint initiative of the European Bank for Reconstruction and Development (EBRD) and the World Bank Group (the World Bank).

Transparency International Corruption Perceptions Index (CPI): Transparency International is the global civil society organisation leading the fight against corruption. It publishes the Corruption Perception Index (CPI) annually ranking countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys.

PART II

Chapter 16

SBA profile: Montenegro

Overview

Montenegro is one of the economies of the region more severely affected by the global financial crisis. In 2009 it recorded a contraction in GDP of 5.7%. The economy partially rebounded in 2010 with growth of 2.5% and continued to grow by 2.7% in 2011. Economic activity in 2012 is projected to be lower. Domestic demand has remained subdued after the crisis and exports have been limited by weak growth in the euro zone, especially in the second half of 2011 and the beginning of 2012. Although the current account deficit narrowed to 19.4% of GDP in 2011, it remains the highest in the region.

Montenegro has had some success in creating a favourable business climate and attracting reputable foreign investors. This is reflected in the World Bank's *Doing Business* 2012 report, which ranks Montenegro 56th out of 183 economies surveyed. Montenegro performs better than most economies in the Western Balkan region, but lags behind the new EU member states. It needs to make further efforts to strengthen the investment climate. Data from the latest Business Environment and Enterprise Performance Survey 2009 (BEEPS IV) highlight several obstacles still affecting those running a business in Montenegro, including electricity supply, access to finance, business licensing and permits, competition from the informal sector and tax rates. According to the Transparency International Corruption Perception Index 2012 (CPI), Montenegro is ranked 66th out of 183 economies, with a score of 4, and is therefore better positioned than most economies of the Western Balkans on this measure. However, corruption remains a problem that affects business operations, according to BEEPS IV.

SMEs play an important role in the economy. SMEs accounted for 99.6% of enterprises and for 62% of total employment as of the end of 2008.

Table 16.1. **Main macroeconomic indicators for Montenegro, 2008-12**

		2008	2009	2010	2011	2012 (proj.)
GDP growth	%, y-o-y	6.9	-5.7	2.5	2.7	0.4
CPI inflation	%, average	6.3	3.4	1.5	2.9	3.1
Government balance	% of GDP	-0.3	-5.3	-3.8	-6.5	n.a.
Current account balance	% of GDP	-50.7	-30.3	-25.6	-19.4	n.a.
Net FDI	EUR million	520.9	1 009.6	542.1	389.2	n.a.
External debt	% of GDP	95.6	93.3	100.2	94.6	n.a.
Nominal GDP	EUR billion	3.1	3.0	3.0	3.3	n.a.

Source: EBRD 2011 (data collected from World Economic Outlook (IMF), World Bank, National Statistical Agencies and Central Banks).

SBA assessment results

This section outlines the main results for Montenegro from the 2012 SBA assessment of the EU pre-accession region. The assessed policy dimensions were reassembled and grouped under five wider SME policy areas. Special attention was given to access to

finance, due to the impact of the EU financial crisis on the economies of the Western Balkans and Turkey.

Strengthening institutions and mechanisms for SME policy making

Institutional policy framework

In general, the institutional policy framework in Montenegro is well advanced. The definition of an SME is classified in the Law on Accounting and Audit and is in line with the EU SME criteria in terms of employment size but the thresholds for turnover and balance sheets differ in absolute terms because of the size of Montenegro's economy.

The Directorate for SME Development of the Ministry of Economy is responsible for SME policy elaboration, co-ordination and implementation. A co-ordination team, which consists of representatives of institutions from the public and private sector, is in charge of the creation and implementation of the SME Development Strategy 2011-15. In January 2011 the government adopted the SME Strategy and the Action Plan for 2011. The Action Plan is funded and realised by 30 different institutions of the public and private sectors. However, the budget and staffing levels of the SME Directorate has decreased since the 2009 report.

Measures to tackle the informal economy are carried out by the Tax Administration. Positive results were noted in 2011, as the number of newly registered taxpayers and VAT payments has significantly increased.

Legislative simplification and regulatory impact analysis

Compared to the 2009 assessment, the Montenegrin government made progress in simplifying legislation and using regulatory impact analysis (RIA). The regulatory guillotine process was extended to secondary legislation in 2010. In addition, the Parliament of Montenegro adopted a Law on Improvement of the Business Environment. Further, the government established the Council for Regulatory Reform and Improvement of Business Environment in 2009.

During the legislative guillotine process, Montenegro reviewed about 690 regulations and 320 administrative procedures and prepared about 1 750 recommendations in consultation with the business community.

Montenegro systematically applies RIA. In July 2009 new procedures for proposing laws and bylaws were introduced requiring the proponent to submit an assessment to the government. This function is carried out by the Department for Improvement of Business Environment under the Ministry of Finance. In 2010 the Department issued approximately 360 assessments on proposed regulations. This process stimulated the formal introduction of RIA on 1st of January 2012. The Montenegrin government plans to introduce a SME test.

Public-private consultation framework

Public-private consultations (PPCs) are held on a regular basis and private sector representatives have a formal opportunity to provide comments on draft laws, regulations and policies. Regular consultations have been set up at national level. For example, the newly established Coordination Team held a series of PPCs that resulted in the Strategy for SME Development 2011-15 and Action Plan 2011. During the elaboration process, the draft text of the strategy was sent to 200 SMEs for comment.

Even though private sector representatives are formally included in the process of developing new regulations, in practice there is little evidence that the business community's suggestions are taken into consideration. The private sector also has the opportunity to suggest laws at its own initiative after collecting 6 000 signatures.

Establishing a conducive operational environment for SMEs

Company registration and business start-up process

Montenegro has made significant progress in the company registration and business start-up process since the 2009 assessment. The company registration process has been unified, eliminating the need for municipal registration and a single identification number, the Tax Identification Number, has been introduced. Company and tax registration are conducted simultaneously. Online registration is on an advanced stage of preparation.

Provision of e-government services

Montenegro is currently developing a number of e-government services, as part of an EC-supported project started in 2010 upgrading the information and communication technology (ICT) capacity of the public administration. The government has adopted a 2009-13 Strategy for Information Society Development. Currently e-government services in the tax and social security area are not yet operational. E-signatures started to operate and the Post Office has delivered more than 2000 electronic certificates for e-signatures so far (mostly to enterprises). The Ministry of Information Society and Telecommunications is working on completing the legislative and regulatory framework and establishing the certification authority.

Bankruptcy procedures and second chance

A new law on bankruptcy came into force in 2011. It was positively assessed by the World Bank and is fully in line with international and EU standards. This upgraded law is in the early stage of implementation. According to World Bank's *Doing Business 2012* report, the time to clear bankruptcy is estimated at two years, the cost of bankruptcy is 8% of the estate and the recovery rate is 43.3%.

The public authorities have not yet launched any campaign to promote a positive attitude towards giving entrepreneurs a second chance. Several actions have been taken on an *ad hoc* basis. In accordance with the law on bankruptcy, discharge from bankruptcy happens after a final court decision on the discharge and removal from the court register.

The bankruptcy law does not define measures on access to credit which discriminate against entrepreneurs that underwent bankruptcy procedures. However, distressed companies may have decreased creditworthiness due to solvency problems. The new law on bankruptcy also does not prescribe discriminatory provisions regarding public procurement against companies that underwent non-fraudulent bankruptcy.

Facilitating SME access to finance and developing the legal and business environment

SMEs rely mainly on commercial banks to finance their activities. However, bank lending has severely suffered from the crisis, disproportionately affecting SMEs. The worsened global international environment has also affected other sources of finance, including the availability of risk capital. Although the registration of movable assets has

become more efficient, no significant improvements in the legal framework have been made since the 2009 assessment.

Sources of external finance for SMEs

As with other economies in the region, the international financial crisis has revealed Montenegro's vulnerability to its banks' reliance on support from foreign parent banks. Although the loan to deposit ratio improved to 108% in 2011 compared to 123% in 2010, this was mainly driven by the banks deleveraging and restructuring their credit portfolio, rather than by the increase in deposits. As a result, new lending is highly dependent on the availability of external liquidity and funding. Foreign banks own about 88% of banking assets. Bank lending has fallen significantly since 2009 and lending growth has been negative in nominal terms since mid-2010, remaining at -11.1% year-on-year in December 2011. Consequently, the ratio of domestic credit to GDP has decreased from over 87% in 2008 to 67% in 2011. Some lending growth slowdown was desirable as credit growth had reached a very high and unsustainable level of over 170% in 2007. The low levels of liquidity and significant levels of non-performing loans – estimated at 14.4% as of December 2011 – are a continuing vulnerability. A package of laws applicable to the financial sector was approved in July 2010 including a new Central Bank Law and updated laws on banks. Nevertheless, bank governance, risk and portfolio management represent challenges for the sector.

Most SMEs access credit from commercial banks or NGOs specialising in the provision of commercially based microfinance. The crisis has particularly affected the amount of bank credit to SMEs due to increased risk aversion by commercial banks. Montenegro has an active leasing sector although this is also affected by the crisis. Five leasing companies and one bank provide leasing services which amounted to approximately 1% of GDP in 2011. From the institutional perspective, however, the sector is lagging behind developed countries. The leasing law implemented in 2005 has not allocated any institutional responsibilities for regulation and supervision of the sector.

Funding for credit guarantee schemes has already been established under the Investment and Development Fund of Montenegro (IDF). Three contracts have already been signed between the IDF and commercial banks with respect to eventual guarantee schemes. Since 2011, the IDF has implemented special credit lines for start-ups with respect to 30 projects for an aggregate amount of EUR 1.7 million. In March 2011, a new credit line applicable to businesswomen was launched. It involves 12 projects amounting to EUR 263 000. Six microfinance institutions (MFIs) operate in Montenegro. They are regulated by the Law on Banks and specific microfinance legislation. Their activities are focused mainly on providing services to the rural population.

Other sources of finance, including risk capital, are in early stages of development. A new law on investment funds was adopted in November 2011 to align Montenegrin rules with EU regulations. Private equity has yet to develop, as Montenegro presents limited investment opportunities and poor exit prospects for investors. Stock market legislation is in place and there has been recent progress in this area. In December 2010, the merger of the two Montenegrin stock exchanges, Nex Montenegro and Montenegro Stock Exchange, improved monitoring and regulation. Twenty-seven companies were listed in the market at the end of 2011. The market capitalisation of the Montenegro Stock Exchange was approximately 83.6% of GDP in 2011, but it remains illiquid.

Legal and regulatory framework

A cadastre is in place but land registration has not been yet completed, giving Montenegro a worse score for this dimension than in 2009. The number of procedures and the time and cost required to register a property remain above average for the region. A public credit bureau that has been in place since 2008 covered about 26.4% of adults by the end of 2011. It makes both positive and negative information available but the relevant legislation does not guarantee that borrowers can inspect information concerning them. Credit information is currently exclusively gathered from financial institutions, but efforts are underway to collect and distribute credit information from retailers and utility companies.

A registration system for movable assets is operating following the Law on Pledges of Movable Assets. Authorised persons – lawyers and commercial banks – can file a notification statement electronically on the system free of charge. Collateral requirements are high, exceeding 150% of the amount of a loan, but banks can accept movable assets as collateral. Insolvency is governed by the law on bankruptcy enacted in 2011. Upon the commencement of a moratorium, a secured creditor is entitled to protection of the secured property in order to maintain its condition and value. Secured creditors are able to seize collateral after reorganisation and they have priority on the proceeds of collateral liquidation.

Other factors that affect demand and supply of finance

There is no national strategy to assess the level of financial literacy in the economy. The Central Bank of Montenegro has occasionally carried out surveys on the level of public awareness on financial products but no specific and regular assessment has been conducted.

Promoting a culture of entrepreneurship and skills development

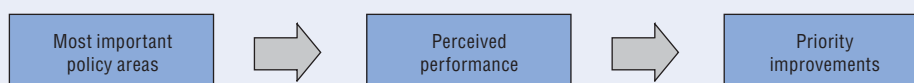
A strong feature of Montenegro's 2009 assessment was a partnership arrangement for lifelong entrepreneurial learning. This is still in place although it now has less commitment and resources. Unless the partnership is reinvigorated and clear leadership assigned, it will be unable to provide the guidance and support necessary for an evolving policy agenda. In this regard, the education authorities will need to take greater ownership and commitment to the entrepreneurial learning agenda. An important step should be to determine how the EU's entrepreneurship key competence recommendations could be systematically addressed in primary and secondary education. Some excellent development work in the Berane region was noted in the 2009 assessment but there was no follow-up to embed it within the curriculum, or extend the pilot to other regions. The developments in Berane could be revisited as an initial step towards re-establishing institutional and policy awareness at national level of the issues and challenges to be addressed. Meanwhile, efforts to promote entrepreneurship in tertiary education are well developed with entrepreneurship increasingly available to undergraduates as an elective subject. The economy also stands out for its efforts to promote university-enterprise co-operation. The Strategy for Development and Financing of Higher Education (2011-20) places particular emphasis on business engagement. It will be important to monitor the strategy to determine the impact of the university-enterprise co-operation provisions.

Box 16.1. SME perception of effectiveness of government policy – Montenegro

Survey results: In parallel with the assessment, the OECD conducted a survey in Montenegro with the support of EEN, questioning SMEs on their operating environment, business environment conditions and perception of government policies that affect them directly.

Profile of SMEs: The sample included 33 companies, with the average firm operating for 16 years, currently employing 72 people and generating a turnover of EUR 3.5 million. Of the firms sampled, 33% were exporters.

Most important business environment conditions: Survey respondents identified the following priorities: business friendlier loans from banks, a more stable economic environment, stronger consumer demand, improved public procurement procedures and a more stable and accessible regulatory conditions.



Most important government policies: Several government policies for SMEs were identified as most important, the top three being: transparent public procurement and SME support services, easing access to finance and supporting export promotion.

Perceived performance of government policies: Firms perceived policies in support of export promotion as fair, while business regulation and easing the access to finance ranked among the worst. The government policies that scored the best were promotion of entrepreneurial learning and simplifying procedures for business.

Priority improvements for government policies: In order to improve, government policies on access to finance and export promotion need more financial resources while support programmes for improving the business regulation need to be better co-ordinated. Support programmes concerning access to Single Market needed better promotion.

Good policy efforts are being made to promote women's entrepreneurship by way of the SME Development Strategy (2011-15) and an Action Plan for Gender Equality. A range of different actors are involved in providing training support (chambers of commerce, employment services, enterprise support institutions) and a support structure to forge synergies and maximise the impact of the overall investment of effort would increase their effectiveness. The Investment Development Fund has provided financial support for women entrepreneurs, underlining Montenegro's recognition of women's entrepreneurship to its competitiveness drive.

Montenegro has shown good all-round performance in promoting enterprise since the 2009 assessment, particularly in terms of quality assurance. Intelligence gathering on skills within the small business community is still confined to *ad hoc*, project-driven research, so more effort is needed to link the various intelligence sources together to allow for a more comprehensive picture of the training needs of small businesses. The planned introduction of a voucher scheme to support business training would do well emphasise key sectors where businesses either trade with or have the potential to trade with the EU. This will build the capacity of Montenegrin enterprises to meet the competitive pressure of the EU internal market on its eventual accession.

Enhancing SME competitiveness**Business information and services**

Montenegro has made no major improvements to the range of SME support services available. Its network of regional and local business centres continues to offer various subsidised services to businesses and potential entrepreneurs. Limited progress has been observed regarding business incubators: two incubators exist in Podgorica and Bar and the establishment of a third one is planned in Berane. The incubator in Podgorica appears not to be fully operational. Other forms of start-up support are available, albeit at an early stage of development. As well as advisory services through incubators and the network of business centres, start-ups can also receive financial support through the Investment Development Fund and the Employment Agency. Montenegro still lacks a centralised SME portal to provide relevant information.

Public procurement

The new Public Procurement law (15/08/2011) enables tenders to be cut into lots; Article 42 allows diversifying of lots by technology type, category, size, place and time of delivery. The tender and its documentation are expected to highlight these lots and companies are to be allowed to compete for certain lots only. The law includes general provisions requiring buyers to set proportionate qualification levels, but makes no mention of financial requirements. Article 62 of the law provides for transparent information about the tendering process. This is guaranteed by a centrally governed special portal. The information is to be available free of charge. Since 2008, the responsible agencies have been organising training on public procurement possibilities and the new public procurement law defines the setting up of special helpdesks assisting SMEs in accessing information about tendering opportunities. The system is fully open to foreign economic operators. Foreign companies established in Montenegro or outside can win a public procurement contract and are treated on equal basis with domestic companies. For the moment there are no specific provisions combating late payment.

Innovation

Innovation policy remains one of Montenegro's least developed EU Small Business Act policy areas. It lacks an institutional and policy framework for innovation and has implemented few specific innovation support measures. In 2012 it will implement a pilot SME voucher scheme which was designed under the OECD Regional Competitiveness Initiative. The scheme could provide valuable lessons and create momentum for future innovation support measures. Montenegro has made progress with regards to its intellectual property law. The legislative framework on intellectual property is now partially aligned with the *acquis*.

Green economy

Montenegro has not made sufficient efforts to integrate eco-efficiency and eco-innovation into the national policy framework. The SME Strategy mentions the promotion of energy efficiency but does not associate it with any concrete measures. The websites of the Ministry of Sustainable Development and Tourism and the Environmental Protection Agency make general information available on environmental issues and tools. The Aarhus Centres in Podgorica and Niksic also provide information on environmental protection to government authorities, citizens and businesses. Nevertheless, local

businesses remain largely unaware of how they could improve their environmental performance through environmental management systems (EMSs) and standards and the government has not yet put in place measures to encourage their adoption.

Export promotion

Montenegro adopted the Export Promotion Programme within the Strategy for SME Development. The annual Action Plan for Export Promotion focuses on organising trade fairs, trade missions and market research studies. However, the financial support for these measures decreased from 2010 to 2011 due to budget constraints. National SME promotion events such as the annual SME Week and the SME Fair are well established in Montenegro.

Single Market opportunities

The legal framework of quality infrastructure in the priority sectors of the new approach is still at the draft stage, with continuous work on all sectors of the old approach. Approximately 35% of EU standards have been adopted. The Institute for Standardisation in Montenegro has the status of Affiliate Member of CEN and CENELEC.

Horizontal legislation on accreditation has been transposed and an accreditation body has been set up and received membership of the European Co-operation for Accreditation. Transposition of EU horizontal legislation on conformity assessment is continuing, but this legislation is not yet fully in line with the EU framework.

The metrology bodies and institutes continue to be upgraded accordance with EU requirements but the Bureau for Metrology is not yet a member of all international and European organisations. Montenegro has drafted a market surveillance strategy partly adopted EU horizontal legislation. Further alignment with the market surveillance provisions of the EU is needed.

There is no state export agency at the national level. The Trade Informational Service within the Directorate for SME Development supplies information support about the Single Market. Additional information is delivered by the European Centre for Information and Innovation of Montenegro as part of a project related to the European Enterprise Network (EEN).

Montenegro has made further progress in adopting legislation and early implementation of the legislative framework for sanitary and phytosanitary standards. National bodies have been set up, but they still have administrative limitations.

The way forward

Montenegro has performed at an intermediary level in implementing the principles of the SBA, compared to other economies in the region. It has made notable progress in several policy areas. The institutional framework for SME policy is well advanced. A Co-ordination Team, which consists of representatives of institutions from public and private sector, is in charge of the creation and implementation of the SME Development Strategy 2011-15 which along with the Action Plan for 2011 was adopted by the Montenegrin government in January 2011. The definition of an SME, as classified in the Law on Accounting and Audit, is in line with the EU SME criteria in terms of employment size. Compared to the 2009 assessment, the Montenegrin government also made progress in simplifying legislation and using RIA. The regulatory guillotine process was extended to

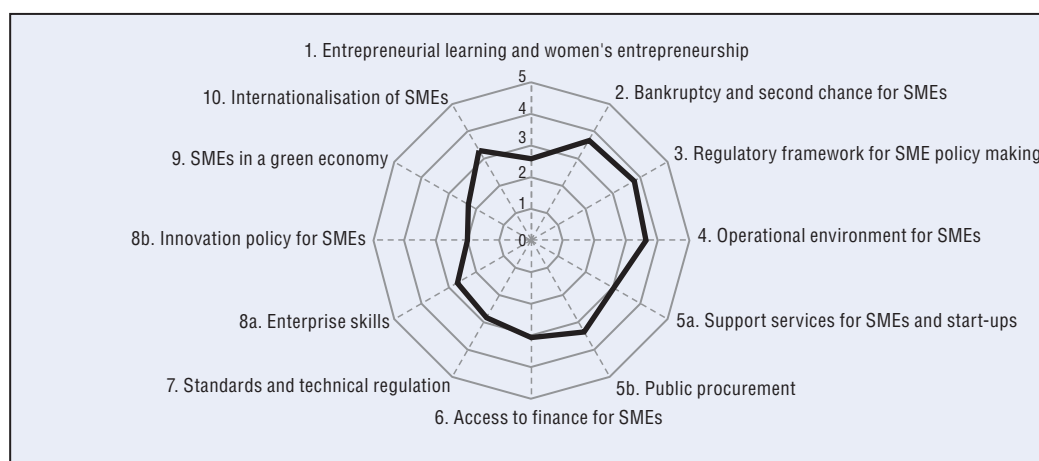
secondary legislation in 2010. In addition, the parliament adopted a Law on Improvement of the Business Environment.

Further, the government established the Council for Regulatory Reform and Improvement of Business Environment in 2009. Montenegro has made significant progress in the company registration and business start-up process since the 2009 assessment. The company registration process has been unified, eliminating the need for municipal registration and a single identification number, the Tax Identification Number, has been introduced. Company and tax registration are conducted simultaneously. Online registration is under preparation. Nevertheless, e-government services have not yet been established and should be made a priority going forward.

Business services are still limited and should be improved and diversified; the SME voucher scheme is a positive step in this direction. Montenegro also lacks a centralised online portal for SMEs and should focus on setting one up rapidly. In the area of human capital development, it needs to re-establish the policy momentum for promoting entrepreneurship across all levels of education as the EU increasingly commits to the entrepreneurial learning agenda. This should include support for networking between those practitioners already active in the area to allow for good practice exchange and policy innovation where practitioner inputs are important.

Broader governmental budgetary support will be crucial if women are to make a significant contribution to the economy. To this end, the Association of Business Women of Montenegro should assume a more developed advocacy role so that women's entrepreneurship is sustained on the policy and budgetary support agenda. A strategic effort to promote skills at all levels in sectors where Montenegro has significant trade with the European Union will be important as the economy prepares to head off the competitive pressures on businesses on its eventual accession to the EU.

Figure 16.1. **SBA scores for Montenegro**



Source: SBA assessment 2012.

Bibliography

IFC/World Bank Doing Business 2012 survey: The Doing Business Project objectively measures business regulations and their enforcement across 183 economies and selected cities at the sub-national and regional level.

EBRD/World Bank Business Environment and Enterprise Performance Survey (BEEPS IV): The Business Environment Survey (BEEPS) is a joint initiative of the European Bank for Reconstruction and Development (EBRD) and the World Bank Group (the World Bank).

Transparency International Corruption Perceptions Index (CPI): Transparency International is the global civil society organisation leading the fight against corruption. It publishes the Corruption Perception Index (CPI) annually ranking countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys.

PART II

Chapter 17

SBA profile: Serbia

Overview

Serbia has been significantly affected by the global financial crisis, which came at the end of a phase of sustained economic expansion. The economy's GDP contracted by 3.5% in 2009. Since then, economic activity has remained subdued, with a weak recovery in 2010 with growth of just 1% and a continued weak performance in 2011 with growth of 1.6%. Virtually no growth is forecast for 2012. Overall, Serbia has recorded the second weakest post-crisis GDP growth in the region after Croatia. The economy faces the double negative impact of the continued crisis in the euro zone, its main export market, and a reduction in domestic demand. Fostered by a devaluation of the dinar, exports have been the most dynamic component of GDP growth, rebounding strongly in 2011 (growing 28% in the first quarter). But since then they have lost momentum, as economic activity slowed down in the euro zone. Industrial production has been falling on a year-on-year basis for most of the second half of 2011. After a two-month interlude of slightly positive growth, it turned negative again, falling 3.2% year-on-year in March 2012.

Successive governments have made efforts to improve the business environment, although significant problems remain. Serbia was ranked 86th in the World Bank's *Doing Business* 2012 report, its relatively low ranking mostly due to its poor performance with regard to dealing with construction permits and paying taxes. In the 2008/09 Business Environment and Enterprise Performance Survey (BEEPS IV), enterprises identified tax rates, competition from the informal sector and lack of access to finance as the main obstacles to doing business. However, investors consider the lack of skills, particularly in the middle level of administrative and finance, as an important impediment. Serbia's governance and regulatory institutions continue to rank below the average for transition economies. It has made progress in adopting legislation aligned with EU standards. In October 2011 the European Commission recommended that Serbia be granted EU candidate status, but a decision of the European Council on this matter has been postponed until March 2012. There is still a widespread perception of corruption. Serbia ranks 92nd out of 183 economies in the Transparency International Corruption Perception Index 2012, which is below the OECD average and among the lowest in south-eastern Europe.

Serbia's SME definition is in line with that of the EU. Serbia's SMEs contributed 56% of the economy's value added and account for 69% of employment according to the SBA factsheet 2010-11. More than 44% of SMEs are found in the service sector (business services, transport, tourism or construction), around 37% in trade and 19% in manufacturing.

Table 17.1. **Main macroeconomic indicators for Serbia, 2008-12**

		2008	2009	2010	2011	2012 (proj.)
GDP growth	%, y-o-y	3.8	-3.5	1.0	1.6	0.1
CPI inflation	%, average	12.9	7.8	5.9	11.2	3.1
Government balance	% of GDP	-2.5	-4.5	-4.6	-4.0	n.a.
Current account balance	% of GDP	-21.6	-7.2	-7.2	-9.1	n.a.
Net FDI	EUR million	1848.3	1341.0	857.9	1823.0	n.a.
External debt	% of GDP	64.6	77.9	83.1	78.8	n.a.
Nominal GDP	EUR billion	33.3	30.0	28.6	32.4	n.a.

Source: EBRD 2011 (data collected from World Economic Outlook (IMF), World Bank, National Statistical Agencies and Central Banks).

SBA assessment results

This section outlines the main results for Serbia from the 2012 SBA assessment of the EU pre-accession region. The assessed policy dimensions were reassembled and grouped under five wider SME policy areas. Special attention was given to access to finance, due to the impact of the EU financial crisis on the economies of the Western Balkans and Turkey.

Strengthening institutions and mechanisms for SME policy making

Institutional policy framework

Serbia's institutional policy framework is one of the most advanced of the Western Balkans economies. Serbia's SME definition corresponds to the EU SME criteria in terms of employment size. The Department for Regional and SME Development within the Ministry of Economy and Regional Development (MoERD) is in charge of SME policy elaboration and co-ordination. The implementation of the Strategy for Competitive and Innovative SMEs 2008-12 is co-ordinated by the National Agency for Regional Development (NARD). The annual report on the implementation of the strategy forms part of the overall SME annual report and is publicly available on the MoERD website. The total annual budget for implementing the measures of direct financial support to SMEs implemented by NARD is approximately RSD 140 million (Serbian dinar, approximately EUR 1.4 million). The programmes jointly implemented with the MoERD get an additional RSD 76.7 million (approximately EUR 773 000). These programmes concentrate on innovation and cluster development. Other institutions involved in direct support to SMEs have additional budgets and programs.

NARD replaced the Republic Agency for Development of SMEs and Entrepreneurs and operates as the main body for the implementation of the policy for SME development. Together with the regional agencies, NARD provides financial and non-financial support to SMEs. In the past three years NARD co-financed over 1 400 projects to enhance SME competitiveness totalling RSD 298 million (EUR 3.7 million). Since the introduction of start-up credit lines, NARD has provided training for more than 800 start-ups and processed 4 191 credit applications.

Serbia has adopted several regulations to tackle the informal economy. The established Market Inspection Sector under the Ministry of Trade and Agriculture has a network of 400 market inspectors, located in 25 districts in Serbia. Monitoring is regulated electronically and reporting is performed monthly, bi-annually and annually.

Legislative simplification and regulatory impact analysis

Since the 2009 assessment, Serbia has made significant progress in reviewing and simplifying existing legislation. The government of Serbia adopted the Strategy for Regulatory Reform in Republic of Serbia from 2008-11 that included conducting comprehensive regulatory reform. In 2009, the Comprehensive Regulatory Review Unit (CRRU) received more than 600 private and public sector proposals for abolishing, changing and amending existing laws. After analysis of these proposals, the CRRU identified 196 laws to be abolished. Moreover, the CRRU prepared 340 recommendations for the government concerning amending existing laws. The main purpose of this process of regulatory reform was to remove unnecessary administrative burdens that complicate the business environment. By February 2012, 203 recommendations had been adopted and implemented. On this basis, EUR 124 million has been saved annually. The remaining recommendations should be adopted and incorporated into the legislative system of the Republic of Serbia in the forthcoming period. The regulatory guillotine process has now been extended to secondary business related legislation with an impact on SMEs.

The government of Serbia has introduced mandatory regulatory impact analysis (RIA) for new laws and regulations. The Council for Regulatory Reform of Serbia, established by the government in 2003, was empowered to perform co-ordination and quality control of the regulatory impact statements prepared by the relevant ministries. The Regulatory Reform Secretariat was established as the provisional technical advisory unit of the Council for Regulatory Reform on RIA in 2004. From 2006 to 2011, the Regulatory Reform Secretariat reviewed more than 300 draft laws and their accompanying regulatory reform statements. In the same period, 8 pilot RIAs were conducted and more than 200 public officers were trained to conduct regulatory impact analysis. In June 2011 the Office for Regulatory Reform and Impact Assessment (ORRIA) took over the duties of the Council for Regulatory Reform. ORRIA analyses the impact of the regulations proposed by the ministries and other authorities and provides detailed comments on the impact assessment statements submitted by the regulatory authorities. From June 2011 to January 2012 ORRIA considered of 43 regulatory impact statements prepared by the regulatory bodies. ORRIA is currently preparing an SME test.

Public-private consultation framework

The Council for SMEs and Entrepreneurs regularly consults with the key business representations in Serbia including the Serbian Chamber of Commerce, the SME Association and the Union of the Employers of Serbia. Business associations and other SME representatives have the opportunity to participate in task forces to formally comment on draft laws and regulations. Information about upcoming public-private consultations (PPCs) is publicly available and registration is open to all interested participants. In addition, invitations to the PPCs are targeted to selected companies and associations. However, invitations are often sent at short notice, which leaves business associations little time to inform their members and collect their suggestions.

Establishing an operational environment conducive to SME development

Company registration and business start-up process

The company registration and business start-up process is relatively well organised in terms of time and cost and Serbia's overall performance in this dimension has not

significantly changed since the 2009 assessment. The Business Registers Agency has operated as a one-stop shop since May 2009. Although the tax administration and Pension Fund and Health Insurance Fund use different company identification numbers, they are issued simultaneously through the Business Registers Agency within two to three days. Only sole traders can currently register online, but this is expected to be extended to other legal forms in 2012.

Provision of e-government services

A number of e-government services for the business community have been recently introduced. VAT e-filing has been operational since June 2011, while corporate income tax e-filing will be possible from the beginning of 2012. Online health insurance and pension contribution services have been introduced in May 2010 and their scope will be progressively extended. Calls for public procurements are available online, but the procedure for online bids is still under development. Financial statements to the Business Registers Agency can be filed online, but online data reporting to the national statistical office is not yet possible. The legal and regulatory framework for e-signatures is largely complete and the system is fully operational; four certification bodies have been approved by the Ministry of Telecommunications and Information Society.

Bankruptcy procedures and second chance

The implementation of laws and procedures for companies facing difficulties, bankruptcy and insolvency complies with international standards and is fully integrated in commercial law practices. Nevertheless, according to the World Bank's *Doing Business 2012* report, closing a business still takes on average 2.7 years; the cost of bankruptcy is about 23% of the estate and the recovery rate amounts to 24.4%.

The public authorities have not yet launched a campaign to promote a positive attitude towards giving entrepreneurs a fresh start. After the enforcement of a government decision on the closing of bankruptcy proceedings, business register agencies are obliged to erase the debtor from the bankruptcy register. Entrepreneurs who underwent non-fraudulent bankruptcy are able to receive loans and support from other institutions after bankruptcy. Deregistration from the insolvency register is not automatic. There are no discriminatory provisions in place against entrepreneurs who have gone through non-fraudulent bankruptcy.

Facilitating SME access to finance and developing the legal and business environment

Despite the negative impact of the crisis on the availability of external finance for SMEs, Serbia has made notable progress in improving the legal framework that supports access to finance since the 2009 assessment. The cadastre system, credit information services and the efficiency of registration systems for movable assets have all improved since 2009.

Sources of external finance for SMEs

Bank lending to SMEs steadily increased before the crisis. The banking sector is mostly owned by large European banks, including Greek banks which account for over 16% of the market. Serbia's corporate sector, which was excessively leveraged at the start of the crisis, has been significantly affected by the significant depreciation in the dinar and the sharp

contraction in consumption since the beginning of the crisis. This led to an increasing share of non-performing loans for banks which, along with declining funding sources, affected bank lending. Loan growth dropped to about 12% in 2009. After some recovery in 2010, annual loan growth continued to decline during 2011 to 5% at the end of the year, due to the eurozone crisis and decline in banks' parent funding. The ratio of domestic credit to GDP was estimated at 49% for 2011 and access to finance remains an important obstacle especially for low income and rural borrowers. During the last two years, the authorities have made strong efforts to put in place a new set of tools aimed at facilitating corporate restructuring. The Serbian banking system is well supervised as the National Bank of Serbia's (NBS) conservative provisioning requirements have substantially contributed to the sector's resilience. The NBS is also actively trying to encourage "Dinarisation", or local currency lending. The Law on Banks was amended in 2010 to widen the set of instruments the central bank could use when dealing with crisis situations. New regulations on risk management process and capital requirements are being implemented in 2012 as part of Basel III.

The leasing sector has also been significantly affected by the crisis due to both a lack of funding and deterioration in portfolio quality. There are 17 leasing institutions currently operating in the sector, mainly subsidiaries of banks. The economy's leasing portfolio has declined from about 7% of banking assets in 2008 to less than 4% in mid-2011 (3.2% of GDP in 2010). In June 2011, legal changes enabled the leasing of real estate. The leasing sector is governed by a legal framework under the supervision of the National Bank of Serbia.

The Development Fund of the Republic of Serbia provides small credit guarantee schemes and public start-up funding. In 2009, the Guarantee Fund of the Republic of Serbia joined the Development Fund, and had approved about 16 guarantees by November 2010. Microfinance facilities are funded mainly by the state or donor countries and the legal framework regulating this activity is still in the draft stage. The Microfinance Information Exchange reports data from four microfinance institutions (MFIs) in Serbia – Procredit bank, Agroinvest, MDF and OBS – which between them have an aggregate loan portfolio of USD 680 million, representing 1.76% of GDP, lent to 112 838 borrowers.

Private equity is gradually developing thanks to the involvement of a small group of foreign private equity funds. However, the number of market participants and the amount of equity transactions remain very low. On the institutional side, Serbia's conformity with OECD Principles of Corporate Governance is low. The Network of Business Angels of Serbia has been active since 2010. The IPA 2010 Integrated Innovation Support Programme has a EUR 3 million budget for the period 2011-13 and will contribute to the development of the business angels' network. The Belgrade stock market's capitalisation represented 25% of GDP in 2010 with a very low turnover. Securities market legislation is largely in line with the IOSCO principles, although regulation on listing and trading of bonds and derivatives could be improved. A New Capital Markets Law has been in place from November 2011.

Legal and regulatory framework

The cadastre system improved in 2011 as the registration process was accelerated. The real estate cadastre is operating in more than 98% of cadastral municipalities. The completion of the registration process is expected to be achieved in the first half of 2012.

A private credit information bureau has been in place since 2004 established by the association of Serbian banks. It provides positive and negative credit histories (three years and five years of historical data respectively). Its effectiveness and coverage has improved

significantly to 100% of adults in 2011. Since 2010, a new law on personal data protection guarantees that borrowers can inspect their own data, thus improving access to credit information. However, credit information is only distributed from and to financial institutions and not retailers or utility companies.

Pledges on movable assets have been recorded on the Business Register Agency since 2005, and significant improvements have been made to its activities since 2009. This register is fully functioning and allows firms to use assets as collateral, thus facilitating businesses' access to bank finance. The register is available online and free of charge. Collateral requirements are relatively rigorous and remain high in Serbia. Creditor rights are protected by the Law of Bankruptcy that is in line with international standards. Foreign assistance has been provided to prepare a new Law on Compulsory Settlement, Bankruptcy and Liquidation in order to make Serbian bankruptcy legislation consistent with EU legislation and to improve the protection of creditors.

Other factors that affect demand and supply of finance

Since 2005, the National Bank of Serbia has been engaged in activities aimed at raising the level of understanding of basic financial tools, focusing especially on elementary schools. A survey conducted in 2006 by the NBS on the subject of public confidence in the Serbian banking sector showed a low level of bank account openings which is a sign of poor financial literacy. Given the results of this survey and the generally low level of confidence in the financial sector, the NBS launched a consumer protection initiative by establishing the Centre for Financial Services Consumer Protection in January 2007.

Promoting a culture of entrepreneurship and skills development

Since the 2009 assessment, an entrepreneurial learning strategy has been elaborated and a Council for Entrepreneurial Learning established. The Serbian Chamber of Commerce was a key driver in the strategy-building process, underlining the private sector's interest in ensuring education plays a more strategic role in the economy. The Council comprises ministries (education, youth, employment, economy and regional development), the business world and civic groups and provides an excellent opportunity to further the entrepreneurial learning agenda. Systematic monitoring and evaluation will be important to ensure that new developments are tracked, corrected and improved. The Council will play an important role in developing understanding across broader society of "how and why" entrepreneurial learning should be central to Serbia's effort to build a sustainable economy. In terms of entrepreneurship promotion in education, the vocational streams stand out for work to integrate business skills into the curriculum. Entrepreneurship key competence developments requires more attention at all levels.

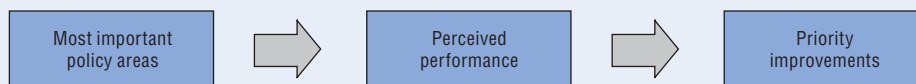
Serbia has a gender equality strategy, backed up with institutional support from the labour ministry, which provides an important building block for more developed policy and measures to bring forward women's entrepreneurship. Special consideration should be given to improving training and access to finance. Ideally, these two issues should be considered with respect to women's start-up, early phase and expanding businesses. To this end, the national authorities, business and banking communities and advocacy groups such as the Serbian Chamber's Women's Business Association would do well to build on the gender equality strategy and elaborate an action plan which a range of stakeholders could commit to implementing.

Box 17.1. SME perception of effectiveness of government policy in Serbia

Survey results: In parallel with the assessment, the OECD conducted a survey in Serbia with the support of EEN, questioning SMEs on their operating environment, business environment conditions and perception of government policies that affect them directly.

Profile of SMEs: The sample included 70 companies, with the average firm operating for 18 years, currently employing on average 34 people and generating a turnover of EUR 1.3 million. Of the firms sampled, 63% were exporters.

Most important business environment conditions: Survey respondents identified the following priorities: stronger consumer demand, a more stable economic environment, more stable and accessible regulatory conditions, business friendlier loans from banks and better qualified personnel.



Most important government policies: Several government policies for SMEs were identified as most important, the top three being: improving business regulation, easing access to finance and supporting export promotion.

Perceived performance of government policies: Firms ranked policies supporting export promotion as fair, while initiatives aimed at easing access to finance and supporting export promotion were ranked last. The promotion of entrepreneurial learning was perceived as the best.

Priority improvements for government policies: In order to improve, government policies on access to finance and export promotion needed more financial resources while support programmes for improving business regulation needed to be better co-ordinated. Support programmes for improving access to the Single Market also needed to be better promoted.

Good efforts are being made by a number of organisations to track the manpower requirements of small businesses. Better sharing and review of data from different sources would allow for a more comprehensive understanding of skills needs for improved policy and targeting of resources. The contribution of the National Agency for Regional Development to skill tracking and development shows good awareness of the importance of manpower development for economic development. Commentators have suggested that medium and larger companies have had better access to the training on offer, so extra effort is required to ensure training is more available to small businesses. This will be particularly important for small businesses trading in sectors that will be highly exposed to competition within the EU internal market. The interfaces between the different organisations responsible for quality assurance in training also need to be improved.

Enhancing SME competitiveness

Business information and services

Progress has been made on the range of business support services provided through the NARD network of regional agencies and associations of private consultants. Nevertheless, only a few international consulting companies operate in Serbia. No

improvement has been registered regarding business incubators. In 2011, none of the 16 incubators in operation received any direct funding from the government. Other forms of start-up support are relatively well developed. Locally established start-ups have access to advisory services as well as financial support in the form of favourable start-up loans, mini grants from the Innovation Fund and subsidies from the National Employment Service. The NARD portal giving access to information relevant to SMEs is not yet operational.

Public procurement

Serbian law envisages the partition of tenders into lots and this does often happen in practice. The law contains provisions to ensure that SMEs are given proportionate qualification levels and financial requirements. The Public Procurement Office runs a dedicated website advertising public procurement. All information is centralised and is available for free. This service has not yet been extended to e-tendering, however, although there has been some technical preparation for it and e-tendering is now planned for the future. Although there is no law combating late payments, some efforts have been made to combat them, but they are fragmented and there seems to be no consistent policy approach. The Ministry of Economy and Regional Development is finalising a decree which would regulate late payments to the public sector. It would be a very valuable piece of legislation. Finally the market is open to foreign operators in principle but while companies from CEFTA countries participate in tenders on equal terms, those from EU countries are restricted. This barrier will be dismantled after all EU member states ratify the Agreement on Stabilisation and Association.

Innovation

According to the OECD assessment framework Serbia's innovation policy is amongst the most advanced of all economies in the region. The Scientific and Technological Development Strategy defines the innovation policy for 2010-15 and is co-ordinated by the Innovation System and Technology Transfer Unit within the Ministry of Education and Science. A technology competence centre is currently being designed with the support of the OECD within the OECD Regional Competitiveness Initiative. Preparations in the area of intellectual property law are advancing and legislative alignment with the EU *acquis* has been progressing well. A national strategy providing a comprehensive framework for concerted enforcement by all competent institutions was adopted in June 2011. However, enforcement still remains weak and the administrative capacity of all enforcement institutions generally needs to be strengthened. In addition, in order to implement the government policies Serbia should commit significant funds to R&D.

Green economy

Efforts have been made to integrate green growth in the national policy framework. The Industrial Development Strategy and Policy (2011–2020) and the Strategy for Scientific and Technological Development (2010-15) both cover energy efficiency and environmental protection. However, the SME strategy has no provisions on eco-efficiency, suggesting that environmental protection and SME development are still perceived as disconnected policy areas. Information on environmental issues is available on the websites of the Ministry of Environment and Physical Planning, chambers of commerce and NGOs. The business community is slowly become more aware of environmental management systems (EMSs)

and standards. In total, 203 Serbian companies have received ISO 14001 certification. To further encourage the adoption of environmental standards, the government is planning to launch a support programme for EMAS certification in early 2012.

Export promotion

The Serbian Investment and Export Promotion Agency (SIEPA) is responsible for export promotion. It implemented a programme to encourage competitiveness and the internationalisation of the Serbian economy. With the logistical and financial help of SIEPA, 138 Serbian companies were able to participate in 12 international fairs in 2010. The Agency for Export Insurance and Financing (AEFI) is an independent programme to support the Serbian export market through insurance and financing schemes. Serbia has well-established national export promotion and special SME events such as the annual Fair of Entrepreneurship, annual international conference on SME, European SME week and Exporter of the Year.

Single Market opportunities

In Serbia, the legal framework on quality infrastructure is in line with EU legislation. Sectoral legislation is in place for some but not all the priority sectors. The Institute for Standardisation of Serbia continuously upgrades its capacities in accordance with the requirements for membership to CEN and CENELEC and at present is an affiliate member. More than 50% of European standards have been adopted.

Horizontal legislation on accreditation has been transposed and Serbia set up an accreditation body in line with EU requirements. Membership of the Institute of European Accreditation has been received and Serbia has applied for the signature status for the European Accreditation Multilateral Agreement (MLA). Designated and accredited conformity assessment bodies have been put in place and the national accreditation body has positively assessed them.

The metrology system in Serbia is recognised by relevant European and international institutions and the creation of a comprehensive market surveillance system in accordance with EU requirements is under way. The Agency for Export Promotion, the Office of the European Chamber of Commerce and entrepreneurial networks provide complete and updated online information with a major focus on the Single Market. National bodies for sanitary and phytosanitary standards (SPS) are well established with a few limitations. Efforts are still needed to fully align with international and European standards.

The way forward

Over the three years Serbia has made good progress in the SBA implementation, across most of the policy principles and dimensions. Overall its performance has been above the regional average. It has reformed its institutional framework for SME policy, adding a regional development element with the transformation of the national SME Agency into a regional development agency (NARD) operating in co-ordination with a network of local agencies, and preparing for the allocation of EU regional development funds. It has also made progress in the systematic application of RIA and the implementation of regulatory reform. In the area of access to finance it has enhanced the central role of the Development Fund, bringing start-up and innovation funding and credit guarantee schemes in under a single institution. It is

also considering the establishment of a national development bank with an SME financing mandate.

Looking forward, Serbia should focus both on improving its operational environment and on designing and implementing targeted support measures for the most dynamic enterprises. For instance, while the company registration system is generally efficient, it could be further improved by harmonising company registration numbers and by extending online registration services, currently available only for sole traders.

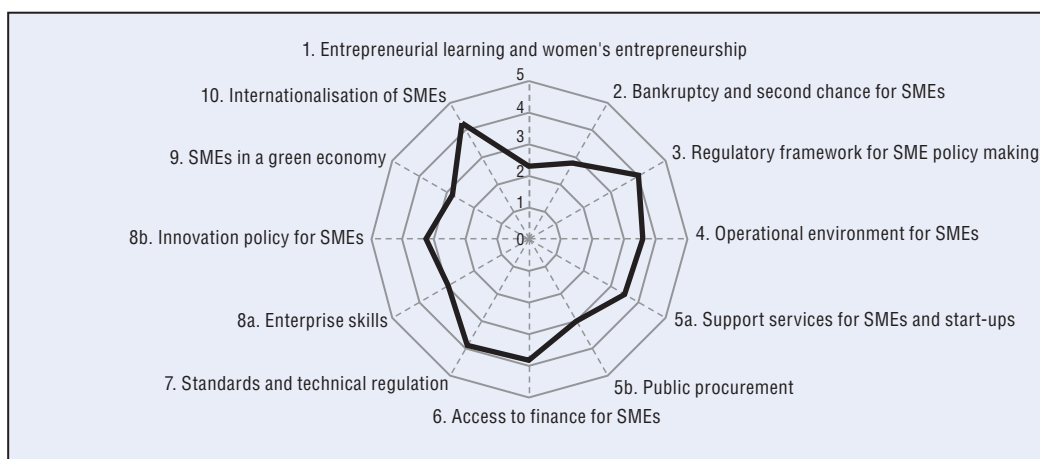
Bankruptcy procedures should be improved. The new bankruptcy law which came into force in 2010 establishes automatic bankruptcy when a company's accounts have been blocked for over three years. This has led to a considerable accumulation of bankruptcy cases. While this new bankruptcy law has enhanced market exit procedures, the courts are still not very efficient.

Serbia should strengthen the existing network of incubators, and enhance its support for incubators. Incubators should also become more focused on high-quality services which add more value and innovation support for new, science-based companies.

Promoting the green economy could open new opportunities for the SME sector, both domestically as well as in the export markets. Eco-efficiency and eco-innovation should be highlighted as priorities in the next SME strategy and associated with clear measures and targets.

The Council for Entrepreneurial Learning represents an important SBA benchmark. It should be given political, financial and technical support to ensure deliver on its mandate. Meanwhile, the higher education community should engage better in the SBA drive. Stimulating dialogue through, for instance, a high-level conference on entrepreneurship promotion in tertiary education could be considered. This would involve university rectors, business and the education and economy ministries.

Training and access to finance for women entrepreneurs requires a collective and strategic discussion involved all key stakeholders and resulting in workable recommendations for policy and its delivery. More developed intelligence and support for skills promotion in sectors trading with the EU will be important. Financial support for sector skills councils should be considered. Training and access to finance for women entrepreneurs requires a collective and strategic discussion involving all key stakeholders and resulting in workable recommendations for policy and its delivery.

Figure 17.1. **SBA scores for Serbia**

Source: SBA assessment 2012.

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IFC/World Bank Doing Business 2012 survey: The Doing Business Project objective measures of business regulations and their enforcement across 183 economies and selected cities at the sub-national and regional level.

EBRD/World Bank Business Environment and Enterprise Performance Survey (BEEPS IV): The Business Environment Survey (BEEPS) is a joint initiative of the European Bank for Reconstruction and Development (EBRD) and the World Bank Group (the World Bank).

Transparency International Corruption Perceptions Index (CPI): Transparency International is the global civil society organisation leading the fight against corruption. It publishes the Corruption Perception Index (CPI) annually, ranking countries by their perceived levels of corruption as determined by expert assessments and opinion surveys.

PART II

Chapter 18

SBA profile: Turkey

Overview

After being severely hit by the global financial crisis, with a GDP contraction of 4.8% in 2009, the Turkish economy rebounded strongly in 2010 with a GDP increase of 9.2% and continued to grow at a high rate for most of 2011, supported by buoyant domestic demand and a good export performance. Real GDP growth slowed to 5.2% year-on-year in the last quarter of 2011, bringing full-year growth to 8.5% in 2011. As the economy rapidly expanded, inflation has surged and the trade balance further deteriorated, due to strong domestic demand and Turkey's dependence on imported industrial inputs and raw materials. However, leading indicators of economic activity confirm the expected slowdown in the Turkish economy. Industrial production growth decelerated to 2.4% year-on-year in March 2012, down from 4.4% in February 2012, reducing concerns that the economy could overheat. Recent data point to a soft landing after the brief phase of exceptional economic growth, but there are still fears that economic growth could stagnate or slow abruptly if the capital inflows financing the expansion of domestic demand and the large trade deficit would go into reverse.

While significant progress has been made over the last decade since Turkey emerged from a structural economic crisis, the business environment is still one of the most difficult amongst OECD countries. Both the BEEPS IV survey and the World Bank's 2012 Doing Business indicators identify licensing procedures as onerous obstacles to doing business. Turkey now ranks 71st in the World Bank's Doing Business ranking, with improvements in particular in starting a business and paying taxes. Key obstacles remain in dealing with construction permits and resolving insolvency issues, but Turkey ranks above the Southern and Eastern European (SEE) group when it comes to registering property and enforcing contracts. In particular, the time taken to arrange construction permits, labour contracts and business liquidations are above average for the region. Finally, firms are constrained by a lack of skills of the labour force. An important challenge will be increasing female labour force participation.

Companies' chief concerns about the business environment are heavy regulations, lack of transparency and corruption at all levels of government, according to the latest EBRD/World Bank Business Environment and Enterprise Performance Survey, carried out in 2008/09 (BEEPS IV). Transparency International's most recent Corruption Perceptions Index 2011 ranks Turkey 61st, slightly down from the previous year.

Turkey has a large and dynamic SME population, numbering over 3 million. SMEs account for about 99.9% of Turkey's companies, the majority of which are micro or small enterprises. They account for 78% of employment¹ and about 55% of value added of non-financial companies in the economy.

Table 18.1. **Main macroeconomic indicators for Turkey, 2008-12**

		2008	2009	2010	2011	2012 (proj.)
GDP growth	%, y-o-y	0.7	-4.8	9.2	8.5	2.5
CPI inflation	%, average	10.4	6.3	8.6	6.5	10.3
Government balance	% of GDP	-2.4	-5.6	-3.7	-1.4	n.a.
Current account balance	% of GDP	-5.7	-2.2	-6.4	-10.0	n.a.
Net FDI	EUR million	11 534.0	4 933.8	5 694.7	9 669.0	n.a.
External debt	% of GDP	38.4	43.7	39.1	38.4	n.a.
Gross reserves	% of GDP	9.7	11.2	10.8	9.9	n.a.
Nominal GDP	EUR billion	498.0	443.2	551.1	557.6	n.a.

Source: EBRD 2011 (data collected from World Economic Outlook (IMF), World Bank, National Statistical Agencies and Central Banks).

SBA assessment results

This section outlines the main results for Turkey from the 2012 SBA assessment of the EU pre-accession region. The assessed policy dimensions were reassembled and grouped under five wider SME policy areas. Special attention was given to access to finance, due to the impact of the EU financial crisis on the economies of the Western Balkans and Turkey.

Strengthening institutions and mechanisms for SME policy making

Institutional policy framework

The EU definition of small and medium enterprises consists of firms that employ fewer than 250 employees and have an annual turnover not exceeding EUR 50 million and/or a balance sheet total not exceeding EUR 43 million. Turkey's Regulation for the Definition, Characteristics and Classification of Small and Medium Enterprises, issued in 2005, uses the same definition of SMEs in terms of employment size and also takes the annual turnover and balance sheet into account.

The Small and Medium Enterprises Development Organisation (KOSGEB) is the main SME policy development, co-ordination and implementation body. It is affiliated to the Ministry of Science, Industry and Technology (MoSIT). KOSGEB was established in 1990 and runs a range of support programmes for the development of SMEs through its headquarters in Ankara and 75 regional offices throughout Turkey. The main stakeholders are involved in the policy elaboration process through consultations. The implementation of policies and strategies is monitored by the responsible organisation.

The National SME Strategy for Turkey has been revised twice since it was first issued in 2004. It is based on the "Accession Partnership" signed with the EU in 2003 to harmonise SME policies with the EU Charter for Small Enterprises, which was replaced by the Small Business Act in 2011. The current SME Strategy and Action Plan cover the period of 2011-13 and were approved by the High Planning Council in 2011. KOSGEB is responsible for co-ordinating the implementation of the programme.

Turkey's informal economy is estimated at 32.1%, as opposed to the OECD average of 18%. In 2010, a new unit called Department of the Fight against the Informal Economy was established under the Revenue Administration. Its first strategy and action plan for 2008-10 was prepared and issued by the Revenue Administration of the Ministry of Finance, and has been replaced by a new action plan for the period 2011-13.

Legislative simplification and regulatory impact analysis

The SME Committee under the Coordination Council for the Improvement of Investment Environment (YOIKK) is determining actions to simplify and improve legislations for SMEs. YOIKK conducts its work programmes together with its 10 Technical Committees, representing public and private institutions. The YOIKK Technical Committee Action Plans include the elimination of redundant business legislation. The guillotine process has also been extended to secondary legislation.

The legislation on regulatory impact analysis (RIA), issued in 2006, implies that RIA should be conducted for laws and decrees with an impact of more than TRY 10 million (Turkish lira, equivalent to EUR 4.3 million). It also foresees building up internal capacity to conduct RIA and since its enactment, a number of training programmes and projects have been implemented to develop RIA capacity. RIA activities are co-ordinated by the Prime Ministry office but not all public organisations have yet fully adopted it. Some agencies such as KOSGEB and the Board of Information Technologies and Communication have started to produce impact analysis for some regulations both before and after implementation. There is no evidence of any specific SME test.

Public-private consultation framework

Turkey has a range of organisations representing the Turkish larger business and SME community: these include the Confederation of Tradesmen and Artisans of Turkey (TESK), the Union of Chambers and Commodity Exchanges of Turkey (TOBB), the Turkish Enterprise and Business Confederation (TURKONFED), and the Confederation of Businessmen and Industrialists of Turkey (TUSKON).

The Union of Chambers and Commodity Exchanges of Turkey (TOBB) is the largest entity in Turkey representing the private sector. TOBB has 365 members in the form of local chambers of commerce, industry, commerce and industry, maritime commerce and commodity exchanges and represents 1.3 million enterprises. TOBB also has 59 sectoral assemblies. Public-private consultations (PPCs) take place through chambers, commodity exchanges and sectoral assemblies. TUSKON unites 160 associations and represents 32 000 members with a total of 100 000 companies. The Confederation of Turkish Tradesmen and Craftsmen (TESK) has a country-wide organisational structure with its 13 Sector Occupational Federations, 82 Tradesmen and Craftsmen Union of Chambers and 3 109 Local Occupational Chambers (by the end of March 2012). It is the highest status occupational organisation with its public institution property representing nearly 2 million tradesmen and craftsmen members working through service and production sectors. Most of them are classified as SMEs. TURKONFED's members are mainly SMEs, focusing their work programme on regional development.

Given the well-structured PPC framework, SMEs have the opportunity to comment on draft legislations. However, better monitoring should be undertaken on which suggestions on draft laws and measures have been realised.

In general, invitations to the PPCs are distributed to private sector associations which have been mandated by the private sector to represent the interests of the business community across different sectors. Committee members are included in an online network, where they are informed of any upcoming activities but information is not made available to the wider public.

Establishing a conducive operational environment for SMEs

Company registration and business start-up process

The company registration process in Turkey is relatively efficient and registration charges themselves are well contained. Overall, however, the business start-up process, which includes pre- and post-registration procedures, as well as notification and compliance requirements, remains relatively cumbersome and costly. More advanced registration practices, such as one-stop shops and online registration are only in a pilot phase. Registration for legal entities takes place at the Trade Register Offices located in 238 provinces. To open a business a certificate of master or an individual holding this certificate is required. In the law of TOBB there is an exception which states that TOBB members are not required to have this certificate. Consequently, individuals who may not have adequate skills may operate businesses, which may directly affect public health and consumer safety. This has caused significant problems in the vocational education system in Turkey and poses a threat to public health and consumer safety.

The Trade Register Office does not operate yet as a one-stop shop and new entrepreneurs need to obtain separate identification numbers from the tax and the social security administrations. The Ministry of Customs and Trade is currently developing a Central Registry Recording System, MERSIS, which by 2012 will lead to the issuing of a single identification number, the tax administration number, and to a further simplification of the registration procedures. This system is currently being piloted in the city of Mersin and will be progressively extended to the rest of the economy.

Provision of e-government services

A relatively wide range of e-government services is available to the business community. The government has developed an e-government portal with a specific section for business users. Tax and social security returns can be filed online, and a range of customs and public procurement services are also available. Although enterprises can't yet report statistical data online, the Turkish Statistical Institute (Turkstat) is developing links with the tax administration, the chambers of commerce, KOSGEB and other administrative bodies to link their databases and get access to a wide range of business statistics. Electronic signatures are operational and four electronic certificate service providers have been approved. However the service is underused due to the limited capacity of the public administration. According to the Information Society statistics, only 36 municipalities out of 2 951 are currently issuing e-certificates.

Bankruptcy procedures and second chance

The Turkish law on distressed companies, receivership and bankruptcy procedures has come into force and is in line with commercial law. Bankruptcy is also applied to state enterprises. According to the World Bank's *Doing Business 2012* report, bankruptcy time is estimated to be 3.3 years, the cost of bankruptcy is 15% of the business estate and the recovery rate is 22.3%. A package of measures is under preparation to promote more positive attitudes towards giving entrepreneurs a second chance.

According to the bankruptcy laws, a discharge from bankruptcy is decided by the court after all debts are paid off. Liquidation has to be done within six months after bankruptcy registration. Companies that underwent non-fraudulent bankruptcy can receive support from public institutions. They are able to receive bank credits only after debt clearance and

the completion of bankruptcy procedures. Entrepreneurs who have faced bankruptcy do not face administrative barriers to restarting their businesses but they are not allowed to participate in public procurement tenders.

Facilitating SME access to finance and developing the legal and business environment

Turkey is relatively more advanced when it comes to access to finance than its Western Balkans peers. Public sources of external finance for SMEs are well developed. Other sources of finance such as leasing, private equity and capital markets are well above the regional average. Gaps remain in microfinance, where the potential has not been fully exploited and the legal framework is missing. Although a central collateral registry is not yet in place, Turkey's legal and regulatory framework is generally well and homogeneously developed.

Sources of external finance for SMEs

Around 80% of lending to SMEs comes from commercial banks with some from government agencies. Domestic bank lending to the private sector has increased significantly in recent years, although it still is relatively low at about 50% of GDP as of the end of 2011. The banking sector was not significantly affected by the crisis. On the contrary, after a drop of about 13% 2009, private credit grew at a rate of 30-40% year-on-year during 2010-11, although it has recently been slowing down. Non-performing loans have decreased to 2.7% of total loans in 2011 from over 4% in 2009. Although the government has encouraged public and private banks to increase lending to SMEs, outside the major cities access to finance remains a challenge. Access to long-term finance remains a particular constraint. Banking supervision and regulation have improved significantly since the 2001 financial crisis thanks to the Bank Regulation and Supervision Agency, which applies stringent laws and regulations, and further recent improvements in prudential regulation.

The leasing sector is fairly well developed with 36 companies holding a leasing portfolio estimated at 7.9% of GDP in 2011. Leasing is concentrated in machinery and equipment. The Banking Regulation and Supervision Agency is in charge of the leasing sector.

The Credit Guarantee Fund (KGF) has been operating since 1991 through the Turkish banking system and partners such as KOSGEB, TOBB, TESK, Foundation for the Promotion of Vocational Training and Small Industry (MEKSA), and Small and Medium Enterprises, Self-Employed and Professionals Foundation of Turkey (TOSYOV), and 19 private and public funded savings and participation banks. SMEs request a guarantee through the banks which forward appropriate applications to the KGF. The guaranteed amount is limited to TRY 1 000 000 per SME and covers up to 80% of the loan. For the period from 1994 to 2011, 9 283 SMEs benefited from credit guarantees under the scheme and it had guaranteed loans amounting to TRY 1.86 billion. KGF also provides special support for start-ups by providing loans through banks and other entities, particularly targeting disabled and women entrepreneurs.

Turkey has a huge potential for microfinance activity but the lack of a regulatory framework hinders its development. There is also little awareness about this sector. Other sources of finance, such as venture capital and private equity, are underdeveloped although above the Western Balkan region average. Venture capital is regulated by the Law on Capital Markets. There are three venture capital investment trusts and one of them,

KOBI Venture Capital Investment, targets investments in SMEs. The Istanbul Venture Capital Initiative was established in the second half of 2011 to develop access to venture capital investments. The private equity sector is less developed than in most new EU member states but more developed than in the Western Balkans. As Turkey still has a young industry it needs to build a track record and further develop the skills of local private equity managers. The institutional side is well developed as Turkey shows reasonable conformity with OECD Corporate Governance Principles. The Emerging Companies Market (ECM) was established within the Istanbul Stock Exchange in 2009 to allow shares of SMEs with growth and development potential to be traded. To facilitate SME listings in the ECM, the capital market legislation was amended to ease listing requirements including disclosure obligations. KOSGEB also offers support through subsidy packages to SMEs for the costs borne in the process of going public at the ECM.

Legal and regulatory framework

The Directorate General for Land Registry and Cadastre under the Ministry of Environment and Urbanisation is in charge of the cadastre system. Approximately 97% of the land has been documented as of October 2010. Since the end of 2010, the information has been available online, increasing the efficiency and reliability of system. There is no central collateral registry for movable assets yet but firms can nevertheless use movable assets as collateral which is accepted by banks. Collateral and provisioning requirements are regulated by the Banking Regulation and Supervisory Agency. The amount of collateral needed for Turkish firms is among the lowest in the region. The average firm in Turkey needs to provide collateral equal to 90% of the loan value. However, collateral requirements vary considerably across regions within Turkey.

Private and public credit bureaus have operated in Turkey since 1997 and 1951 respectively. The Credit Bureau (KKB) covers 60.5% of adults. Since 2010, the private credit bureau has also been compiling information on firms. KKB developed an information sharing system, the Credit Reference System, which members can use to share information on personal and corporate credit operations. Data subjects need faster and simpler access to their own credit information, which would improve the accuracy of credit information. The Turkish Execution and Bankruptcy Law affirm that secured creditors are not subject to an automatic stay and are permitted to enforce their security, notwithstanding reorganisation. According to the World Bank's *Doing Business 2012* report, secured creditors are not paid first when a business is liquidated but they retain priority when a debtor defaults outside an insolvency procedure.

Other factors that affect demand and supply of finance

The Capital Markets Board (CMB) and the Central Bank have launched a number of initiatives to improve financial literacy. In October 2010, the Financial Literacy Project was launched by the CMB aiming at assessing national understanding of financial products and concepts related to capital markets. A survey was carried out between January and March 2011 focusing especially on women and young people. Different questions were asked in connection with capital markets, financial instruments and preferred sources to access financial knowledge. The survey's results show that university students have a relatively high level of awareness of basic concepts related to capital markets, while their knowledge of other financial products remains limited. The Internet is the preferred source of information on financial issues although women favour direct communication through

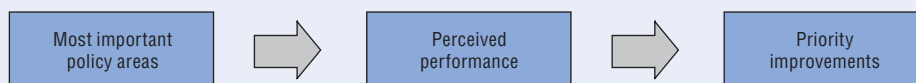
meetings and seminars and have a deficient knowledge of the nature and structure of capital markets.

Box 18.1. SME perception of effectiveness of government policy in Turkey

Survey results: In parallel with the assessment, the OECD conducted a survey in Turkey with the support of EEN, questioning SMEs on their operating environment, business environment conditions and perception of government policies that affect them directly.

Profile of SMEs: The sample included 262 companies, with the average firm operating for 14 years, currently employing 71 people and generating a turnover of EUR 5.1 million. Of the firms sampled, 53% were exporters.

Most important business environment conditions: Survey respondents identified the following priorities: stronger consumer demand, a more stable economic environment, more stable and accessible regulatory conditions, business friendlier loans from banks and lower cost of labour.



Most important government policies: Several government policies for SMEs were identified as most important, the top three being: improving business regulation, promoting entrepreneurial learning and supporting export promotion.

Perceived performance of government policies: Firms perceived government initiatives in the area of improving business regulation, supporting export promotion, and easing access to finance as fair, while promoting entrepreneurial learning was ranked the best out of all the policy areas. Policies aimed at improving bankruptcy procedures ranked the poorest.

Priority improvements for government policies: In order to improve, government policies on access to finance and export promotion need more financial resources, while support programmes for improving the business regulation needed to be better co-ordinated. Entrepreneurial learning programmes needed more promotion.

Promoting a culture of entrepreneurship and skills development

Turkey has performed well on the SBA entrepreneurial learning dimension. With a strong institutional support framework within the Entrepreneurship Council that includes the Ministry of National Education, entrepreneurship is an integral feature of Turkey's lifelong learning strategy. The strategy is accompanied by an action plan and resources have been committed to it, particularly addressing entrepreneurship in secondary education where an agreement between the education and science ministries and TUBITAK provides an important opportunity to bring forward developments at school level. The scale of the school network compared to other economies in the Western Balkans made it hard to assess the extent to which the entrepreneurship key competence, in particular, is being addressed across the school system. Further, data on school-based entrepreneurship promotion was difficult to source, reflecting the newness of the SBA assessment demands on the national authorities. It will be important to scrutinise developments across the learning system more empirically. This requires a dedicated

monitoring and evaluation system to track activities both within each education level and well as between each level to ensure the potential of the lifelong entrepreneurial learning sequence is maximised. This would also be an opportunity to connect up the different practitioners giving them opportunities for dialogue and exchange of good practice that is presently addressed in a segmented way. Co-operation with businesses is well established among technology universities and those with dedicated entrepreneurship centres, and an agreement between the Higher Education Council (YÖK) and KOSGEB provides a good opportunity for the university community as a whole to buy into the entrepreneurship agenda.

Turkey has a gender equality action plan that includes a particular focus on women and the economy and provides the policy ingredients for a more developed strategic perspective on women's entrepreneurship. While good efforts are being made to promote entrepreneurship training these tend to be driven as much to promote social inclusion as to improve competitiveness. The TOBB Women's Entrepreneurs Board, which represents some 10 000 members, has good potential to define a more competitive dimension to the women's entrepreneurship agenda. Clearly defined policy principles and more established support for women entrepreneurs in terms of training and improved access to finance will be important for women-owned start-ups, and early phase and growing businesses. KOSGEB credit and guarantee facilities aimed at women are already a good step in this direction.

A dedicated cross-stakeholder working group provides a window on skills concerns as part of the national industrial strategy, while a unique public-private partnership led by TOBB focuses on closing the gap on skills which businesses need and what is on offer. Management and vocational training provision is well developed involving public, private and non-profit organisations, supported by a good quality assurance framework. Overall there is good support for start-up training and more established enterprises, including to support the internationalisation of small businesses.

Enhancing SME competitiveness

Business information and services

SMEs in Turkey have access to a broad range of support services. The business services market is characterised by a good level of competition and the presence of well-established international consultancy firms. Turkey has a fairly well-developed network of incubators with 15 Business Development Centres – typically providing office space, training and mentoring – and 29 Technology Development Centres which offer more technology-oriented support. Other forms of start-up support are relatively advanced. Advisory support to start-ups is primarily provided through KOSGEB's Business Development Centres and regional development agencies. Start-ups can also receive financial support in the form of loans and grants through KOSGEB's Entrepreneur Support Programme. In practice, however, start-up projects account for only a small share of KOSGEB's activities.

Public procurement

Overall, Turkey's policy is driven by the effort to give SMEs better access to public procurement contracts. The Public Procurement Authority is co-ordinating a number of studies, such as the "SME Strategy and Action Plan". Some effort has been made to reduce the administrative burden related to the application procedure and the number of

documents needed was reduced. Documents proving work experiences are not required in the procurement of goods with estimated costs equal to or below the upper limit of the threshold value stated in the Public Procurement Law No 4734, except for those conducted by restricted procedure. However, in procurements to be conducted by open or negotiated procedures with the estimated costs exceeding this value and in procurements to be conducted by restricted procedure regardless of its estimated value, whether to require or not require documents proving the work experiences is at the contracting authority's discretion. Work is also ongoing on studies and training, regarding better guidelines for SMEs on tendering procedures and qualification criteria. Cutting tenders into lots is a widespread practice.

Information on available contracts is well advertised. It is all centralised at national level, and the service is free of charge. Helpdesks and training are available to SMEs, helping smaller companies to get acquainted with procedures related to public procurement. E-procurement solutions are at the inception phase. The intention is to have all tenders published in the electronic format but so far e-procurement is available only in a limited number of economic sectors, such as medical devices in the health sector.

Several provisions relate to open access of public procurement to foreign operators. Several laws regulate late payments in terms of delivery time, due date of the payment and interests on late payments but there is no law imposing strict deadlines for payments.

Innovation

Turkey is amongst the most advanced economies in the region with regards to innovation policy, implementing the greatest variety and number of support measures and spending the most on this area. Innovation policy is co-ordinated by the Supreme Council of Science and Technology. The comprehensive National Science, Technology and Innovation Strategy 2011-16 is being implemented by the Scientific and Technological Research Council. Turkey has made limited progress with regards to intellectual property rights (IPR) protection. Although updated laws have been drafted regulating intellectual and industrial property rights, including deterrent criminal sanctions, adoption is still pending. The law on IPR enforcement procedures needs to be brought in line with the EU Enforcement Directive. Closer co-ordination and co-operation among IPR stakeholders and public bodies is essential, as well as general awareness campaigns on the risks of IPR infringements. The recently launched IPR Working Group could offer the opportunity of an effective IPR dialogue with the EU, contributing to an improvement in IPR protection in Turkey.

Green economy

Efforts have been made to integrate green growth into the national policy framework. Eco-products and environmentally-friendly technologies are covered in the Industrial Strategy Document for 2011-14. The new SME Strategy and Action Plan also cover the development of a roadmap to assess the environmental impact of SMEs. Businesses can acquire general information about environmental issues on the websites of the relevant ministries, as well as through chambers of commerce and NGOs. Environmental expertise is available and environmental service providers are required to obtain an "Environment Proficiency Certificate". Businesses are becoming increasingly aware of how they could enhance their environmental performance through environmental management systems

(EMSs) and standards but governmental support for EMS certification remains at an early stage of development.

Export promotion

A wide range of export promotion and support programmes cover national and international trade fair participation, environmental costs, research and development (R&D), human resources, international marketing and trademark, market analysis and market entrance, and product design. There is also VAT exemption for exported goods (Law No. 3065). The Ministry of Economy (MoE) implements nine different programmes for this purpose, amounting to USD 500 million in 2011. All companies including SMEs are eligible to apply for support.² The MoE works closely with exporters' unions in Turkey and with commercial attachés abroad to increase exports through training, commercial intelligence and so on. KOSGEB also provides support for participation in national fairs and international business trips and credit support programmes for export promotion for SMEs. The Council of Foreign Economic Relations is conducting a project with Akbank, a private bank in Turkey, on export training for SMEs.

No regular and widespread national export promotion events are targeted at SMEs. Different agencies organise project brokerage events, international and national support programme briefings, and international technology transfer activities through the European Business and Innovation Network on an *ad hoc* basis.

Single Market opportunities

Turkey has completely implemented the legal framework on quality infrastructure. The relevant sectoral legislation is fully in line with the EU framework. More than 99% of European standards have been adopted and the Turkish Standards Institution (TSE) was granted full membership of CEN and CENELEC in January 2012.

TURKAK is the sole accreditation body in Turkey to receive signature status of the European Co-operation for Accreditation Multilateral Agreement. In the area of conformity assessment, further progress was achieved in the area of notified bodies. There are now 23 Turkish notified bodies compared with 18 in 2011. There are two approval bodies in the area of construction products.

Turkey's metrology infrastructure operates effectively and the relevant legislation is in place. It has continued to make progress in the area of market surveillance. Some key structural deficiencies like co-ordination within and between surveillance agencies, insufficient allocation of resources and infrequent use of risk assessment and sampling methods still remain to be addressed.

Information on export markets and Single Market related regulations are provided through an online platform operated by the government and the European Enterprise Network (EEN). Very good progress has been achieved towards transposition and implementation of the *acquis*. Adoption of implementing regulations of the framework law on veterinary services, plant health, food and feed has been an important step. However, Turkey should advance further towards full implementation.

The way forward

This is the first time Turkey has participated in the regional assessment of the SBA implementation and therefore it is not possible to draw comparisons with past

performance. The 2012 assessment shows that Turkey is making good progress in implementing the principles of the SBA and overall it performed above the average of the eight pre-accession economies covered by the report.

However, its performance is uneven. It is strong in areas such as the institutional framework for SME policy, the provision of services to SMEs, the adoption of technical standards and regulations and export promotion and internationalisation. It performs relatively well in the area of access to finance, innovation and promotion of the green economy and just above the regional average in the area of entrepreneurship learning and skill development.

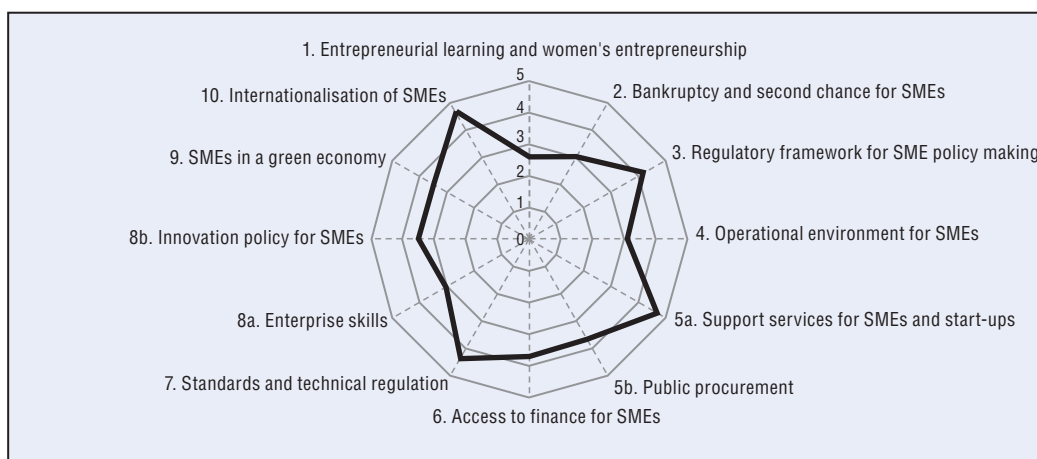
Nevertheless its operational environment is relatively weak, particularly in the implementation of regulatory reform, introduction of RIA, streamlining of the company registration process and the extension and application of e-government services.

Over the years Turkey has developed a network of public and private institutions operating in the SME policy area and it has established a practice of regular and institutionalised policy dialogue and co-ordination. Public support to the SME sector, particularly in the after global financial crisis phase has increased considerably. KOSBEG, the national SME development organisation, is at the centre of this network and plays a pivotal role in supporting the SME sector and in advocating for SME priorities.

In order to move forward, Turkey should focus on improving its business environment, rebuilding the momentum of the reforms introduced after the structural crisis in 2001. In particular it should focus on the reduction of administrative barriers, the streamlining and simplification of regulations at national and local level. RIA should be systematically applied, covering regulations as well as laws and the SME test should be introduced.

Given the considerable resources channelled into supporting the SME sector and the range of support schemes put in place, a system of regular monitoring and, most importantly, independent impact evaluation should be systematically carried out. This will allow interventions to be more precisely targeted and schemes to be modified or terminated once their primary objectives have been achieved. For instance, interest rate support schemes, which were launched after the global financial crisis and contributed to the re-launch of the Turkish economy, but which are still absorbing a considerable amount of resources, should be considered for impact evaluation.

Given the range, extent and richness of entrepreneurship promotion activities in Turkey, considerable value could be generated by creating a forum where key protagonists from all parts of the learning community could assemble and share experience and good practice. The crux of the issue is to create the connections, not only between the practitioners but, as importantly, to reinforce the linkages between the various parts of the learning system. While there are clearly good efforts to support start-up training, a tracking system is necessary to determine exactly the extent to those trained finally establish (and remain) in business. Finally, the gender equality policy should be revisited with a view to firming up the women's entrepreneurship principles with an accompanying action plan.

Figure 18.1. **SBA scores for Turkey**

Source: SBA assessment 2012.

Notes

1. SBA Factsheet 2010-2011.
2. According to the MoE, 50 000 companies out of 3 million enterprises in Turkey are exporters.

Bibliography

IFC/World Bank Doing Business 2012 survey: The Doing Business Project objectively measures business regulations and their enforcement across 183 economies and selected cities at the sub-national and regional level.

EBRD/World Bank Business Environment and Enterprise Performance Survey (BEEPS IV): The Business Environment Survey (BEEPS) is a joint initiative of the European Bank for Reconstruction and Development (EBRD) and the World Bank Group (the World Bank).

Transparency International Corruption Perceptions Index (CPI): Transparency International is the global civil society organisation leading the fight against corruption. It publishes the Corruption Perception Index (CPI) annually ranking countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys.

ANNEX A

OECD company survey

SME perception of effectiveness of government policy in the Western Balkans and Turkey

In parallel with the SME policy assessment, the OECD conducted a survey in the Western Balkans and Turkey with the support of EEN, questioning SMEs on their operating environment, business environment conditions and perception of government policies that affect them directly.

The results for individual economies are included in the chapters of Part II. In order to better identify the exact needs of various types of SMEs, the analysis divided the entire sample of 580 companies into six groups – based on the growth record and the export orientation of each company.

On the growth dimension, companies provided information on their current turnover, past and future investment, which formed the basis for classifying companies as stagnating (past and future investment less than 10% of current turnover), growing (past or future investment more than 10% of current turnover) and continuously growing (past and future investment more than 10% of current turnover).

On the export orientation dimension, companies provided information on whether they exported and the amount of exports as percentage of their total sales; companies were classified as having a high export orientation (more than 30% of sales are exports) or as having limited/no export orientation (less than 30% of sales are exports).

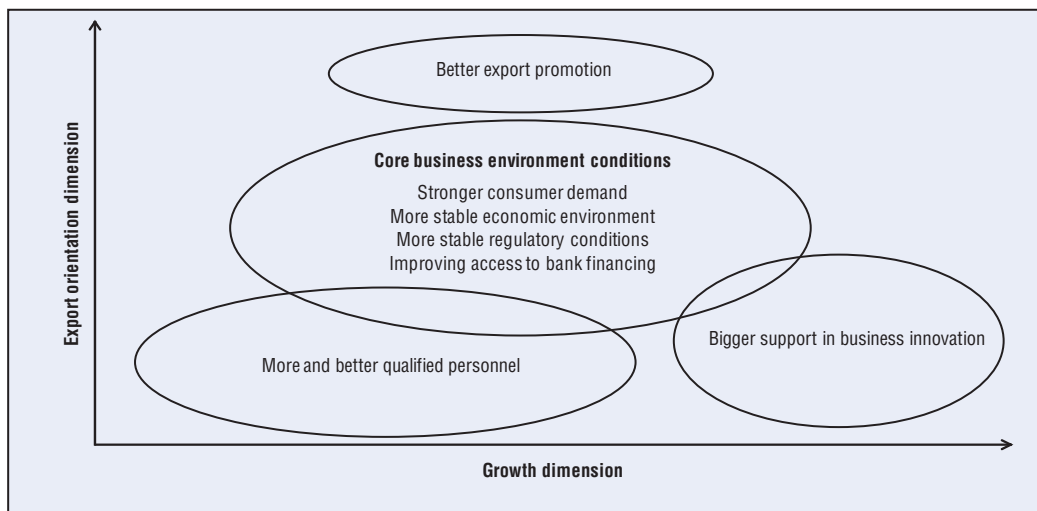
Table A1. **Sample grouping and key characteristics**

	Stagnating	Growing	Continuously growing
High export orientation	A1 (N = 71) Avg. years in operation: 18 Avg. employment: 82	A2 (N = 45) Avg. years in operation: 16 Avg. employment: 75	A3 (N = 60) Avg. years in operation: 17 Avg. employment: 49
Limited/no export orientation	B1 (N = 212) Avg. years in operation: 13 Avg. employment: 43	B2 (N = 75) Avg. years in operation: 15 Avg. employment: 37	B3 (N = 117) Avg. years in operation: 14 Avg. employment: 24

As Table A1 shows, there are clear differences in some of the key characteristics of six groups: on average, exported-oriented firms tend to have a longer track record of doing business, while the best growth performers tend to have fewer employees.

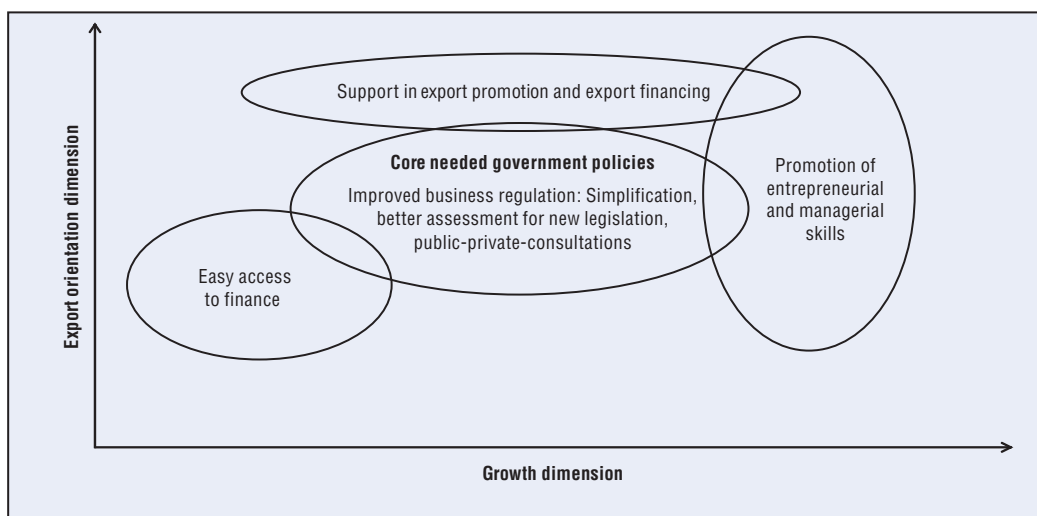
Figure A1 highlights the most important business environment conditions, as selected by the survey respondents. All six groups stress the importance of a core set of business conditions: stronger consumer demand, stable economic and regulatory environments and better access to bank financing. As expected, exporters stress the importance of better export promotion efforts. Non-exporters with a limited growth record indicate the need for more and better qualified personnel, while the top performers demanded greater support for business innovation.

Figure A1. **Most important business environment conditions**



The picture is similar when respondents indicated the government policies they needed most (Figure A2). All six groups nominated policies to improve business regulations as a priority need, while export-oriented companies mention policies supporting export promotion and policies for financial support. Stagnating and limited growth non-exporting

Figure A2. **Most needed government policies**



companies stress the importance of policies that improve access to finance. The top performing companies, regardless of their export orientation, highlight the importance of policies for entrepreneurial and managerial skills.

The survey results highlight that most often the perception of the performance of government policies is poor or fair (as summarised in Table A2). Across all six groups, policies dealing with improving business regulation are perceived to have performed fairly, while those related to access to finance through loans and credits are considered to have performed poorly.

When it comes to suggested improvements for these key government policies with one exception all responses highlighted either the need for better co-ordination or more financing. In particular, policies for improving business regulation and for promoting entrepreneurial learning require better coordination, while those dealing with easier access to loans and credits require more financing (as summarised in Table A2).

Table A2. Perceived government performance of and proposed improvements for the most needed policies

Sample Group A1	Sample Group A2	Sample Group A3
Support for export promotion and export financing Performance: fair Improve by: more financing	Support for export promotion and export financing Performance: fair Improve by: more financing	Support for export promotion and export financing Performance: fair Improve by: more financing
Improved business regulation Performance: fair Improve by: better co-ordination	Improved business regulation Performance: poor Improve by: better co-ordination	Improved business regulation Performance: fair Improve by: better co-ordination
Easy access to finance Performance: poor Improve by: more financing	Promotion of entrepreneurial and managerial skills Performance: fair Improve by: better promotion	Promotion of entrepreneurial and managerial skills Performance: fair Improve by: better co-ordination
Sample group B1	Sample group B2	Sample group B3
Improved business regulation Performance: fair Improve by: better co-ordination	Improved business regulation Performance: fair Improve by: better co-ordination	Easy access to finance Performance: poor Improve by: more financing
Easy access to finance Performance: poor Improve by: more financing	Easy access to finance Performance: poor Improve by: more financing	Improved business regulation Performance: fair Improve by: better co-ordination
Simpler procedures for business Performance: fair Improve by: better co-ordination	Promotion of entrepreneurial and managerial skills Performance: fair Improve by: better co-ordination	Promotion of entrepreneurial and managerial skills Performance: fair Improve by: more financing

ANNEX B

Overview of sub-national SBA assessment

In parallel to the 2011-12 SBA assessment process, a local SME policy evaluation – the Local Development Capacity Assessment (LDCA) – was conducted in the Western Balkan economies. The LDCA is a joint project between the European Commission's General Directorate for Enlargement and the Local Economic Development Programme of the OECD. This section provides a synthesis of the methodology as well as key findings and recommendations of the LDCA.

Overview

The Western Balkans have made remarkable progress in their reforms in recent years but much remains to be done, especially when it comes to improving local capacity to implement national policies or to design and implement place-specific strategies. The region needs stronger local capacity to manage change in order to improve competitiveness and address the socio-economic challenges it faces. Rapid restructuring and integration into a globalised economy have exacerbated traditional regional gaps and created new disparities: many previously prosperous heavily industrialised regions found themselves in decline whilst other areas rapidly advanced towards “new” prosperity. Unemployment remains high in most regions and the mismatch between skills and jobs hampers labour absorption and slows down business development.

This is where the joint project between the European Commission's General Directorate for Enlargement and the Local Economic Development Programme of the OECD comes in with a multi-annual effort to assess the local capacity to promote and sustain local economic development, in particular in the areas of skills and employment, entrepreneurship and SME development, social inclusion, and strategy making and delivery. A pilot approach by the Local Development Capacity Assessment project (www.oecd.org/ldca) is investigating how local economies perform in these areas and what are the main areas for improvement. The following municipalities were jointly selected with the governments of the Western Balkan economies for a pilot assessment:

Table B1. **Assessed municipalities in the Western Balkans**

Western Balkan economies	Counties and municipalities
Albania	Durres county with the municipalities of Durres and Kruja
Bosnia and Herzegovina	Tuzla county with the municipalities of Tuzla and Gracanica, and Bijelina municipality
Croatia	Osijek-Baranja county with the municipalities of Osijek and Beli Manastir
Kosovo	Prizren municipality
Montenegro	Bijelo Polje municipality
Former Yugoslav Republic of Macedonia	Stip municipality
Serbia	Kragujevac municipality

Methodology

In order to assess local capacities to promote entrepreneurship and SME development a framework of 102 indicators was built around the Small Business Act of the European Commission and the OECD Local Economic and Employment Development (LEED) review series, “Boosting Entrepreneurship”. The indicators measured either i) the extent of a certain policy or measure at the local level, ii) the accessibility by the target group, iii) time of practice, that is, how long a policy or measure has been implemented, or iv) how widely is a certain practice spread is over relevant institutions. A distinction was made between policies or measures that were nationally defined, such as for example the “availability of online registration services in the territory” or locally defined as the “frequency of public private consultations”.

Data collection happened through fully structured expert-conducted interviews. Possible relevant actors were categorised into the following eight actor groups:

1. Education office (*e.g.* School Board).
2. Education providers (ISCED 2-4).
3. University.
4. Research organisations.
5. Economic development offices (municipality, county).
6. Development agencies.
7. Business representative organisations.
8. Business support organisations.

Prior to the interviews, a selection of the most relevant actors narrowed down the group of institutions to be interviewed to approximately 20. The interviewees were in all cases either the director or an officially nominated substitute.

Multiple sources of information were used to establish the final score of an indicator. First, representatives from more than one group were interviewed on the same question, so that, for example, both the economic development offices in local government and business representative organisations would answer whether information related to public procurement is easily accessible. Once the interviewing process was completed the results for the different groups were reviewed and consolidated. The indicators were grouped into three macro areas: i) promoting entrepreneurship through education (covering secondary and higher education), ii) local support for entrepreneurship and SME development (covering general business support, business start-up support, innovation, internationalisation, greening SME activity, access to finance), and iii) public

administration and regulatory reform (covering the availability of data and strategies, e-governance, public procurement, and regulatory reform).

The policy analysis was complemented by a survey of firms conducted in each case study area (except for Prizren and Stip). The aim was for the survey to be representative but this was not achieved, as for the majority of cases the surveyed firms belonged either to chambers of commerce or came from previously surveyed samples. Only for Kragujevac municipality and Osijek Baranja county were the full spectrum of firms used as sampling frame. Despite this limitation, the sample of 223 firms provide interesting findings and indications about the perceived relevance of public support measures for achieving business priorities in the areas of innovation, internationalisation, financing, and workforce development. The survey also investigated whether any application for public support had been made in the territory where the firm was registered, in other words locally, or somewhere else in the economy, as well as whether the firm had applied to a public, private or international organisation.

The initial assessment results for the three macro areas were presented and discussed with interviewees at local stakeholders round tables held in case study areas (municipalities or counties) as well as at the national SBA assessment meetings held in each participating economy. The final results were validated by the SBA co-ordinators at their meeting held at the LEED Trento Centre for Local Development in February 2012.

Results and recommendations

There were initiatives to promote entrepreneurial thinking and action across secondary and higher education institutions in all case study territories, mostly as extra-curricular activities. These initiatives are often backed up by national strategies and dedicated policies and measures. A key area of future action in secondary education will be improving teacher training and the availability of teaching material – with consistency in terminology and learning objectives – as well as local actions to intensify exchange and networking activities amongst schools to enhance the use of teacher training and teacher material. In general, school-industry relationships, in the form of company visits, workshop based learning and internships, are weakly developed and often depend on single individuals without a proper institutional support framework. Universities have started to promote entrepreneurship, but more through education and less through making research results accessible for potential commercialisation. Some universities have established incubation facilities and strategic networks with other local support providers are emerging.

When it came to local support for entrepreneurship and SME development, the case study territories are all different in terms of their economic performance and respective support frameworks. The main findings for each of the general issues were:

General business support services are provided by representative organisations, and various private and public business support organisations. Chambers of Commerce and Trade have been a major actor in most case study territories, however their lobbying power and their role in delivering public support is diminishing due to moves towards voluntary affiliation and away from obligatory membership, lately also visible in Albania. Overall, the organisations interviewed and the firms surveyed perceived the range of locally offered business support services as limited.

Business start-up support measures are in practice directed towards low-technology start-ups with generally low growth potential. At the local level, business start-up support is not channelled or tailored to specific target groups, such as university graduates, researchers or academic expatriates. Also, support infrastructure for technology intensive business start-ups is scarce. Even where they exist, incubation facilities are not yet capable of providing advanced business advice, counselling and network facilitation. In general, these facilities are not linked with research and higher education institutions.

There is growing evidence of innovation activity at the firm level in all case study territories. On average one-third of the surveyed firms had substantially changed their products and/or their services or the way they produced and delivered their products or services. Only one-tenth had applied for and received public support for this, such as vouchers for consultancy services, subsidised wages for highly skilled labour or financial subsidies to purchase machinery and technology. Only one-third of all surveyed firms had ever collaborated with universities or research organisations in developing new services or products, as had only half of the firms that stated they had an innovation activity during the last twelve months. This result may partly be related to the fact that only three case study territories had research facilities with relevance for local growth sectors and with relations to local firms. Demand for accredited testing and calibration laboratories accessible to local firms was also unmet. Often, firms could only use such facilities in the capital city, which might mean relocating in the medium to long term. It is interesting to note that most of the local authorities interviewed stated that they appreciated innovation in public procurement tenders, which was also confirmed by the business representative organisations.

For almost half of the surveyed firms, internationalisation is an important part of their business strategy. However, this is not yet reflected in applications for public support. Less than one-tenth of these firms have ever applied for or received public support. Export promotion programmes were not available in all case study territories; local advisory services were scarce as well as information on European standards and market requirements.

Assisting the “greening” of SME activity is spreading as a practice amongst business representative and support organisations. However, there was no up to date information in some case study territories about requirements and incentives, such as for introducing environmental management systems. As with innovation, public procurement can play an important role in providing incentives for green business strategies and results. Two-third of the case study territories have local authorities that require or appreciate green standards in their procurement processes.

Two-thirds of the companies surveyed had used bank financing for company investments; only one-third stated they have never used it. A sector-specific analysis shows that for firms in manufacturing, mining and quarrying, bank loans were, after profits, the most used source of financing investments, whereas construction companies nearly as often relied on their own funds and money borrowed from friends and family as on banks. A similar situation can be observed for firms operative in wholesale, retail, accommodation and food.

ANNEX C

Small Business Act assessment framework

Table I. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded

Level 1	Level 2	Level 3	Level 4	Level 5	Weights	Level 1
Policy framework for entrepreneurial learning (EL)						3
1.1. Policy partnership	No structured co-operation between public, private and non-governmental sectors on EL.	An ongoing national dialogue with view to structured co-operation between public, private and non-governmental sectors on EL.	A national EL partnership has been established between public, private and non-governmental sectors to promote entrepreneurial learning.	State funds ensure the sustainable contribution of the EL partnership to national developments (<i>e.g.</i> administrative support, work plan, capacity development).	An EL partnership advises on a range of national strategies (education, employment, SME, R&D) and action plans.	1
1.2. Policy elaboration process	No evidence of clearly identifiable or articulated policy guidance available for the education and training sector on EL.	EL is recognised as a developing feature within education and training policy instruments.	Policy instruments specific to each level of the education and training system clearly identify EL as a priority development area with due reference to curriculum, teacher/trainer training and school governance.	EL policy linkages are clearly articulated in SME, employment and R&D policy documents.	National economic development plan includes a specific chapter on lifelong EL detailing specific and complementary objectives for the various parts of the EL framework.	1
1.3. Policy support resources	No systematic allocation of financial resources to support EL policy implementation.	Pilot project funds available (public and/or private) for EL developments (<i>e.g.</i> teacher training, teaching materials).	An ongoing dialogue between state authorities, private sector and philanthropic society for co-ordinated financial support for systemic lifelong EL.	National funds allocated for systemic EL development and detailed in annual education budgetary commitments.	Financial allocation for EL clearly identifiable within national education budget. National EL developments include financial commitment from public-private partnerships.	1
1.4. Monitoring and evaluation	No system in place to monitor and evaluate EL activities.	Baseline data is being collected on EL projects and is registered within a national database.	Documented evidence of evaluation of EL activity at each level of the education system.	An annual report is published and made available online detailing key developments in EL in the economy, including lessons learned and identification of good practice.	Recommendations from monitoring and evaluation of EL are integrated into further policy reforms and action plans.	1
1.5. Good practice exchange	There is no systematic exchange of good practice between lifelong EL providers.	A national network of lifelong EL providers meets on a regular basis to exchange good practice.	Examples of adapted EL good practice (domestic and/or international) are being piloted in the economy.	Results of domestic good practice are being disseminated nationally (at least one annual event).	Within the reporting period, at least one domestic good practice example has been transferred to another education and training environment in a neighbouring economy, European Union or beyond.	1
1.6. Non-formal learning	Examples of actions to promote non-formal EL (privately and/or publicly supported).	A working group monitors non-formal EL as part of the national EL strategy and advises on improvements.	Examples of agreements established between public authorities, enterprise, community groups or philanthropic organisations to develop entrepreneurial spirit and skills across society with particular reference to children and young people.	At least one annual, high-profile event at national level to promote awareness and information on broader EL (<i>formal and non-formal</i>) to showcase successful projects. High-profile event includes national recognition or awards for EL practice.	Transfer of know-how: principles or <i>practice</i> from at least 2 of the <i>non-formal</i> showcase projects from the previous year's high-profile event are integrated into other EL environments national or internationally.	1

Table I. **Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded (cont.)**

Level 1	Level 2	Level 3	Level 4	Level 5	Weights	Level 1
Lower secondary education (ISCED 2)¹						–
1.7. ISCED 2 organisation	Traditional teaching and learning environment prevails with little or no option for flexible teaching and learning arrangements conducive to promoting entrepreneurship as a key competence (such as opportunity identification, initiative, creativity, innovation and risk taking by pupils) within lower secondary schools.	Some evidence of more flexible teaching and learning arrangements conducive to promoting entrepreneurship as a key competence (such as opportunity identification, initiative, creativity, innovation and risk taking by pupils) within lower secondary schools. Evidence in some lower secondary schools of co-operation with local communities and enterprises reported in baseline data (monitoring and evaluation sub-indicator).	At least 5% of lower secondary schools engaged in flexible teaching and learning arrangements conducive to promoting entrepreneurship as a key competence (such as opportunity identification, initiative, creativity, innovation and risk taking by pupils) within lower secondary schools. This includes direct co-operation between the schools, local communities and local enterprises. Evidence for this level will be drawn from schools' Annual Reports (monitoring and evaluation sub-indicator).	Regulatory framework in place that provides for flexible teaching and learning arrangements which promote entrepreneurship as a key competence (such as opportunity identification, initiative, creativity, innovation, and risk taking by pupils) within lower secondary schools. This includes co-operation between lower secondary schools, local communities and local enterprises.	At least 50% of lower secondary schools meet the regulatory framework for flexible teaching and learning arrangements which promote entrepreneurship as a key competence (such as opportunity identification, initiative, creativity, innovation, and risk taking by pupils) within lower secondary schools. This includes direct co-operation between the schools, local communities and local enterprises. Evidence for this level will be drawn from schools' Annual Reports (monitoring and evaluation sub-indicator).	–
1.8. ISCED 2 entrepreneurship key competence	EL in lower secondary education is confined to <i>ad hoc</i> projects which are not part of mainstream education curricula.	EL in lower secondary education is confined to school-based individual initiatives which are known to the education authorities.	EL in lower secondary education comprises entrepreneurship key competence provisions as an integral feature of the national curriculum.	EL in lower secondary education comprises entrepreneurship key competence provisions of the national curriculum and is included in teaching plans of at least 25% of lower secondary schools. Evidence for this level will be drawn from schools' Annual Reports (monitoring and evaluation sub-indicator).	EL in lower secondary education comprises entrepreneurship key competence provisions of the national curriculum and is included in teaching plans of at least 50% of lower secondary schools. Evidence for this level will be drawn from schools' Annual Reports (monitoring and evaluation sub-indicator).	–
1.9. ISCED 2 learning environment	No EL materials, staff expertise or partnerships with local enterprise communities.	Evidence of development of entrepreneurial learning: a) teaching materials, b) teacher training which includes entrepreneurship as a key competence and c) school-enterprise co-operation agreements.	At least 5% of lower secondary schools have: a) entrepreneurial learning teaching materials, b) staff knowledge and skills for teaching entrepreneurship as a key competence, and c) school-enterprise co-operation agreements.	At least 25% of lower secondary schools have: a) entrepreneurial learning teaching materials, b) staff knowledge and skills for teaching entrepreneurship as a key competence, and c) school-enterprise co-operation agreements.	At least 50% of lower secondary schools have: a) entrepreneurial learning teaching materials, b) staff knowledge and skills for teaching entrepreneurship as a key competence, and c) school-enterprise co-operation agreements.	–

Table I. **Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded (cont.)**

Level 1	Level 2	Level 3	Level 4	Level 5	Weights	Level 1
Upper secondary education (ISCED 3)²						–
1.10. ISCED 3 organisation	Traditional teaching and learning environment prevails with little or no option for flexible teaching and learning arrangements conducive to promoting entrepreneurship as a key competence (such as opportunity identification, initiative, creativity, innovation and risk taking by pupils) and more specific business skills ³ within upper secondary schools.	Some evidence of more flexible teaching and learning arrangements conducive to promoting entrepreneurship as a key competence (such as opportunity identification, initiative, creativity, innovation, risk taking by pupils) and more specific business skills ³ within upper secondary schools. Evidence in some upper secondary schools of co-operation with local communities and enterprises reported in baseline data (monitoring and evaluation sub-indicator).	At least 25% of upper secondary schools engaged in flexible teaching and learning arrangements conducive to promoting entrepreneurship as a key competence (such as opportunity identification, initiative, creativity, innovation, risk taking by pupils) and more specific business skills. ³ This includes direct co-operation between the schools, local communities and local enterprises. Evidence for this level will be drawn from schools' Annual Reports (monitoring and evaluation sub-indicator).	Regulatory framework in place which provides for flexible teaching and learning arrangements conducive to promoting entrepreneurship as a key competence (such as opportunity identification, initiative, creativity, innovation, risk taking by pupils) and more specific business skills. ³ This includes direct co-operation between the schools, local communities and local enterprises.	At least 70% of upper secondary schools meet the regulatory framework for flexible teaching and learning arrangements conducive to promoting entrepreneurship as a key competence (such as opportunity identification, initiative, creativity, innovation, risk taking by pupils) and more specific business skills. ³ This includes direct co-operation between the schools, local communities and local enterprises. Evidence for this level will be drawn from schools' annual reports (monitoring and evaluation sub-indicator).	–
1.11. ISCED 3 entrepreneurial learning	EL in upper secondary education (entrepreneurship key competence and business skills ³) is confined to <i>ad hoc</i> projects which are not part of mainstream education curricula.	EL in upper secondary education (entrepreneurship key competence and business skills ³) is confined to school-based individual initiatives which are known to the education authorities.	EL (entrepreneurship key competence and business skills ³) is an integral feature of the national curriculum which specifies entrepreneurship key competence and elective EL subjects.	EL (as a key competence and business skills ³) is included in teaching plans of at least 50% of upper secondary schools. Evidence for this level will be drawn from schools' annual reports (monitoring and evaluation sub-indicator).	EL (as a key competence and business skills ³) is included in teaching plans in at least 70% of upper secondary schools. Evidence for this level will be drawn from schools' annual reports (monitoring and evaluation sub-indicator).	–
1.12. ISCED 3 learning environment	No EL materials, staff expertise or partnerships with local enterprise communities.	EL teaching materials and teacher training under development by way of strategic pilots which include structured co-operation between upper secondary schools and local enterprise.	At least 25% of upper secondary schools are employing EL teaching material, with staff trained for entrepreneurship key competence and business skills. The schools have structured partnerships with enterprise.	At least 50% of upper secondary schools employ EL teaching materials, with staff trained for entrepreneurship key competence and business skills development. The schools have structured partnerships with enterprise.	At least 70% of upper secondary schools are employing EL teaching material, with staff trained for entrepreneurship key competence and business skills development. The schools have structured partnerships with local enterprise.	–

Table I. **Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded (cont.)**

Level 1	Level 2	Level 3	Level 4	Level 5	Weights	Level 1
Tertiary education (ISCED 5&6)						
1.13. National higher education policy on entrepreneurial learning	There is no discussion amongst key stakeholders (rectors, national education authorities, R&D community and enterprise) on promotion of the “cross campus” concept of entrepreneurial learning.	<p>A higher education policy discussion paper has been elaborated by the education ministry for the purposes of promoting understanding amongst key stakeholders of the value of “cross campus” entrepreneurial learning for students, tertiary education establishments and the local, regional and national economy.⁴</p> <p>The higher education policy discussion paper includes provisions for promoting equal opportunities for university staff and students in all entrepreneurial learning developments.</p> <p>The higher education policy discussion paper forms part of a wider national effort to promote lifelong entrepreneurial learning defined within a national lifelong entrepreneurial learning strategy.⁵</p>	A national seminar organised by the education ministry or national academic body and involving key stakeholders is held annually a) review progress within third level education on “cross campus” developments in entrepreneurial learning and b) to generate further policy discussion and policy guidelines on “cross campus” entrepreneurial learning within third level education. ⁶	A network of universities co-operate to determine feasibility of the policy guidelines on “cross campus” entrepreneurial learning within tertiary education. Experience from the network is disseminated amongst government, academic institutions and business world.	A national higher education policy, with clear provisions for promoting equal opportunities ⁷ has been agreed amongst key stakeholders for promotion of “cross campus” entrepreneurial learning within tertiary education. The agreed policy includes a monitoring and evaluation component that a) ensures an annual review of key activities and b) recommended improvements to be addressed in the 12 months following the national seminar (level 3).	3
1.14. Good Practice in higher education	There is no systematic effort to identify, build on or exchange good practice on a) entrepreneurial learning and b) university-enterprise co-operation between institutions of higher education in the economy.	At least one national event involving higher education institutions has been held in the 12 months prior to the assessment with the objective of exchanging information about good practice on a) entrepreneurial learning and b) university-enterprise co-operation between institutions of higher education in the economy.	A national network of higher education institutions exchanges information about good practice on a) entrepreneurial learning and b) university-enterprise co-operation between institutions of higher education in the economy. The network has agreed a set of criteria for determining good practice on a) entrepreneurial learning and b) university-enterprise co-operation.	Good practice in a) entrepreneurial learning (defined by level 3 criteria) and b) university-enterprise co-operation is disseminated by the network nationally. Dissemination methods include a website facility to promote good practice to the wider public. Examples of “Level 3” good practice within higher education institutions are adopted or adapted by fellow higher education institutions in the economy. The network has agreed guidelines to measure and evaluate the impact of “Level 3” good practice.	Examples of “Level 3” good practice are disseminated internationally. Examples of good practice are adopted or adapted by higher education institutions at the international level. ⁸ The national network of higher education institutions has joined an international network of entrepreneurial universities which ensures evaluation, accreditation and dissemination of good practice on a) entrepreneurial learning and b) university-enterprise co-operation between institutions of higher education in the economy.	1

Table I. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded (cont.)

Level 1	Level 2	Level 3	Level 4	Level 5	Weights	Level 1
1.15. Higher education co-operation with the world of business	There is no discussion amongst key stakeholders ¹⁰ on promotion of higher education co-operation with the business world. ¹⁰	A discussion paper ¹¹ on co-operation between the higher education establishment and business has been elaborated and discussed by stakeholders (<i>e.g.</i> at a workshop, conference, seminar). The paper includes the contribution of business to curricula, governance structures and university financing. The paper forms part of a wider national effort to promote lifelong entrepreneurial learning defined within a national lifelong learning strategy. ¹⁰	A national policy on co-operation between higher education and business world has been approved by key stakeholders. The policy defines the contribution of business to curricula, governance structures and university financing and includes a national monitoring and evaluation framework. Set against national policy, at least 50% of higher education institutions have developed strategies for co-operation with business.	At least 50% of higher education institutions have developed action plans for implementation of national policy for higher education-business co-operation. In the reporting period, an annual meeting involving the higher education establishment and world of business has been held <i>a)</i> to review progress on national policy with <i>b)</i> recommendations for improvements to be addressed in the 12 months following the national annual meeting.	At least 75% of higher education institutions have developed action plans for implementation of national policy for higher education – business co-operation. In the reporting period, an annual meeting involving the higher education establishment and world of business has been held <i>a)</i> to review progress on national policy with <i>b)</i> recommendations for improvements to be addressed in the 12 months following the national annual meeting.	2
Women's entrepreneurship						3
1.16. Policy support framework for promotion of women entrepreneurship	Fiscal, economic, employment, social, and education and training policies are not gender-sensitive. No structured dialogue between government and stakeholders, ¹² or institutional support structures, in place to promote policies and measures for women entrepreneurship. No data framework for an integrated policy environment (fiscal, economic, employment, social, education and training), essential for promoting women entrepreneurship, is in place.	Government and key stakeholders have engaged in a policy reflection process with the objective of setting up a co-ordinated and mutually reinforcing gender-sensitive policy environment to improve women entrepreneurship. Policy reflection process includes analysis and options to maximise the interface and synergies between national fiscal, economic, employment, social and education and training policies. Draft regulatory fiscal, economic, employment, social and education and training policies are being reviewed for gender sensitivity. Policy improvement recommendations have been defined for ensuring gender sensitivity within fiscal, economic, employment, social and education and training policies for more developed women entrepreneurship	A women entrepreneurship policy framework incorporating the gender-sensitive policy improvements (level 2) has been approved by government and key stakeholders. A medium-term action plan with clearly defined measures for each of the policy areas (fiscal, economic, employment, social and education and training) to include a women entrepreneurship consultation forum and information and networking measures has been approved by government and key stakeholders. Government offices responsible for policies (fiscal, economic, employment, social and education and training) supporting women entrepreneurship have <i>each</i> committed annual budget to follow through on planned actions for policy implementation. A dedicated institutional support structure oversees <i>a)</i> the implementation of the gender-sensitive fiscal, economic, employment, social and education and training policies, <i>b)</i> collects data for the respective policy areas and <i>c)</i> reports annually to all stakeholders on policy progress with an action plan.	In the reporting period, each of the government offices responsible for their respective policy areas (fiscal, economic, employment, social and education and training) has demonstrated progress in the implementation of measures as defined in the action plan. Government funding is available for implementation of the measures for each of the policy areas (fiscal, economic, employment, social and education and training).	A national policy and support framework for women entrepreneurship is fully established with a rolling work programme with financial support from each of the government offices responsible for each of their respective policy areas (fiscal, economic, employment, social and education and training). The framework includes evidence-based monitoring and evaluation arrangements with clear reporting lines on each policy area (fiscal, economic, employment, social and education and training) by the respective government offices. On an annual basis, government offices with responsibility for each of the policy areas (fiscal, economic, employment, social and education and training) along with key stakeholders <i>a)</i> review progress and constraints on each of the respective policy areas using data and other evidence available, <i>b)</i> determine policy improvement points and <i>c)</i> agree on measures for implementation in the subsequent 12 months.	1

Table I. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded (cont.)

Level 1	Level 2	Level 3	Level 4	Level 5	Weights	Level 1
1.17. Training	<p>No gender-sensitive system solution available for strategically promoting women entrepreneurship training.</p> <p><i>Ad hoc</i> gender-sensitive training and follow-up business development services¹³ are available.</p>	<p>Cross-stakeholder task force (education, economy, labour, chambers, employers, NGOs) established with mandate to build gender-sensitive system approach for women entrepreneurship training: a) self-employment, b) start-ups and c) enterprise growth for women-registered enterprises. The task force has a mutually-agreed and dedicated co-ordinator.</p> <p>Stock take of women entrepreneurship training has been undertaken. The stock take a) includes a policy review and gender-sensitivity assessment, b) identifies existing data available, c) details key training activities and d) provides an inventory of entrepreneurship training providers which have women as a specific target group.</p>	<p>A national information campaign involving key entrepreneurship advocacy organisations (<i>e.g.</i> chambers, ministerial public information services, NGOs) has been launched with the aim of creating awareness of the potential of improved training services for women entrepreneurship.</p> <p>An economy-wide training needs analysis (sampling method) has been completed and addresses training interests and training requirements of women entrepreneurs and potential women entrepreneurs.¹⁴</p> <p>Based on the training needs analysis, capacity-building is underway for training providers which have women as a specific target group and which focuses on training methods.</p>	<p>In the reporting period, of the total training and follow-up business development services in the economy, at least:</p> <ul style="list-style-type: none"> • 10% of those trained for self-employment or who have engaged business development services specifically promoting self-employment have been women. • 5% of those trained for enterprise start-ups have been women. • 10% of enterprises which have engaged training and follow-up business development services have been women-owned enterprises. • 5% of enterprises which have engaged training and follow-up business development services for enterprise growth purposes have been women-owned enterprises. 	<p>In the reporting period, of the total training and follow-up business development services in the economy, at least:</p> <ul style="list-style-type: none"> • 25% of those trained for self-employment or who have engaged business development services specifically promoting self-employment have been women. • 15% of those trained for enterprise start-ups have been women. • 20% of enterprises which have engaged training and follow-up business development services have been women-owned enterprises. • 10% of enterprises which have engaged training and follow-up business development services for enterprise growth purposes have been women-owned enterprises. 	1
1.18. Financing	<p>No specific financial support instruments for women entrepreneurship.</p> <p>Fiscal regulations have no specific provisions for promoting women entrepreneurship.</p> <p>No data on access to finance by women entrepreneurs and potential women entrepreneurs is available.</p>	<p>Discussions ongoing for future provision of governmental funds for women entrepreneurship.</p> <p>Preparations ongoing to ensure greater flexibility of credit guarantee facilities for access by women entrepreneurs and potential women entrepreneurs.</p> <p>Data on access to finance takes account of women entrepreneurs and potential women entrepreneurs.</p>	<p>Agreement has been reached at the national level on governmental budgetary support for women entrepreneurship, including agreed procedures for access to funding.</p> <p>At least 20% of the national budget allocated to support entrepreneurship in the economy goes to women entrepreneurs.</p> <p>Provisions of the credit guarantee facilities are sufficiently flexible to accommodate women entrepreneurs' requests.</p> <p>Structured data on access to finance by women entrepreneurs and potential women entrepreneurs is available for policy monitoring purposes.</p>	<p>Government funding to support women entrepreneurship is allocated annually.</p> <p>Information on the funding opportunities is widely distributed in the economy and easily accessible by women entrepreneurs and potential women entrepreneurs.</p> <p>At least 25% of the national budget allocated to support entrepreneurship in the economy goes to women entrepreneurs.</p>	<p>Both mutual and mixed credit guarantee schemes have the necessary flexibility for access to finance by women entrepreneurs and potential women entrepreneurs.</p> <p>At least 30% of the national budget allocated to support entrepreneurship in the economy goes to women entrepreneurs.</p>	1

Table I. **Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded (cont.)**

Level 1	Level 2	Level 3	Level 4	Level 5	Weights	Level 1
1.19. National network of women entrepreneurs	No national network for women entrepreneurs. No regular information on good practice on women entrepreneurship.	A national network of women entrepreneurs has been established. Examples of good practice in women entrepreneurship have been collected by the network.	The national network of women entrepreneurs supports a web-based, good practice information system. An annual report on women entrepreneurship in the economy is published by the network for women entrepreneurs and is based on <i>a)</i> data available from government sources and <i>b)</i> information from the network. The network is a recognised dialogue partner for government and other stakeholders in relation to women entrepreneurship policies, advocacy and policy support measures.	At least one national event which reviews policy and good practice has taken place in the reporting period, with high-level press-coverage in both print and electronic media. The network plays the role of a consultation forum in the policy development process and in the reporting period it has provided reports to government and other stakeholders on progress in the implementation of <i>a)</i> national policies and <i>b)</i> measures to support women entrepreneurship.	The national network of women entrepreneurs has been directly consulted in the reporting period on all women entrepreneurship developments (national policies and medium-term action plan) as part of the national monitoring and evaluation process. The network has participated in the reporting period, in good practice exchange at international level on activities addressing women entrepreneurship.	1

- Indicators for lower secondary education (ISCED 2) are particularly concerned with promoting teaching and learning arrangements which will contribute to entrepreneurial mindsets and behaviour (curiosity, creativity, autonomy, initiative, team spirit) in keeping with the recommendations of the EU's Oslo Agenda.
- This indicator is particularly concerned with promoting teaching and learning arrangements which will contribute to entrepreneurial mindsets and behaviour (curiosity, creativity, initiative, team spirit) in keeping with the recommendations of the EU's Oslo Agenda.
- At ISCED Level 3 education, entrepreneurship as a key competence should continue to be an integral part of the national curriculum reinforcing the contribution made at ISCED Level 2. At ISCED level 3, the entrepreneurship key competence could be supplemented with harder business skills (*e.g.* business planning, start-up training, marketing, book-keeping) developed through business-related studies as a compulsory or as an elective subject within the curriculum.
- The policy discussion paper is upgraded annually borrowing on key developments on entrepreneurial learning within the country, including good practice (national and international).
- The policy discussion paper builds on the broader life-long entrepreneurial learning policy developments foreseen within the indicator specifically addressing entrepreneurship across all levels of education.
- Policy guidelines address: university leadership, curriculum, teaching and learning process, staff development, university/enterprise co-operation, stakeholder engagement and entrepreneurial learning support structures (*e.g.* incubators, technology transfer centres, centres for entrepreneurship).
- Equal opportunities promotion addresses women and men, people with special needs and minorities.
- This criterion excludes third level institutions which deliver courses outside of the home country. The criterion specifically encourages know-how transfer between different third level education institutions. Know-how transfer between affiliate institutions would satisfy this criterion.
- Key stakeholders include ministries responsible for higher education, industry, economy, trade, rectors' conference, civic interest groups.
- Co-operation between the higher education and business includes the following elements:
 - Business to university co-operation:* 1. Business men and women are encouraged to teach at universities; 2. Business finances applied research; 3. Business is involved in research, piloting and development of curriculum; 4. Business is involved in the governance of the universities; 5. Business co-operates in student projects, hosts interns and university staff placements.
 - University to business co-operation:* 1. Academic staff directly involved in business activities; 2. Options for universities to invest in businesses; 3. Options for universities to sell patents and licensing; 4. Universities provide customised education and training services to businesses; 5. Universities undertake applied research; 6. Universities provide support structures (*e.g.* incubators, technology transfer centres, centres for entrepreneurship), etc.
- The policy discussion paper builds on the broader life-long entrepreneurial learning policy developments foreseen within the indicator specifically addressing entrepreneurship across all levels of education.
- Government includes ministries responsible for fiscal, economic, employment, social and education and training policies. Stakeholders include Chambers of Economy, employers' organisations, trade unions, civic interest groups.
- Training refers to all activities where women are able to learn about enterprise start-ups, management and development provided by public and private sector training organisations. Follow-up "business development services" refer to any support activity which follows the training and where women's competences are improved (*e.g.* coaching, mentoring, advisory support, workshops, etc.).
- This indicator should be linked to the TNA indicator which features in Principle VIII of the Small Business Act.

Table II. **Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance**

	Level 1	Level 2	Level 3	Level 4	Level 5	Weights
Bankruptcy procedures						2
2.1. Laws and procedures on distressed companies, receivership and bankruptcy	No specific laws and/or other procedures on distressed companies, receivership and bankruptcy.	Distressed company, receivership and bankruptcy laws and/or procedures in draft stage.	Distressed company, receivership and bankruptcy laws and/or procedures formally in place. Legislation not systematic and at an early stage of implementation.	Evidence of implementation of distressed company, receivership and bankruptcy laws and/or procedures in line with international standards and fully integrated in and consistent with commercial law and practice. Backlog of old cases has been reduced. Bankruptcy procedures also apply to state-owned enterprises.	Distressed company, receivership and bankruptcy laws and/or procedures effectively and systematically applied in a transparent way. Bankruptcy procedures also apply to state-owned enterprises. There is ample evidence for this.	2
2.2. Bankruptcy Time (DB indicator)¹	Bankruptcy time is more than four years.	Bankruptcy time is more than three years but less than four years	Bankruptcy time is more than two years but less than three years	Bankruptcy time is more than one year but less than two years	Bankruptcy completed within a year	1
2.3. Cost (% of the estate) (DB indicator)¹	Costs are more than 25% of the estate.	Costs are more than 20% but less than 25% the estate.	Costs are more than 15% but less than 20% of the estate.	Costs are more than 8% but less than 15% of the estate.	Less than 8% (8.4% is the average of the OECD countries).	1
2.4. Recovery rate (cents on the dollar) (DB indicator)¹	Recovery rate is less than 25% of the estate.	Recovery rate is less than 40% but more than 25% of the estate.	Recovery rate is less than 55% but more than 40% of the estate.	Recovery rate is less than 70% but more than 55% of the estate.	More than 70% (68.6% is the average of the OECD countries).	1
Second chance²						1
2.5. Promoting positive attitude towards giving entrepreneur a fresh start	The public administration has no information campaign on second chance.	A package of measures to promote second chance is under preparation.	Information campaigns are in place on second chance.	Information campaigns are in place on second chance and some measures to help entrepreneurs start afresh (information on procedures, training, etc.)	Information campaigns on second chance and well-developed measures to help entrepreneurs start afresh (information on procedures, training, etc.) are in place.	1
2.6. Discharge from bankruptcy	Discharge from bankruptcy is not determined.	The discharge procedures are under consideration.	Discharge procedures have been adopted in line with the Review of the Small Business Act (European Commission).	Discharge from bankruptcy is done after final court decision on the discharge from bankruptcy and removal from court register.	Discharge from bankruptcy is done automatically and does not take longer than 3 years. Removal from bankruptcy register is done automatically after all payment of all obligations.	1
2.7. Access to credit	Entrepreneurs who underwent bankruptcy procedures cannot receive loans and support from institutions even after the debt clearance.	Entrepreneurs who underwent non-fraudulent bankruptcy can receive loans and support from institutions only after debt clearance and three years after bankruptcy procedures were completed. De-registration from the insolvency register is not automatic.	Entrepreneurs who underwent non-fraudulent bankruptcy can receive loans and support from institutions only after debt clearance and after two years of bankruptcy. De-registration from the insolvency register is not automatic.	Entrepreneurs who underwent non-fraudulent bankruptcy can receive loans and support from institutions only after debt clearance and after one year of bankruptcy.	Entrepreneurs who underwent non-fraudulent bankruptcy can receive loans and support from institutions in less than one year. De-registration from the insolvency register is automatic.	1
2.8. Discrimination against restarters	Attitude towards entrepreneurs starting afresh is not determined.	Entrepreneurs starting afresh have administrative barriers to restarting business.	There are no administrative barriers to restarting business, but they cannot participate in public procurement or benefit from support schemes.	In the access to public procurement there are no discriminatory provisions for entrepreneurs who underwent non-fraudulent bankruptcy.	In the access to public procurement and the support schemes there are no discriminatory provisions for entrepreneurs who underwent non-fraudulent bankruptcy.	1

1. The response to this indicator should be based on *Doing Business Report*.2. See http://ec.europa.eu/enterprise/policies/sme/business-environment/failure-new-beginning/index_en.htm..

Table III. Design rules according to the “think small first” principle

	Level 1	Level 2	Level 3	Level 4	Level 5	Weights
Institutional framework						3
3.1. SME definition	No definition for SMEs exists.	A law to define SMEs is under preparation.	Different definitions for SMEs are used by different public authorities.	Consistent definitions of SMEs are used in all legislation and take into account adequate variables (at least the employment size criteria).	SMEs are defined by the same criteria as the definition for EU members at least in terms of employment size (and in the type of enterprises taken into consideration in calculating staff numbers and financial amounts).	1
3.2. Inter-governmental co-ordination in policy elaboration	No institution is responsible for SME policy elaboration.	Several institutions are responsible for SME policy elaboration and they have overlapping portfolios and limited co-ordination.	Approval for establishment of a single institution in charge of leading and co-ordinating SME policy elaboration.	Single institution in charge of SME policy elaboration in place and fully operational. System of consultation with the implementing agency or agencies is in place.	Level 4 plus an effective mechanism of policy co-ordination involving key ministries, agencies and local administrations, for example by nominating an SME envoy, when relevant.	3
3.3. SME development strategy¹	No SME development strategy exists.	SME development strategy is under elaboration. Review of expired SME strategy under way.	Multi-year SME development strategy for current period is approved by the government and at initial stage of implementation. Budget established but entirety of funds not yet received.	Solid evidence of implementation of the SME development strategy with indication of key targets achieved and assignments completed. Entirety of funds received and in process of being disbursed.	A proactive SME development strategy accompanied by significant evidence that all components of the strategy have been implemented, as demonstrated by time-bound targets achieved and number of assignments completed. SME strategy has a demonstrated impact and has strengthened the SME sector.	3
3.4. SME policy implementation agency or equivalent	No SME policy implementation agency with an executive role (or equivalent) exists.	Government considering the establishment of an SME policy implementation agency (or equivalent).	SME implementation agency (or equivalent) established. Staff, structure and budget in place. Range of output to be covered by agency being drafted.	SME implementation entity fully operational and covers a range of activities with measurable outcomes. Staff is complete and the required expertise (economic and legal) is in place. Solid implementation record of SME strategy based on achievements of time-bound targets as detailed in action plan.	SME implementation entity is the main body for implementation of the SME strategy, operating with full political support. The entity has a clear reporting system in place and a recognised advocacy and policy advice role. The entity is well-funded, wide-reaching, and its activities have proven to be effective in supporting SME development with measurable outcomes.	3
3.5. Measures to tackle the informal economy	No measures in place to systematically tackle the informal economy.	Plan in preparation to tackle the informal economy.	Plan to tackle the informal economy has been adopted after inter-ministerial and stakeholder consultation. Action plan defined.	There is evidence that elements of this plan have been implemented.	Implementation well advanced and monitoring systems in place to measure the impact of the plan.	2

Table III. Design rules according to the “think small first” principle (*cont.*)

	Level 1	Level 2	Level 3	Level 4	Level 5	Weights
Legislative simplification and elimination and regulatory impact analysis (RIA)						2
3.6. Review and simplification of current legislation	There are no plans to review and simplify current primary or secondary business related legislation with an impact on SMEs.	There has been <i>ad hoc</i> activity to carry out the simplification of regulations, but no concrete plan exists yet.	A concrete plan to review and simplify business-related legislation with an impact on SMEs has been approved and institutions in charge have been identified.	Implementation of the plan to review and simplify business related legislation with an impact on SMEs is ongoing.	Legislative review well-advanced and extended to secondary legislation.	3
3.7. Legislative guillotine	There are no plans to reduce legislation related to SMEs.	There has been <i>ad hoc</i> activity to carry out elimination of redundant and obsolete legislation and regulations, but no concrete plan exists yet.	A concrete plan to carry out systematic elimination of redundant business-related legislation and regulations with an impact on SMEs has been approved and institutions in charge have been identified.	Regulatory guillotine process has started and has successfully eliminated the redundant regulations in primary business-related legislations.	Regulatory guillotine process well advanced and extended to secondary business-related legislation with an impact on SMEs.	3
3.8. Use of regulatory impact analysis (RIA)	No systematic regulatory impact analysis exists.	Proposal for a law on RIA exists. A simplified, pilot RIA programme is being used in certain areas of regulation.	Approval of law on RIA. The RIA applied is limited in scope and is restricted to simplistic techniques (<i>e.g.</i> inter-ministerial meetings, consultation with interested parties). There is no preceding analysis on what technique is most applicable and the RIA process is poorly structured.	Implementation of RIA in some areas. There is some evidence that the outcomes of the RIA have been used to change or cancel legislation.	RIA is systematically implemented. There is ample evidence that the outcomes of RIA have been used to change or cancel legislation. RIA is also applied <i>ex-post</i> to measure the impact of legislation during the implementation stage.	3
3.9. The SME test²	SME aspects are not considered under RIA.	There is a pilot project on the SME test.	There is a formal requirement to examine SME aspects in business-related legislation.	The SME test is implemented on a limited number of pieces legislation.	The SME test is systematically applied and there is ample evidence that the outcomes of RIA have been used to change or cancel legislation.	1

Table III. Design rules according to the “think small first” principle (*cont.*)

	Level 1	Level 2	Level 3	Level 4	Level 5	Weights
Public-private consultations (PPCs)						2
3.10. Frequency and transparency of PPCs	Consultation between the public and private spheres occur sporadically/ <i>ad hoc</i> .	Proposals have been made to establish a structure/framework for public-private consultation.	Regulation(s) has/have been adopted which stipulate(s) regular consultation between public and private spheres including with SME associations.	Consultations involving key actors from the public and private sector take place on a quarterly basis. The private sector is responsible for designing part of the agenda independently and can call for an exceptional meeting several times per year when deemed necessary. A detailed record of the meetings is kept.	Level 4 plus the consultations take place on a monthly basis or more. Documents are made available by the government at least eight weeks prior to making any legislative and administrative proposal to parliament that has an impact on businesses. The outcome of meetings and decisions is announced on government websites. Communiqués and meeting minutes are widely accessible (<i>e.g.</i> published on a website).	1
3.11. Formal influence of PPCs	PPCs take the form of unstructured debates between the public and private sector.	Level 1 plus the private sector has the opportunity to give formal recommendations on the issues discussed.	Level 2 plus the private sector has the opportunity to formally comment on draft SME legislation in those meetings.	Level 3 plus there is ample evidence that the comments on draft legislation are integrated, and the private sector can suggest own initiative draft laws or measures on SME policy.	Level 4 plus there is ample evidence that suggestions on own initiative draft laws or measures from the private sector have been realised.	1
3.12. Representativity of PPCs	Few, randomly selected companies are invited to the PPCs. The access to the PPCs is thus restricted and there is no system of disseminating the information about upcoming PPCs to the private sector.	Invitations to the PPCs are targeted, but mainly to big and influential companies and selected associations. Some attempts are made to inform the private sector about upcoming PPCs (<i>e.g.</i> announcements on government website) but access is still restricted.	Invitations to the PPCs are targeted to selected companies and associations but information about upcoming PPCs is publicly available and registration is open to interested participants.	Invitations to the PPCs are distributed to a wide range of companies and independent private sector associations which have been mandated by the private sector to represent the interests of the business community across different sectors.	The PPCs consist of a forum that is broadly representative of the private sector and includes the SME community (different sectors, different company sizes, chambers of commerce, etc.). Comprehensive and widely accessible structures are in place to inform the private sector about upcoming PPCs.	1

1. “Strategy” refers to any official document guiding SME and enterprise policy action.

2. See http://ec.europa.eu/enterprise/policies/sme/small-business-act/sme-test/index_en.htm.

Table IV. **Make public administration responsive to SMEs**

	Level 1	Level 2	Level 3	Level 4	Level 5	Weights
4.1. Company registration						
Issuing of company registration certificate						2
4.1.1. Number of days	Registration takes more than 30 days.	Registration takes more than 15 days, but less than 30 days.	Registration takes more than 5 days, less than 15 days.	Registration takes less than 5 days, but more than 1 day.	Registration in 1 day.	1
4.1.2. Number of administrative steps	Registration requires more than 10 administrative steps.	Registration requires 8-9 administrative steps.	Registration requires 5-7 administrative steps.	Registration requires 2-4 administrative steps.	Registration requires only 1 step.	1
4.1.3. Official cost	More than EUR 250.	Less than EUR 250, more than EUR 150.	Less than EUR 150, more than EUR 50.	Less than EUR 50, more than EUR 10.	Less than EUR 10.	2
Company Identification Numbers						1
4.1.4. Administrative identification numbers in dealing with the public administration	Five registrations and identification numbers needed to deal with different administrative authorities (statistical office, customs, labour office, tax office, etc.).	Four identification numbers needed to deal with different administrative authorities. Some registrations merged.	Three identification numbers needed to deal with different administrative authorities. Half of registrations merged.	Two identification numbers needed to deal with different administrative authorities. Most registrations merged.	Single identification number needed to deal with all standard functions of public administration – single registration process.	1
Completion of the overall registration process and entry in operations						1
4.1.5. Number of days¹	Registration takes more than 30 days.	Registration takes more than 15 days, but less than 30 days.	Registration takes more than 5 days, less than 15 days.	Registration takes less than 5 days, but more than 1 day.	Registration takes 1 day.	1
4.1.6. Costs connected with registration (% of GNI <i>per capita</i>)¹	Costs are more than 10% of GNI <i>per capita</i> .	Costs are between 5% and 10% of GNI <i>per capita</i> .	Costs are between 2.5% and 5% of GNI <i>per capita</i> .	Costs are below 2.5% of GNI <i>per capita</i> .	Costs are minimal (close to 0% of GNI <i>per capita</i>).	2
4.1.7. Minimum capital requirements (% of GNI <i>per capita</i>)¹	More than 40% of GNI <i>per capita</i> .	Between 20% and 40% of GNI <i>per capita</i> .	Between 10% and 20% of GNI <i>per capita</i> .	Less than 10% of GNI <i>per capita</i> .	No minimum capital requirements for general partnerships with personal liability.	2
Tools for further simplification						1
4.1.8. Progression to one-stop-shop (OSS)	There are no plans to introduce one-stop-shop (OSS) for company registrations.	Legislation is in drafting stage to establish OSS for company registration and there are plans to adopt legislation.	The necessary legislation and budgetary provisions to establish an OSS for company registration has been approved.	OSS for business registration operates on the basis of multiple windows in one location or with a limited geographic scope.	OSS for registration is operational with a proven track record and extensive geographic scope. OSS completes all necessary registration and notification procedures in one window (one step).	
4.1.9. Online registration	The government has not taken any steps towards the introduction of online registration.	Evaluation of existing administrative procedures and detailed proposals for the introduction of online registration. Budget provisions and pilot project.	Law on online registration, action plan and budget provisions approved. Designation of competent authority.	Level 3 plus solid evidence of implementation of online registration; system available only in some regions.	Level 4 plus complete implementation of online registration; system fully integrated with other services of e-government and available throughout the economy. Online registration applies to all phases of the company registration process.	

Table IV. **Make public administration responsive to SMEs** (cont.)

	Level 1	Level 2	Level 3	Level 4	Level 5	Weights
4.1.10. Silence-is-consent principle	The principle is not used in standard administrative practice.	Evaluation of current procedures and detailed proposals on the introduction of the silence-is-consent principle.	Approval of law on silence-is-consent.	Solid evidence of implementation of the silence-is-consent principle in key areas/sectors of the administration.	Full implementation and widespread use of the principle in many areas/sectors of the administration. Regular reviews (involving business sector) to identify new areas where the principle could be adopted.	
Craft registration						2
4.1.11. Number of days for obtaining craft registration certificate	Registration in more than 30 days.	Registration takes more than 15 days, but less than 30 days.	Registration takes more than 5 days, less than 15 days.	Registration takes less than 5 days, but more than 1 day.	Registration in 1 day.	3
4.1.12. Number of administrative steps for obtaining the craft registration certificate	Registration requires more than 10 administrative steps.	Registration requires 8-9 administrative steps.	Registration requires 5-7 administrative steps.	Registration requires 2-4 administrative steps.	Registration requires 1 administrative step.	2
4.1.13. Official cost of obtaining the craft registration certificate	More than EUR 250.	Less than EUR 250, more than EUR 150.	Less than EUR 150, more than EUR 50.	Less than EUR 50, more than EUR 10.	Less than EUR 10.	1
4.2. Interaction with government services (e-government)						
E-government services						2
4.2.1. Tax returns	Tax returns can not be filed online.	Government is considering proposals to allow for online filing of tax returns. Pilot project.	Approval of legislation and budgetary provisions. Development of software.	Early phase of implementation. Tax returns can be filed online, but the software allows only for a limited number of operations.	Level 4 plus the software allows for credit/debit compensation when available in the economy.	2
4.2.2. Social security returns	Social security returns can not be filed online.	Government is considering proposals to allow for online filing of social security returns. Pilot project.	Approval of legislation and budgetary provisions. Development of software.	Early phase of implementation. Social security returns can be filed online, but the software allows only for a limited number of operations.	Level 4 plus the software allows for credit/debit compensation when available in the economy.	2
4.2.3. Extension to other services (pensions, procurement, cadastre, etc.)	Other services can not be filed online.	Government is considering proposals to allow for online filing of other services. Pilot project.	Approval of legislation and budgetary provisions. Development of software.	Early phase of implementation. Other services can be filed online, but the software allows only for a limited number of operations.	Level 4 plus the software allows for credit/debit compensation when available in the economy.	1
4.2.4. Reporting on enterprise statistics	Reporting on enterprise statistics can not be filed online.	Government is considering proposals to allow for online reporting on enterprise statistics. Pilot project.	Approval of legislation and budgetary provisions. Development of software.	Early phase of implementation. Reporting on enterprise statistics can be filed online, but the software allows only for a limited number of operations.	Advanced phase of implementation and software allows for wide range of operations.	1

Table IV. **Make public administration responsive to SMEs** (cont.)

	Level 1	Level 2	Level 3	Level 4	Level 5	Weights
E-government infrastructure						2
4.2.5. Connection between the databases of different public administrations, companies providing information only once, unless for updates	No connection between databases of different public institutions.	Government is considering proposals to enable connection of different public institutions.	Connection exists between some public institutions. Established connections enable data viewing.	Connection exists between all public institutions and data usage is allowed following special request by SME and/or institution.	SMEs do not have to provide information which is already available in the database of another public administration (company registration office, tax administration, social security administration, labour authorities).	1
4.2.6. Electronic signature (or equivalent)¹	The government does not have a concrete plan on electronic signatures.	Evaluation and formulation of detailed proposals of law on electronic signatures and implementing regulations.	Approval of law on electronic signatures and of the implementing regulations.	Solid evidence of implementation of law on electronic signatures. Ability to use e-signatures in key areas for SMEs in contact with public administration.	Full implementation of law on electronic signatures and full integration of electronic signatures with other services of e-government. Regular reviews in consultation with SMEs.	2

1. The response to this indicator should be based on WB Cost of Doing Business Index.

2. "or equivalent" refers to alternative methods of validating government business communication.

Table V. **Adapt public policy tools to SME needs**

	Level 1	Level 2	Level 3	Level 4	Level 5	Weights
5.1. SME support services						
5.1.1. Government action plan on development of SME support services	There is no government action plan on business services.	A government action plan on identifying the market failures in the business services market is under preparation.	The government action plan is in place and the responsible institutions have been established.	Level 3 + The government identified the main market failures and is providing some business services that are not available on the market.	Level 4 + The action plan is being monitored and evaluated.	3
Information services for SMEs						
5.1.2. Business information	No basic information about starting and conducting a small business is made available from public sources.	Sporadic information about starting and conducting a small business is made available from a variety of uncoordinated public sources.	Information about starting and conducting a small business is made available throughout the economy by a number of official sources (business centres, chambers of commerce, etc.)	Extensive information about starting and conducting a small business is made available in paper form throughout the economy. The location of the information is well advertised.	Level 4 plus information about starting and conducting a small business is made available and well structured online.	1
5.1.3. Quality of online portal¹	Existence of online portal unknown to SME community. Information is neither updated nor maintained.	Online portals are not easily accessible by the SME community. Portal is not user friendly. Information is updated and maintained on an <i>ad hoc</i> basis.	There is one centralised portal for SMEs that re-directs users to key websites for SMEs. Portal is regularly updated and maintained.	Level 3 plus portal is user friendly and gathers the information related to SMEs from the different public authorities active in this field.	Level 4 plus portal enables companies to communicate on rules and procedures which are considered to be disproportionate and/or unnecessarily hinder SMEs.	1
Targeted business support services for established SMEs						
5.1.4. Range of SME support services	Very limited range of basic business services, available mainly through donor funded programmes.	Limited range of business service, available through a combination of public funded and private business providers.	Network of public funded business service providers. Good network of private business service providers, providing personalised services for enterprises.	Well developed market for business services, with good level of internal competition.	Level 4 + wide range of business services available in the economy, including widespread presence of international consultancy firms.	2
Business support services for start-ups						
5.1.5. Business incubators	No incubators in place and no plans to establish them.	Strategy on incubators under discussion/local initiatives in preparation.	Strategy on incubators approved: detailed proposals and budget allocations, either at central or local government level. Pilot incubators in operation. Focus on job creation, no exit strategies.	Level 3 plus several incubators in operation, out of the experimental phase. Provisions of basic services, some incubators used to foster innovation. Partial implementation of OECD guidelines on business incubators.	Level 4 plus network of incubators throughout the economy. Focus on innovation, provision of high quality services, and existence of exit strategies. OECD guidelines widely implemented.	1
5.1.6. Advisory services support for start-ups	No advisory support in place and no plans to establish it.	Strategy on advisory support under discussion/local initiatives in preparation.	Strategy on advisory support approved: detailed proposals and budget allocations, either at central or local government level.	Level 3 plus several advisory support agencies in operation.	Level 4 plus network of advisory support services throughout the economy.	1
5.1.7. Financial services support for start-ups (vouchers, grants, etc.)	No financial support in place and no plans to establish it.	Strategy on financial support tools under discussion/local initiatives in preparation.	Strategy on financial support tools approved: detailed proposals and budget allocations, either at central or local government level.	Level 3 plus several financial support tools are being implemented.	Level 4 plus financial support tools are being used throughout the economy.	1

Table V. **Adapt public policy tools to SME needs** (cont.)

	Level 1	Level 2	Level 3	Level 4	Level 5	Weights
5.2. Public procurement						
5.2.1. Cutting tenders into lots	Cutting tenders into lots is not done, or is done on an <i>ad hoc</i> basis.	Pilot projects on cutting tenders into lots have been developed but there is not yet a consistent policy approach.	The possibility to divide contracts into lots is enshrined in legislation, but is subject to powerful derogations that make its implementation in practice rather weak.	The possibility to divide contracts into lots is enshrined in legislation and is commonly used.	The possibility to cut tenders into lots is largely used.	1
5.2.2. Information and publication of public procurement	Information on public procurement opportunities is scattered among a variety of sources which makes it difficult for SMEs to find out about new opportunities.	Information on public procurement opportunities is centralised only at regional/local level.	Information on public procurement opportunities is centralised at national level.	Information on public procurement opportunities is centralised at national level and is available free of charge.	Information on public procurement opportunities is centralised at national level and is free of charge. Helpdesks and training on procurement opportunities are offered to SMEs.	1
5.2.3. Penetration of e-procurement	Provision of basic information on tenders in electronic format (electronic contract notices, list of contractors, information on procurement activities, rules and processes, etc.).	Specific information for tender in electronic format (tender documentation in electronic format, downloadable forms and electronic tools for paper submission, but also more sophisticated searchable public tender databases, mail alerting systems, RSS feeds, etc.) – external communication.	Electronic forms, more or less no paperwork in the tendering process (electronic submission, electronic Q&A, e-awarding, etc.) – external communication.	Full electronic case handling without any paper-based formal procedure required (electronic communication throughout the procurement process, e-invoicing, etc.) – external and internal communication; systems connected to back-office and possibly to inter-agency processes.	Proactive and automated communication, databases of reusable data (linking databases, e-attestation, full electronic contract management, etc.) – external and internal communication; systems integrated with back-office processes, inter-agency co-operation networks.	1
5.2.4. Ensuring that payments are made on time	Late payments are not regulated.	There are efforts to combat late payments, but there is no consistent policy approach.	There is a law on late payments.	There is a law on late payments imposing strict deadlines for payments and penalties in case of non-compliance with these deadlines.	There is a law on late payments imposing strict deadlines for payments and penalties in case of non-compliance with these deadlines. The law is rigorously enforced.	1
5.2.5. Openness to foreign enterprises, either SMEs or large	The public procurement market is not open to foreign enterprises on the basis of open competition.	The public procurement market is open to foreign enterprises on the basis of open competition. The terms are fixed on a case by case basis.	The public procurement market is open to foreign enterprises on the basis of open competition. The terms are fixed in a limited number of bilateral agreements.	The economy has opened small parts of its public markets, for instance on the basis of multilateral or a multitude of bilateral agreements.	The economy is operating a transparent and competitive system and has opened significant parts of its public markets, for instance on the basis of multilateral or a multitude of bilateral agreements.	1
5.2.6. Setting proportionate qualification levels and financial requirements	There are no provisions to ensure the proportionate qualification levels and financial requirements.	Provisions to ensure the proportionate qualification levels and financial requirements are set only in guidance materials.	There are general provisions requiring the buyers to set proportionate qualification level and financial requirements.	There are specific provisions ensuring that SMEs are not suffering from excessive requirements for qualification levels and financial requirements (such as turnover requirements, level of guarantee and deposits, qualification of staff, allowing grouping of economic operators, etc.).	There are specific provisions ensuring that SMEs are not suffering from excessive requirements for qualification levels and financial requirements (such as turnover requirements, level of guarantee and deposits, qualification of staff, allowing grouping of economic operators, etc.) and there is evidence of implementation.	1

1. Portal = A website considered as an entry point to other websites, often by being or providing access to a search engine, http://ec.europa.eu/small-business/index_en.htm.

2. If the country does not have any specific policy tools to support start-ups, this section should not be completed.

Table VI. Facilitate SME access to finance and develop a legal and business environment supportive to timely payments in commercial transactions

	Level 1	Level 2	Level 3	Level 4	Level 5	Weights
6.1. Sources of external finance for SMEs						
6.1.1. Credit guarantee schemes	No credit guarantee scheme in place.	Credit guarantee scheme facility under consideration.	Credit guarantee facilities in place (government initiative and state controlled).	Credit guarantee facility operating under contract to the private sector but state funded.	Number of mutual or mixed credit guarantee schemes in place under private managers able to finance themselves out of fees alone.	1
6.1.2. Public start-up funding	No public start-up funding facilities in the economy.	Public start-up funding facilities exist at the level of pilot projects with limited impact.	Public start-up funding present throughout the economy. Facilities mainly state or donor funded.	Public start-up funding facilities self-sustainable. Special facilities for targeted groups such as youth and women entrepreneurs.	Level 4 plus wide range of start-up funding products.	1
6.1.3. Business angel networks (BAN)	No business angel associations (seed capital funds) in the economy; little or no informal business angel activity.	Policy awareness; plans to encourage and foster business angel networks in drafting stage.	Pilot schemes to encourage and foster business angel networks implemented, Ministry of Economy/ Finance has taken steps to promote or collaborate with business angel networks.	Level 3 plus policy instruments piloted, including tax incentives for individuals engaged in seed-funding, OPEX subsidies, and promotion (<i>e.g.</i> business plan competition including prize money).	Level 4 plus advanced support for BANs, including use of tax incentives for capital gains to identify high-net worth individuals; high-level promotion. Programmes are in place to enhance co-operation between angels and other investors. Potential use of public funds to enlarge BANs' seed capital pool.	1
6.1.4. Microfinance facilities (including credit unions)	No microcredit facilities (neither small credit lines nor microfinance sector) in the economy.	Microcredit facilities (either small credit lines or microfinance) exist at the level of pilot projects with limited impact.	Microfinance sector present and operating throughout the economy. Facilities mainly state or donor funded. Limited range of microfinance products.	Microfinance facilities self-sustainable. Special facilities for targeted groups such as youth and women entrepreneurs. Legal and regulatory framework for microfinance industry under preparation.	Level 4 plus wide range of microfinance products. Appropriate legal and regulatory framework in place for microfinance	1
6.1.5. Leasing	No leasing activity, no plans for leasing law.	Leasing law under preparation.	Leasing law approved and institutional responsibilities clearly assigned. Some leasing activity.	Implementation of leasing law. Regulator active in monitoring market. Significant leasing activity.	Leasing law fully implemented. Regulation and supervision of the leasing sector is enacted. Significant leasing activity. Some specialised leasing companies. ¹	1
6.1.6. Availability of risk capital (<i>e.g.</i> venture capital, private equity funds)	No venture capital/private equity/investment funds legislation under consideration.	Venture capital/private equity/investment funds legislation under consideration.	Venture capital/private equity/investment funds legislation in place.	Level 3 plus several venture capital/private equity funds investing, including funds specialised in SMEs, but the only exit possibility is direct sales.	Level 4 plus range of exit options, including a functioning (second-tier) stock exchange with clear opportunities for initial public offerings (IPO) of venture-capital backed enterprises. Legislation in line with best practices.	1
6.1.7. Access to stock market	Neither legal nor institutional framework in place for stock market.	Legal framework in place. Stock exchange in place with low market capitalisation (< 20% GDP). High concentration leading to low turnover (<10%).	Stock exchange and legislation in place, but access limited to highly capitalised companies. Market capitalisation > 50% GDP. Market concentrated (10-20% turnover).	Level 3 plus evidence of the enforcement of legislation by securities exchange commission/relevant authority. Possibility for listing either in the main market or in a market reserved for companies with lower capitalisation. Market not very concentrated (20-30% turnover).	Level 4 plus fully enforced securities legislation, including the information disclosure requirements. Legislation in line with international standards. Active and well-functioning stock market for companies with lower capitalisation. Market capitalisation > 80% GDP. turnover 30-40%. Most capitalisation from private sector listed companies.	1

Table VI. **Facilitate SME access to finance and develop a legal and business environment supportive to timely payments in commercial transactions (cont.)**

	Level 1	Level 2	Level 3	Level 4	Level 5	Weights
6.2. Legal and regulatory framework						
6.2.1. Cadastre	No functioning cadastres.	Plans have been made to implement a functioning cadastre.	Cadastre system in place, but the land ownership of the economy has not yet been entirely documented.	The ownership of land has been documented but the cadastre is not fully functioning.	Level 4 plus fully functioning cadastre allowing firms to use real estate as collateral in their efforts to access bank finance. Available online.	3
6.2.2. Credit information services	No credit information services available in the economy.	Credit information services in place, but access limited to financial institutions.	Credit information services available to financial institutions and to the public. Both positive and negative credit information is available.	Level 3 plus data on loans of more than EUR 20 000 to legal and physical persons are collected and made available to financial institutions and the public upon request. Information is updated regularly and comprehensive.	Level 4 plus more than two years of historical data are distributed. By law, borrowers have the right to access their data.	3
6.2.3. Registration systems for moveable assets	No functioning registration systems for movable assets.	Legislation to establish a functioning registration system at the draft stage.	Registration system of movable assets in place, but not yet fully operational. Information not easily accessible or fully reliable.	The ownership of pledges on the registered assets has been fully documented. Easy, low-cost access to registration and information.	Level 4 plus fully functioning system for registration of movable assets, allowing firms to use movable assets as collateral in their efforts to access bank finance. Information available online.	3
6.2.4. Collateral and provisioning requirements	Very high collateral requirements, > 200%. Restrictive collateral definition and/or rigid provisioning requirements for uncollateralised loans	Collateral requirement of 150-200% of loan amount. Restrictive collateral definition and/or rigid provisioning requirements for uncollateralised loans	Flexible collateral definition and/or flexible provisioning requirements for loans under USD 30 000.	Flexible collateral definition and/or flexible provisioning requirements for loans under USD 30 000 and central collateral registry in place.	Flexible collateral definition and/or flexible provisioning requirements for loans under USD 30 000 and central collateral registry covering most bank loans.	3
6.2.5. Creditor rights	There is no law on secured transactions.	Legal framework on secured transaction ensures two out of the four rights listed below. 1) Secured creditors are able to seize their collateral after reorganisation <i>i.e.</i> there is no "automatic stay", 2) legislation provides restrictions such as creditor consent must be observed when a borrower files for reorganisation, 3) secured creditors are paid first out of proceeds of liquidation of a bankrupt firm and 4) management does not retain administration of property pending the resolution of reorganisation.	Legal framework on secured transaction ensures three out of the four rights listed below. 1) Secured creditors are able to seize their collateral after reorganisation <i>i.e.</i> there is no "automatic stay", 2) legislation provides restrictions such as creditor consent must be observed when a borrower files for reorganisation, 3) secured creditors are paid first out of proceeds of liquidation of a bankrupt firm and 4) management does not retain administration of property pending the resolution of reorganisation.	Legal framework on secured transaction ensures all four of the rights listed below. 1) Secured creditors are able to seize their collateral after reorganisation <i>i.e.</i> there is no "automatic stay", 2) legislation provides restrictions such as creditor consent must be observed when a borrower files for reorganisation, 3) secured creditors are paid first out of proceeds of liquidation of a bankrupt firm and 4) management does not retain administration of property pending the resolution of reorganisation.	Level 4 plus Collateral enforcement is efficient.	3

Table VI. **Facilitate SME access to finance and develop a legal and business environment supportive to timely payments in commercial transactions** (cont.)

	Level 1	Level 2	Level 3	Level 4	Level 5	Weights
6.3. Other factors that affect demand and supply of finance						
6.3.1. Financial literacy¹	Financial literacy levels are extremely low in general. There is no national strategy encompassing a methodology to assess existing financial literacy levels and promote financial education programmes.	Financial literacy levels are extremely low among certain segments of the population. A national strategy encompassing a methodology to assess existing financial literacy levels and promote financial education programmes is considered.	Financial literacy levels are low and the lack of understanding of investment and savings products results in their underutilisation. A national strategy encompassing a methodology to assess existing financial literacy levels and promote financial education programmes exist.	Financial literacy levels are low only with respect to certain complex products. Government schemes to rectify this gap exist. Consumers have access to a variety of credit and savings instruments provided by a range of entities, from online banks and brokerage firms to community-based groups. Both information and training to consumers on the operation of markets and on the roles of market participants are available.	Consumers are educated on a wide range of financial products (investment, savings, etc.). Government support this effort by encouraging national campaigns to raise awareness of the population about the need to improve their understanding of financial risks and ways to protect against financial risks. Specific websites providing relevant, user-friendly financial information to the public exist. The media are widely used to achieve a wider coverage and exposure of relevant information and for the dissemination of education messages.	1

1. “Financial literacy (the ability of consumers/SMEs to understand financial products and systems) affects the demand for loans, as SMEs (also as individual consumers) are not aware of the financial instruments in the market, do not understand all the terms and risks involved, which in turn deter them from applying for a loan. Similarly, the lack of understanding from the borrowers influence the supply of loans as it affects the loan approval rate by banks. Importantly, financial literacy affects also the risk taking of SMEs and consumers, and therefore is has been particularly emphasised after the crisis. Due to the crisis, improving financial literacy-education is an important focus in the US, UK, and other developed countries.

The OECD has already started an inter-governmental project in 2003 to provide ways to improve financial education and literacy standards through the development of common financial literacy principles. In March 2008, the OECD launched the International Gateway for Financial Education, which serves as a clearinghouse for financial education programs, information and research worldwide. The following presentation might be useful to understand the scope and objectives, www.financial-education.org/dataoecd/8/28/44409678.pdf.

In the UK, the Financial Services Authority (FSA) started a national strategy on financial capability in 2003: www.fsa.gov.uk/pubs/other/fincap_delivering.pdf. The Financial Services Act 2010 included a provision for the FSA to establish the Consumer Financial Education Body, known as CFEB, which now operates independently and from April 2011, was renamed as the Money Advice Service, www.moneyadviceservice.org.uk. Its objective is to enhance the understanding and knowledge of members of the public about financial matters, including the UK financial system.

All the work on raising awareness and education on financial products has started and its success is monitored based on continues consumer surveys results. The OECD publication gives a good overview. OECD could help with getting an electronic copy of this: www.oecd.org/document/2/0,3746,en_2649_15251491_35802524_1_1_1_1,00.html.”

Statistics should be provided on the following aspects:

- The SME lending as share of total lending of banking sector.
 - Average interest margins for SME and large corporate loans in banks.
 - The loan tenor for the enterprise loans in banks.
 - The average tenor of SME loans in banks.
2. • Total volume of leasing.

Table VII. **Help SMEs to benefit more from the opportunities offered by the single market**

	Level 1	Level 2	Level 3	Level 4	Level 5	Weights
7.1. Technical regulations	No transposition of EU sectoral legislation in priority sectors.	Sectoral legislation in the priority sectors is at the draft stage.	Sectoral legislation in place for at least part of the priority sectors.	Sectoral legislation in place and aligned with the <i>acquis</i> for all of the priority sectors.	Full implementation of the relevant sectoral legislation.	1
7.2. Standardisation	No EU standards (ENs) adopted.	Adoption of ENs in priority sectors started (25% of ENs adopted) and upgrading of standardisation body in accordance with EU requirements started.	Adoption of ENs continued (50% of ENs adopted) and conflicting national standards abolished. Affiliate membership of standardisation body in CEN and CENELEC.	Adoption of ENs continued (80% of ENs adopted), conflicting national standards abolished and upgrading of standardisation body in accordance with EU requirements finalised. Application of membership to CEN and CENELEC.	Adoption of standards finalised (100% of ENs sectors adopted), conflicting national standards abolished and full membership of national standardisation body in CEN, CENELEC and ETSI.	1
7.3. Accreditation	No legislation aligned with the EU legislation (<i>acquis</i>) and no accreditation body exists.	Transposition of EU horizontal legislation started. Establishment and/or upgrading of accreditation body started.	Horizontal legislation on accreditation transposed and accreditation body in accordance with EU requirements set up. Membership in EA received.	Application of EA MLA signature status for some or all fields of accreditation. Accreditation body positively assessed by EA or by peer organisations.	Effective operation of the accreditation body. Signature status of EA MLAs.	1
7.4. Conformity assessment	There is no legislation on conformity assessment aligned with the EU <i>acquis</i> .	Transposition of EU horizontal legislation on conformity assessment ongoing.	Upgrading of conformity assessment bodies (CABs) in priority sectors in accordance with EU requirements ongoing. Existing national legislation on conformity assessment.	Conformity assessment bodies positively assessed by the national accreditation body. Designated and/or accredited CABs exist.	Legislation and institutional infrastructure as regards conformity assessment of products and designation of CABs operational. Existing operative CABs (or use of EU notified bodies) in ACAA sectors.	1
7.5. Metrology	There is no legislation aligned with the EU <i>acquis</i> .	Transposition of EU legislation (<i>acquis</i>) on legal metrology started. Metrology strategy under way.	Continued upgrading of metrology body and/or institute in accordance with EU requirements.	Metrology body/institute recognised by relevant international/European organisations.	Effective operation of the metrological infrastructure. Legislation in place.	1
7.6. Market surveillance	There is no legislation aligned with the EU <i>acquis</i> .	Market surveillance strategy drafted. Transposition of EU horizontal legislation adopted.	Organising a comprehensive market surveillance system in accordance with EU requirements under way.	Organisation of a comprehensive market surveillance system in accordance with EU requirements finalised. Necessary instruments (work plans, checks, customer complaints, accident statistics, risk analysis, etc.) started to be used.	Effective operation of the whole system.	1
7.7. Administrative and regulatory information	No formal information or services provided for exporters or potential exporters to EU Single Market	Some uncoordinated information services available from ministries, chambers and other bodies	State export promotion agency in place and developing co-ordinated information services on regulations and administrative procedures for exports to the EU Single Market.	State export agency provides a range of information, at least in printed form, on main aspects of Single Market regulations such as Single Administrative Documents (SADs), certificates of origin and health certificates.	Integrated export promotion network with major focus on EU Single Market: export promotion agency, commercial attaches, chambers and EEN offices providing full and up-to-date online information, including databases on Single Market regulations and procedures and member state requirements such as language labelling.	1
7.8. Sanitary and phytosanitary standards (SPS) – institutional framework	No national bodies in charge of SPS standards. Legislation significantly different from European/international standards.	Early adoption of legislative framework; beginning to set up national bodies in charge of SPS standards.	Further progress in adopting legislation and early implementation of legislative framework, national bodies have been set up; however still limitations (administrative or other issues).	National bodies well established, however few limitations (administrative capacity or other issues). Efforts still needed to fully align legislation with European/international standards.	National bodies very well established and functioning. Full alignment of legislation with European/international standards.	1

Table VIII. Promote the upgrading of skills and all forms of innovation

	Level 1	Level 2	Level 3	Level 4	Level 5	Weights
8.1. Enterprise Skills						
8.1.1. Training needs analysis (TNA) ¹	No small business TNA or one based on <i>ad hoc</i> surveys only. There is no regular and systematic collection of data on the training needs or training consumption in the small business community.	Government, social partners and business community are in dialogue with view to establishing a systematic TNA framework for the small business community.	A national TNA framework has been agreed between government, social partners, and business community with particular reference to economic growth sectors. The TNA framework identifies <i>a)</i> skill weaknesses in the workforce, <i>b)</i> skill gaps and <i>c)</i> future skill requirements. Standard data collection instruments and a data management system are in place as part of a wider national economic development plan.	TNAs as defined by a lifelong EL policy are undertaken in at least 20% of small businesses in growth sectors and reported publicly on a recognised website for access by enterprises, training providers and policy makers.	Annual TNA is undertaken in at least 40% of small businesses in growth sectors and available publicly on a recognised website for access by enterprises, training providers and policy makers.	3
8.1.2. Access to training	There is no online public register of training providers and training programmes available.	Register of training providers and training programmes broken down by regions, available on a recognised website.	Small business training provision is developed but is limited to specific towns and regions. Government support measures promote development of online training services.	Good training provider network developed across the economy. ² Evidence of online training services developing for the small business community.	Good training provider network developed across the economy. Data on online training acquired by enterprises is tracked by the TNA system and evaluated as part of improvements to the national entrepreneurship learning policy.	2
8.1.3. Quality assurance	There is no national framework for quality assurance of training delivered to the small business community. Some cases of accreditation of training programmes and training providers by international bodies.	A range of <i>ad hoc</i> structures and tools ³ are being used to determine quality of training for the small enterprise community.	Dialogue ongoing between training providers, employers and government regarding quality, standards and accreditation of training provision for enterprises. This is linked to wider European quality assurance networks.	A national quality assurance system for enterprise training is agreed and is fully operational. Accredited training providers and programmes are posted on websites and information boards of small enterprise support agencies, public and private employment agencies and training centres.	The national quality assurance system for enterprise training is operational and fully integrated in to European Quality Assurance Framework (trade skills) and recognised management training quality assurance systems.	1
8.1.4. Start-ups	No training available for start-ups.	Up to 20% of newly registered start-ups in last 24 months have benefited from training and business advisory services in the reporting period (including e-training).	At least 40% of newly registered start-ups in last 24 months have benefited from training and business advisory services in the reporting period (including e-training).	At least 60% of newly registered start-ups in last 24 months have benefited from training and business advisory services in the reporting period (including e-training). Business advisory services for small enterprises available up to 36 months after start-up.	At least 80% of newly registered start-ups in last 24 months have benefited from training and business advisory services in the reporting period (including e-training). Business advisory services for small enterprises available up to 36 months after start-up.	1

Table VIII. Promote the upgrading of skills and all forms of innovation (cont.)

	Level 1	Level 2	Level 3	Level 4	Level 5	Weights
8.1.5. Enterprise growth	No systematic approach to develop small enterprise human resources (knowledge and skills) for growing businesses.	Knowledge and skills development for enterprise growth has been agreed as a priority between the business community and government and is registered in national economic development plans. Public finance agreed to support training and advisory services for growth enterprises.	Financial support for training and business advisory services for growing enterprises available. ⁵ Financial support is linked to clear criteria to allow enterprises to apply for subsidies to support training and advisory services linked to enterprise growth.	20% of growing businesses benefited from training and advisory services.	More than 50% of growing businesses benefited from training and advisory services.	1
8.2. Innovation						
Policy framework for SME innovation						
8.2.1. Delegation of competencies and tasks	Measures concerning innovation policy are taken on an <i>ad hoc</i> basis by the line ministries concerned.	Government has completed a review and made plans for delegation of competencies and tasks concerning innovation policy. The plan has identified potential overlapping of tasks and inconsistencies in policy as well as possible synergies among programmes and institutions.	The organisational structure has been agreed and approved by the government. A clear map identifying responsibilities in innovation policy for each institution is established. Active measures to limit overlapping and to avoid major policy inconsistencies are in place (new programmes and schemes have to be reviewed by all concerned institutions and ministries).	A co-ordination body is in place (<i>e.g.</i> steering committee or inter-ministerial committee) and is chaired by a high political authority and supported by a well-structured secretariat which ensures that policy exchange, co-ordination and consultation with stakeholders and civil society is carried out through previously agreed mechanisms	There is a sound system of programme co-operation on innovation policy among the institutions, aiming at integrating technological and non technological activities, covering the full spectrum of innovation policy issues (including, development, application, absorption and diffusion). Wide-spread consultation with stakeholders.	2
8.2.2. Strategic approach to innovation policy for SMEs	Innovation policy is not covered in any of the strategic documents covering enterprise policy, industrial policy, human capital development policies, or education and research policies.	Innovation strategy elements are included in some of the previous mentioned documents, but there is no consistent approach and no indication of implementation actions.	Innovation policy has been developed and integrated into a number of strategic documents. Information on implementation plans, budget and timelines included in each of the documents. Strategic approaches are not co-ordinated.	Level 3 plus strategic approaches are co-ordinated. Innovation programme/strategy is under implementation and adequately funded. Major components of the plan are active. Public-private partnership (PPP) projects are being developed involving also universities and research centres.	Strategic approach to innovation is extensively implemented, including programmes covering the broad spectrum of technological and non-technological activities. Mechanisms in place to monitor the impact of the programme on company growth and direct/indirect spillovers. Programme mostly based on PPPs projects, involving also universities and research centres.	3
8.2.3. Budget provision for SME innovation	There is no specific allocation of funding for the promotion of enterprise innovation. No targets have been set.	There is no specific allocation of funding to promote enterprise innovation, but there are funds with an indirect impact on innovation which have been identified within existing budgets. These funds are embedded in other policy measures. There is groundwork to define targets.	There are specific actions to target spending on innovation in budget structure. Funds have been earmarked for innovation (public sector). Some innovation funding comes from the private sector. Targets are defined and specified in policy documents. Division between public and private sector contribution to innovation funding are defined.	Level 3 plus targets have been designed to meet specific objectives. All objectives are designed according to SMART principles (specific, measurable, achievable, realistic, time bound). Increased share of R&D provided by private sector.	SMART objectives fully implemented, monitored and evaluated to measure impact. Private sector represents a significant share of total spending on innovation.	2

Table VIII. Promote the upgrading of skills and all forms of innovation (cont.)

	Level 1	Level 2	Level 3	Level 4	Level 5	Weights
8.2.4. Establishment of innovation and technology centres	No networks, centres, or schemes to promote co-operation on innovation in place. Single, <i>ad hoc</i> initiatives in place	Pilot projects to establish innovation networks, centres or schemes to promote co-operation on innovation have been launched.	Action taken, specifically to promote co-operation on innovation among enterprises, universities, and funded research centres. This promotion is publicly funded. Regulatory framework for PPP projects is in place.	Implementation of innovation promotion schemes. Innovation and technology centres in operation. PPP on national, regional, and local level in R&D, innovation and development.	Network of high level Innovation and technology centres present in the economy. Strong relationship with research institutions and private sector at domestic and international level.	1
8.2.5. Information on innovation support services	No database of innovation service providers available to enterprises, either by public or private sources.	Database(s) available to enterprises for limited sets of services. Limited set of information on innovation support service providers reported. There is little to no information on the selection criteria for firms to participate in non-technological innovation support programmes.	Database(s) includes wide range of services available throughout the economy. Limited set of information on innovation support service providers reported. There is some information on the selection criteria for firms to participate in innovation support programmes.	Updated database(s) on innovation support service providers available also on line. There information on the selection criteria for firms to participate in all types of innovation support programmes.	Level 4 plus information available on interactive websites and regularly updated and checked by the information provider. There is information on the selection criteria for firms to participate in all types of innovation support programmes.	2
8.2.6. Financial support services	No support scheme for innovative enterprises to determine financing options available for innovative projects.	Financial support service scheme under consideration and pilot project being launched, funded by government, donors and/or other organisations.	Financial support schemes are funded by government, donors and/or other organisations. Tailored services are provided to link innovative companies to sources of financing.	Financial support schemes are under implementation and adequately funded. Independent project evaluation system has been established. Co-operation with various financial institutions has been established to link innovative companies to sources of financing.	A complete chain of funding schemes is available for innovative projects, from grants, subsidies and seed funding to big venture capital funds and loans. Project holders are well informed and aware of the availability of the funds through financial support schemes. There is evidence that a significant number of projects are funded every year.	1
8.2.7. Tools used to support co-operation between SMEs research institutes/ universities	No tools (voucher schemes, joint research programmes, personnel transfer schemes, access by private companies to research laboratories, company spin offs, incentive schemes for universities and research centres and individual researchers to co-operate with the private sector) to link universities, laboratories and other research centres with innovative companies.	Pilot projects to establish tools (voucher schemes, joint research programmes, personnel transfer schemes, access by private companies to research laboratories, company spin offs, incentive schemes for universities and research centres and individual researchers to co-operate with the private sector) to link universities, laboratories and other research centres with innovative companies.	Evidence that some of the previously mentioned tools are used to link universities, laboratories and other research centres with innovative companies. Universities operate under sufficient autonomy to enter into agreement with other organisations (either public or private) in developing research projects with potential commercial application.	Level 3 plus a range of different tools in place. Evidence of close co-operation between universities and private sector.	Level 4 plus strong relationships with research institutions and private sector at domestic and international level. Monitoring and evaluation tools in place.	1
8.2.8. Public R&D grants	There are no public funds supporting R&D activities with a commercial orientation.	There are pilot public funds supporting R&D activities with a commercial orientation with limited allocation.	Fully operating public funds supporting R&D activities with a commercial orientation. There is proper appraisal system of eligible projects. Funds are managed by professional team.	Level 3 plus there is a track record of effective allocation of funding.	Level 4 plus funds are monitored and evaluated independently. Lessons learned are taken into consideration.	1

Table VIII. Promote the upgrading of skills and all forms of innovation (cont.)

	Level 1	Level 2	Level 3	Level 4	Level 5	Weights
8.2.9. Incubators (serving innovative start-ups which are linked to technology content)	There are incubators but with no technological orientation.	Pilot technological incubators in operation, publicly funded, funded by donors and/or other organisations.	There are incentives and support schemes to establish incubators associated with universities and/or research centres.	Level 3 plus several incubators in operation, out of the experimental phase. Provision of basic services. Partial implementation of OECD guidelines on business incubators (see CNRST).	Level 4 plus network of incubators throughout the economy. Provision of high quality services and existence of exit strategies. OECD guidelines widely implemented.	1
8.2.10. Sciences Parks/ competitive clusters and facilities to promote networking among companies (pôles de compétitivité)	No facilities (<i>i.e.</i> sciences parks/competitive clusters) to promote networking among innovative companies in place.	Pilot facilities (<i>i.e.</i> sciences parks/ competitive clusters) to promote networking among innovative companies in place.	Facilities (<i>i.e.</i> sciences parks/competitive clusters) to promote networking among innovative companies are in place with linkages with universities and funded research centres. Regulatory framework for PPP projects is in place.	Level 3 plus public-private projects under development.	Level 4 plus a network of innovation and technology centres present in the economy, and internationally through transnational cluster co-operation. Strong relationship with research institutions and private sector at domestic and international level.	1
Intellectual property rights						
8.2.11. Intellectual property rights (IPRs)⁶	No legislation on intellectual property in place, systematic violations of IPRs.	Legislation on IPRs under preparation.	IPR legislation approved, assuring protection consistent with TRIPs agreement.	Effective enforcement of IPRs does not extend to all types of IP (patents, trademarks, copyright, industrial designs, etc.) or to all types of products (pharmaceuticals, audio-video, spare parts, etc.) and it does not involve all the concerned authorities (customs, policy, courts, etc.).	Good implementation record of IPRs legislation. IP is effectively and systematically protected in all its forms and for all products.	2

1. Evidence for this indicator will be taken from enterprise survey-based data.
2. Information on training providers available within economic development departments of local/regional administration offices.
3. For example, sector-based quality focus groups, pilot actions for training standards, employer satisfaction surveys.
4. Start-up training comprises management, basic finance and basic marketing skills supported by public and private funds
5. Financial support will particularly address the knowledge and capacities related to the EU regulatory framework.
6. Indicator based on the 2011 EC Progress Report.

Table IX. **Enable SMES to turn environmental changes into opportunities**

	Level 1	Level 2	Level 3	Level 4	Level 5	Weights
9.1. The of the current strategies in the field of SMEs, industry and innovation	No reference is made in the policy framework to eco-efficient business and products or eco-innovation	There are plans to include these elements in the new policy documents to be developed.	There are plans to include these elements in the new policy documents to be developed.	These elements are associated with concrete targets in action plans.	The strategy for SMEs, promotes eco-efficient business and products, while the innovation strategy directs measures toward eco-innovation.	3
9.2. Availability of expertise to SMEs on environmental issues	There is no information regarding this element and only commercial expertise is available.	The package on information regarding environmental issues and tools is under preparation.	Information regarding environmental issues and tools is available.	SME support organisations (chambers of commerce, local governments, NGOs, etc.) provide environmental support. This is not co-ordinated at national level and no specific funding is available.	There are specific programmes/ funding to provide expertise through SME support organisations with nationwide co-ordinated approach, contact points and information.	2
9.3. Promoting the use of environmental management systems and standards	The use of environmental management systems (EMAS, ISO 14001, local systems) and standards is not promoted, and little known by business and public.		The government provides information on the EMSs available to SMEs in the economy, but no support measures are in place for SMES to apply for certification.		There is specific funding and other incentives available for the implementation of EMSs and standards, information is widely available and it is integrated in procurement rules and on the market. Specific systems are available for SMEs (like EMAS Easy).	2

Table X. **Encourage and support SMEs to benefit from the growth markets**

	Level 1	Level 2	Level 3	Level 4	Level 5	Weights
10.1. Export promotion programmes	No export promotion programmes exist.	Export promotion programmes under consideration/ some pilot programmes in place, limited funding available and no co-ordination between programmes.	New programmes approved. Programmes are largely funded by donor countries. Co-ordination between programmes. Basic trade information provided and some trade promotion activities (trade missions, economy representation at major trade fairs) in place, but limited support given to a small number of SMEs.	Export promotion programmes are adequately funded but do not completely provide for all of the following: trade policy information and commercial intelligence, export promotion and marketing, trade fair participation, product development and financial services and training.	Range of well-funded export promotion programmes capable of providing all of the dimensions mentioned in Level 4.	3
10.2. Financial support for export promotion activities	No specific programme of financial support for export promotion activities exist.	Programme of financial support for export promotion activities under preparation	Programme of financial support for export promotion activities in place and under state control	Independent programme of financial support for export promotion activities in place	Level 4 plus collaboration with the banking sector for the granting of financial support for export promotion activities. Wide variety of options available.	3
10.3. National SME promotion events	National SME promotion events occur on an-ad hoc basis. Events are not open to the entire SME stakeholder community and cover a limited number of sectors.	National SME promotion events are under consideration by the government. Draft calendar of events being considered by concerned ministry/ agency.	New national SME promotion events approved. Evidence that relevant stakeholders have been informed of and invited to upcoming events.	Regular hosting of national SME promotion events occur. Evidence that a wide-representation of stakeholders attend and that events cover a wide range of sectors.	Level 4 plus evidence that national SME promotion events have enhanced SME competitiveness. Regular evaluation of past events and planning of future events held by relevant ministry/agency.	1

ANNEX D

List of SBA co-ordinators

ECONOMY	NAME	CONTACT DETAILS	TEL./FAX/E-MAIL
Albania	Tefta Demeti Chief of SME Unit Business Promotion Department	Ministry of Economy, Trade and Energy	Tel.: +355 4 2222245 (74149) <i>tdemeti@yahoo.com</i> <i>tdemeti@mete.gov.al</i>
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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

The OECD member countries are: Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The European Union takes part in the work of the OECD.

OECD Publishing disseminates widely the results of the Organisation's statistics gathering and research on economic, social and environmental issues, as well as the conventions, guidelines and standards agreed by its members.

EUROPEAN COMMISSION

The Directorate-General for Enterprise and Industry of the European Commission works to ensure that EU policies contribute to the sustainable competitiveness of EU enterprises and facilitate job creation and sustainable economic growth. It plays a major role in implementing the Europe 2020 strategy for growth and jobs.

EUROPEAN TRAINING FOUNDATION

The European Training Foundation (ETF) helps transition and developing countries to harness the potential of their human capital through the reform of education, training and labour market systems in the context of the EU's external relations policies.

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

The EBRD is an international financial institution that supports projects from Central Europe to Central Asia. Investing primarily in private sector clients whose needs cannot be fully met by the market, the Bank fosters transition towards open and democratic market economies.

CENTRAL EUROPEAN INITIATIVE

The Central European Initiative (CEI) is a regional forum for co-operation and consultation which promotes collaboration at political, economic and cultural level in Central and Eastern Europe. Founded in 1989, the CEI now counts 18 member states. Since its inception, the Initiative's main aim has been to support transition countries in the process of integration with the European Union.

Western Balkans and Turkey 2012

PROGRESS IN THE IMPLEMENTATION OF THE SMALL BUSINESS ACT FOR EUROPE

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