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**COMMISSION STAFF WORKING DOCUMENT**

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

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## **PART 1 – INTRODUCTION AND EXECUTIVE SUMMARY**

### **The European Charter for Small Enterprises in the Western Balkans entering its second year**

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

The previous Commission Staff Working Document SEC (2004) 149, published on 11 February 2004, has reported on the state of the business environment for small enterprises in these countries. The report has been widely disseminated in the countries of the region in 2004 in a dedicated effort by the (Delegations of the) European Commission.

This 2004 report, which was based on eight national reports of the participating countries or entities (Kosovo and Montenegro have a separate input in this process) has also allowed a total of 41 specific targets to be set and announced. The current 2005 report will take stock of progress made in improving the small business environment in the countries concerned, set new targets and look at the degree to which the previous targets were achieved over the last twelve months.

The current report includes Croatia, which has received candidate status in 2004 and which will therefore, in consecutive reporting cycles, be included in the report dealing with the implementation of the European Charter in the candidate countries (Bulgaria, Romania and Turkey). The report also includes the former Yugoslav Republic of Macedonia, which has applied for candidate status in 2004. Should the country receive candidate status it will also be included in the future reports on the candidate countries. In the cases of both countries, the European Charter for Small Enterprises has largely determined the stipulations of the SME section (Chapter 16) of the Commission questionnaire and (in the case of Croatia) the ensuing Opinion on the EU membership ambitions of these countries and has therefore been used as a tool to evaluate the “soft acquis” of the candidates in the area of SME policy.

### **Moldova joins the scheme**

In January 2004, Moldova declared its commitment to the Charter and its interest in participating in the scheme. Moldova had initially been approached by the European Commission in 2003, in a joint effort with the Stability Pact for South Eastern Europe, with a proposal to join the scheme on equal terms with the countries of the Western Balkans. Moldova was not yet ready to fully engage in the process in 2003, but has become a full partner in the course of 2004 and has produced its first national report in October 2004. The current report therefore includes Moldova.

### **Launch of the 2004/2005 process**

The European Commission staged the fourth meeting of national co-ordinators of the Charter in the Western Balkans and Moldova on 22 March 2004 to launch the 2004/2005 implementation cycle. The meeting was successfully organised by Albania - and Moldova joined the group for the first time.

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

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

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

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

<b>Table 1. Dates of the bilateral meetings</b>	
Serbia	23 June
Montenegro	25 June
Kosovo	1 September
Former Yugoslav Republic of Macedonia	3 September
Bosnia - Herzegovina	21 September
Albania	24 September
Croatia	27/28 September
Moldova	30 September

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

- (1) Relevant Ministries for the formulation of policies for small enterprises (Ministries of Economic Affairs) and for the formulation of policies in other areas highlighted in the European Charter (Ministries of Education, Finance, Labour and others)
- (2) Chambers of Commerce and Industry

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

In October 2004 the national reports, duly redrafted after the bilateral meetings, were submitted to the European Commission and published on the internet<sup>1</sup>.

On 22 and 23 November 2004 Montenegro organised the 5<sup>th</sup> meeting of national co-ordinators to provide comments on the draft of the current European Commission Staff Working Document.

This year a dedicated effort has been made to compare the findings of the Charter exercise with those arising out of the **Enterprise Policy Performance Assessment (EPPA)**, an equally annual policy assessment exercise conducted in the region as part of the Investment Compact<sup>2</sup> under the auspices of the **OECD in conjunction with the European Bank for Reconstruction and Development (EBRD)**. The EPPA's are not government reports, like the Charter reports, but reports drawn up by experts on the basis of interviews with entrepreneurs. A special meeting was organised by the OECD on 4 November 2004 to compare and contrast findings of both exercises and to agree on a number of common findings. Moreover, the **European Training Foundation (ETF)** in Turin has provided its own assessment of the national reports on the Charter areas 1 and 4, dealing with education and training and the current report reflects this analysis as and when appropriate. The specific country assessments can be found on the ETF's website<sup>3</sup>

### **Progress made since last year on the targets set by the different countries and entities**

The seven countries/entities of the Western Balkans set a total of 41 targets in the 10 areas of the European Charter and this year's implementation round allowed to assess progress in achieving these targets. The results are summarised in the annex to this report and the most significant achievements are reiterated in the main body of the text.

They indicate that roughly a quarter of the targets have been achieved, half of the targets are progressing and on the remaining quarter no tangible progress can be recorded. Most of the progress is recorded in the "soft" areas of the Charter such as education, training and skills development whereas areas such as regulatory reform are more complicated. On average, all

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<sup>1</sup> [http://europa.eu.int/comm/enterprise/enterprise\\_policy/charter/charter-2005\\_balkan.htm](http://europa.eu.int/comm/enterprise/enterprise_policy/charter/charter-2005_balkan.htm)

<sup>2</sup> [www.investmentcompact.org](http://www.investmentcompact.org)

<sup>3</sup> [www.etf.eu.int/entrepreneurshiplearning](http://www.etf.eu.int/entrepreneurshiplearning)

participating countries have a mix of achieved and delayed targets, with most difficulties faced by Kosovo and Bosnia-Herzegovina. However, some of the results may have been predictable from the outset, with some “easier” targets relating to ongoing, continuous projects and the more difficult ones often requiring new legislation and budgets. The first year of the Charter implementation was a trial year. In the current and subsequent reports more emphasis has been placed on the identification of concrete and measurable targets at a higher level of aspiration. A minor number of targets set out in the national reports have in effect been disregarded for this European report and other targets were either added or reformulated at the November meeting in Montenegro.

Overall, the basic infrastructure for developing and implementing policy is present in all countries (see table 2) with the more recently established SME Agencies in Albania and the former Yugoslav Republic of Macedonia clearly assuming more active roles. Both a strategy and an agency for SME’s are however still lacking in Kosovo and Bosnia-Herzegovina. Those strategies are planned to come into existence in 2005 and it is the Charter process that has propelled both countries/entities to work in this direction.

<b>Table 2. Basic policy infrastructure for SME policies</b>		
	<b>SME strategy</b>	<b>SME Agency</b>
<b>Albania</b>	√	√
<b>Bosnia-Herzegovina</b>	<b>planned for 2005</b>	<b>no</b>
<b>Croatia</b>	√	√ <sup>4</sup>
<b>Kosovo</b>	<b>planned for 2005</b>	<b>no</b>
<b>Former Yugoslav Republic of Macedonia</b>	√	√ <sup>5</sup>
<b>Moldova</b>	√	<b>no</b>
<b>Montenegro</b>	√	√ <sup>6</sup>
<b>Serbia</b>	√	√ <sup>7</sup>

### **Targets set for 2005**

In this year’s Charter cycle, 56 new targets have been added to the 41 identified last year. In addition, some of last year’s delayed but essential targets have been reinstated at the instigation of the national coordinators.

They are distributed as follows over the different countries and Charter areas:

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4      [www.hamag.hr](http://www.hamag.hr)  
5      [www.apprm.org.mk](http://www.apprm.org.mk)  
6      [www.nasme.cg.yu](http://www.nasme.cg.yu)  
7      [www.sme.sr.gov.yu](http://www.sme.sr.gov.yu)

**Table 3: Targets for 2005**

	Albania	Bosnia-Herzegovina	Croatia	Kosovo	Former Yugoslavia	Moldova	Montenegro	Serbia	total
1 educ/training			3	1	2	1	3		10
2 start up	1	1	4	1	1	1	1		10
3 legisl/regulation	1	1		2		3	2		9
4 skills			3		1	1			5
5 online access	1			1		1			3
6 single market				1	1			1	3
7 tax/ finance	1		2			3			6
8 technology				1	1	1			3
9(e-)bus.support			1	1		1	1	1	5
10 representation				1		1			2
Total	4	2	13	9	6	13	7	2	56

Most targets are set in the areas of legislation & regulation, cheaper & faster start up and education & training (9 for the first area, 10 for the other two) and Croatia and Moldova are the two countries with the highest number of targets (13 each).

### **Final comments**

Whilst the Charter process is generally progressing well in the countries of the Western Balkans and now in Moldova as well, two problematic issues merit consideration in the future:

- (1) First, the situation in **Bosnia-Herzegovina and Kosovo** implies that the Charter process here is not at cruising speed. Where Bosnia-Herzegovina is concerned, the “Dayton” constitutional structure of two autonomous entities (the Federation of Bosnia-Herzegovina and the Republika Srpska) and one autonomous district (Brcko) which together compose the national state of Bosnia-Herzegovina render the functioning of the Charter process in this country relatively ineffective. In effect, SME policy is largely conducted at the entity/district level, whereas the Charter reporting process takes place between the European Commission and the state of Bosnia-Herzegovina. It is indeed designed to help countries make progress in policy development. The specific situation in Bosnia-Herzegovina leads to fractured national reports, disaggregate data and a near impossibility to set targets (or indeed conduct policy) at a national level. The current European Charter report exercise has led the state of Bosnia-Herzegovina to identify the elaboration of a national state-level SME strategy as a target for 2005, which is a very positive development. In the absence of such a strategy and an apparatus for its implementation in 2005, the status of Bosnia-Herzegovina in the Charter process may need to be reconsidered in the short to medium term. Where Kosovo is considered, the current Charter report, as well as Kosovo’s own report, reflect the specific difficult political circumstances of this area as well as the harsh macro-economic state of affairs. Kosovo’s social- economic priorities are manifold and budgetary resources limited. It is difficult to set priorities for small companies and acquire the means to achieve these objectives. Kosovo is generally behind the other countries where progress on small company policy is concerned and in the future specific attention to Kosovo’s endeavours may be warranted.
- (2) Secondly, close inspection of the national (government) reports and a comparison with data from the donor community brings to the surface that governments in this region are, at times, insufficiently aware of the actual scope of SME measures in the country. Many of those measures are donor supported, particularly in the areas of business support centres of all kinds, training programmes and financial engineering for SME’s (credit lines and micro credit) and there appears to be an information gap between donor supported activity on the ground and the reporting capabilities by the government as articulated through the Charter process. For future Charter reports, a reflection is warranted on how (some) governments and agencies in the region can be kept abreast of the full scope of donor supported SME measures and how their reporting process can be rendered more exhaustive. National SME agencies should in particular address this information deficit and aspire to become an intelligence-gathering and co-ordinating hub in the multi-stakeholder environment of SME policy.



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

### 1. EDUCATION AND TRAINING FOR ENTREPRENEURSHIP

#### Actions recommended according to the Charter:

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

Reporting in this area of the Charter reflects the positive contribution of the international **Junior Achievement/Young Enterprise programme**<sup>8</sup> in the region. This programme includes various modules for supporting entrepreneurial aptitudes and skills, ranging from traditional class room teaching to establishing real and virtual youth companies and the organisation of competitions between those companies. In all countries, in some in more extensive ways than others, it provides an excellent extra-curricular opportunity for entrepreneurship development for pupils in either primary or secondary education (see table 4). In **Kosovo** it is planned to be introduced in five pilot schools (three primary, two secondary) in the 2004/2005 school year. Whilst it plays a most useful role in developing enterprise skills and aptitudes amongst pupils, its predominant role in this field also underscores the lack of mainstreaming of entrepreneurship education. With a few exceptions, it is not integrated into the educational curriculum and is at best embedded as a topic in general (or “applied”) economics courses.

#### Primary education

In primary education, entrepreneurship is largely confined to the extra-curricular Junior Achievement programme (**Croatia, former Yugoslav Republic of Macedonia, Serbia, Kosovo** starting this year) or embedded in generic courses (Economics Education in **Albania**, Applied Economics in **Moldova**). Moldova now also has an optional course on entrepreneurship

In addition, in **Montenegro** *Entrepreneurial clubs* have been introduced in elementary schools (5 elementary schools, 94 pupils). These clubs enhance the children’s entrepreneurial spirit, introduce them to basic economic concepts and instil motivation to follow through on one’s own (group or individual) initiatives. This was introduced as an own initiative of the SME Agency in Montenegro. The *Montenegro Business Alliance* has published a book ‘my business’ which is aimed at children in the 9-10 years age bracket and introduces entrepreneurship. It is distributed in more than 60 elementary schools.

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<sup>8</sup> [www.ja-ye.org](http://www.ja-ye.org)

## Secondary education

In **Serbia** the Ministry for Education, in co-operation with the SME Agency, has established an *expert team* with a view to introducing Entrepreneurship as a subject in the curriculum. The team should pave the way for possible mainstreaming and explore the required preparations, including the education of teaching staff in primary and secondary education. In 2003/04 the JA/YE programme and Business Innovation programme (BIP<sup>9</sup>) have been further expanded. Over 60 Serbian schools are integrated in this programme.

With the introduction of mandatory entrepreneurship education in the Republika Srpska, entrepreneurship can nearly be considered mandatory in the whole of **Bosnia-Herzegovina**.

In **Croatia, Serbia and Montenegro and the former Yugoslav Republic of Macedonia** the Junior Achievement programme is operational (60 schools in Serbia, 17 schools in Montenegro, 42 in the former Yugoslav Republic of Macedonia). In **Croatia**, a few private secondary schools provide mandatory courses on entrepreneurship.

The **former Yugoslav Republic of Macedonia** is probably ahead of most other countries in the region on entrepreneurship learning within secondary education. All pupils in secondary high schools are required to take a *management and business course*. Eight schools take part in the Vocational Education Training (VET1 and VET2) Phare programmes, aiming to restructure the educational system and increase entrepreneurial skills in society. Students are able to choose entrepreneurship as an additional subject, which they must pay for. Economic high schools offer the course *Outlines of Business* and several secondary schools have initiated a project, in which students are required to prepare virtual or real firms / business ideas.

In **Albania**, elements of entrepreneurship are embedded in a mandatory course “Applied Economics”. The curriculum in **Moldova** contains a *mandatory course* on “small businesses and the basics of entrepreneurship”.

## Tertiary education

In **Serbia**, various state Universities offer specialist courses and titles in SME/ Entrepreneurship topics, including post graduate courses. The national report identifies ten Faculties or Colleges where such opportunities are offered, six of which are in Belgrade and four in other Serbian cities. There is also a growing range of private sector University/college courses. In **Montenegro**, the Economics Faculty of Podgorica offers a specific course, including one postgraduate course.

In **Albania** entrepreneurship can be studied within the economics faculty but there are no titles on entrepreneurship within public universities.

In the **former Yugoslav Republic of Macedonia**, University education focusing on entrepreneurship improved substantially last year, mainly due to the increasing number of private, often foreign, Universities where entrepreneurship is part of Economics or Business Administration Studies. However, there are no specialised undergraduate programmes for entrepreneurship yet. The Economic Institute has the option of obtaining a Master level

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<sup>9</sup> [www.bips.no/s-and-m.html](http://www.bips.no/s-and-m.html)

qualification in entrepreneurship. This state of affairs of foreign and private initiative based supremacy in entrepreneurship learning is largely similar to that in **Moldova**.

**Croatia** also has specialised University programmes on entrepreneurship, including one University which is entirely dedicated to a full-time three year course for entrepreneurial economists<sup>10</sup> with 760 full-time students. Croatia has three postgraduate studies on entrepreneurship, each in a different city (Zagreb, Osijek, Varaždin)

**Kosovo** has one Business Faculty in Peja.

### **Vocational training**

Generally, embryonic or basic forms of entrepreneurship can easily be detected in various vocational training programmes in the countries concerned. **Serbia** will, from September 2004 introduce entrepreneurship as an entirely separate subject within vocational education. A programme for Entrepreneurship as a subject for experimental classes is prepared for 50 vocational schools whose students study agriculture, construction, geodesy, electro techniques, machinery and medicines

In the **former Yugoslav Republic of Macedonia**, the GTZ (German donor organisation<sup>11</sup>) supported VET project aims to restructure the vocational training system through a reform of the teaching plan and programme. It is being implemented in 8 vocational training centres around the country. Entrepreneurship forms part of the regular curriculum and seeks to encourage students to start their own business upon leaving school.

In **Kosovo**, the Ministry for Education and Science has introduced entrepreneurship as a *mandatory course* in the curriculum of vocational training and this course will commence in the school year 2004/2005. As part of a project supported by Switzerland, Kosovo has gained its first experience with *virtual company training* in one of the high schools in Prishtina.

### **Other initiatives including informal learning**

In **Serbia**, attempts to promote and praise entrepreneurship are evident in schemes such as the “*Serbian gazelles*” (December 2003) , which identifies the 68 most dynamic Serbian companies according to various indicators, and the *report on the 100 most successful enterprises in Serbia* of August 2003, which identifies and heralds individual leaders of economic development. It is also noteworthy that the Serbian Chamber of Commerce operates a special *Centre for Business Education* and the *Community of Entrepreneurs*, which actively engage in entrepreneurial education.

In **Montenegro** the SME Agency is engaged in running courses on *business protocol and business etiquette* as well as various seminars or short training modules.

In **Albania** the *entrepreneurship training programme* (ETP) of SEED<sup>12</sup> started in September 2003. The courses are intended to enhance the management skills of entrepreneurs and managers. The SME Development Agency has proposed a new concept of integrating all existing training resources into a *national training programme* to enhance SME business

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<sup>10</sup> [www.vern.hr](http://www.vern.hr)

<sup>11</sup> [www.gtz.de](http://www.gtz.de)

<sup>12</sup> [www.ifc.org/seed](http://www.ifc.org/seed)

standards to the level of the required European and global markets. The programme intends to link various existing and planned donor supported training projects, methodologies and instruments into one integrated system, which provides training products for internationalisation of SME's. This is a worthwhile attempt to harmonise the myriad of donor supported training initiatives and could potentially inspire other countries in the region.

In **Croatia**, the Croatian Employers' Association implements the *Programme of Managers' Improvement (PUMA)* - a vast series of seminars and workshops in the country to improve various aspects of company management. Over the last year some 1224 entrepreneurs and managers took part in 72 seminars and workshops which were held in Zagreb, Rijeka, Osijek, Pula and Split.

In **Moldova**, the *Youth Employment Country Network* is a national project implemented by the Centre of Young Entrepreneurs in Moldova in collaboration with the NGO "Balti Student's League" and the Real Science Faculty of the Cahul State University. It includes a module on "Setting-up Businesses", and is available to all people between 18-30 years of age. In the first two phases of the project 240 young people were trained. The *Centre for the Support of Private initiative* offers courses on the following topics: Business Start-up, Enterprise management, Financial planning, Marketing, Ways of getting a credit, Commercial contracts, Tax system and Accounting for beginners.

**Kosovo** has designed a project on entrepreneurship promotion for three key focus groups: the youth, women and the rural population, but it currently lacks (donor) funds for implementation.

**Table 4 – entrepreneurship learning in education and training systems**

	Primary education	Secondary education	University education	Vocational training	Non-formal learning
Albania	no	no	limited (one faculty). no postgraduate.	yes	yes
Bosnia-Herzegovina	no	obligatory <sup>13</sup>	limited <sup>14</sup>	limited	limited
Croatia	(JA)	(JA) In a few private schools has become mandatory	yes, in particular one university entirely dedicated to entrepreneurship. Postgraduate studies as well.	embedded in economics	yes
Kosovo	Start of JA in 3 pilot schools	Start of JA in two pilot schools	One Business Faculty	Mandatory since 2004/2005 school year	no
Former Yugoslav Republic of Macedonia	(JA)	(JA) mandatory management and business course	embedded in economics or business administration courses, mainly private and foreign universities. One postgraduate master level qualification in entrepreneurship.	mandatory as part of a reform package of vocational training	limited
Moldova	optional	(JA)	embedded in economics or business administration courses, mainly	mandatory course on small	yes

<sup>13</sup> See national report from Bosnia-Herzegovina for details and specifics on the two entities of Bosnia Herzegovina. In summary - entrepreneurship is obligatory in Brcko district and, from September 2004 onwards, in Republika Srpska. Within the FBiH it is obligatory only in those schools which follow the Croatian curriculum

<sup>14</sup> Within the FBiH Entity of Bosnia Herzegovina, there are no specific academic titles in entrepreneurship In Republika Srpska one entrepreneurship diploma (University of Banja Luka)

			private and foreign universities. Postgraduate: foreign MBA programmes.	businesses and the basics of entrepreneurship	
Montenegro	pilot project in 5 schools	(JA)	Yes, Faculty of Economics offers graduate and postgraduate courses in entrepreneurship. This Faculty institutes Higher Business Schools as well as Higher School for managers	yes	yes
Serbia	(JA)	(JA)	extensive, both public and private Universities. Postgraduate studies as well.	yes	yes

Some of the main challenges in this area remain the same as last year:

- (1) entrepreneurship learning in both primary and secondary education is, by and large, an optional, extra-curricular topic largely driven and inspired by the Junior Achievement programme – there is little to no sign of mainstreaming (as a part of key competences) into the curriculum
- (2) a wide variety of initiatives to promote entrepreneurship exists, but there is, with a few exceptions, little proof of these being anchored in a national strategy for entrepreneurship development

The targets set for the next 12 month period in this area of the Charter are as follows:

#### **Croatia**

- (1) design of a new project for entrepreneurship promotion throughout education and training as part of the new SME development programme
- (2) final definition of a new curriculum for a Master's craft certificate, which will encompass vocational theory and practice as well as legislation and economic issues of relevance to specific crafts in Croatia
- (3) the existing programme for education of 57 crafts in secondary vocational education will be updated to take better account of the needs of modern technology

#### **Kosovo**

- (4) establishment of a small fund to support 50 entrepreneurship promotion projects amongst the rural population, young people and women

#### **Former Yugoslav Republic of Macedonia**

- (5) amend the curriculum in secondary schools to allow the creation of real and virtual companies in 30 pilot secondary vocational schools – start in 2005
- (6) amend the curricula of universities to allow preparation of specialised postgraduate entrepreneurship studies – November 2005

#### **Moldova**

- (7) creation of a national task force to review educational programmes and where necessary adjust these to include or reinforce entrepreneurship learning

#### **Montenegro**

- (8) Implementation of a training programme for the internationalisation of SME's (30 SMEs with export potential) – December 2005
- (9) Training for start up enterprises (20 SMEs) – May 2005
- (10) Business co-operation network programme – 4 training programmes for entrepreneurs education and management skills – May 2005

## 2. CHEAPER AND FASTER START UP

### Actions recommended according to the Charter:

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

In last year's report **Montenegro** stood out for its rapid and relatively cheap company registration procedure, the fruit of its recent and thorough reform in this area. Since last year's Charter report on the Western Balkans, various countries have introduced new legislation or taken measures to expedite company registration procedures, in particular in **Serbia** and **Bosnia Herzegovina**. **Moldova** has also made considerable progress over the last twelve months.

Based on the national reports, the current delays in working days for company registration can be presented as follows<sup>15</sup>

Table 5. Reported company registration delays in working days								
	Albania	Bosnia-Herzegovina <sup>16</sup>	Croatia	Kosovo	Former Yugoslav Republic of Macedonia	Moldova	Montenegro	Serbia
Registration proper	2-15	5	10-20	1-3	3-5	One stop shop <sup>17</sup>	3-4	22-40
Additional steps and procedures	5-15	7-20	7-30	1-2	4-7	3-10	1-2	20-30
Licensing and permits	22-30	10-60	30-60	3-7	10-15	8-15	52-65	176-250

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

<sup>15</sup> The national reports also provide information on the costs of company registration but these could not be made comparable for the purposes of the current report (differences in GDP, calculation methods). Bosnia-Herzegovina lacks aggregate data in the national report.

<sup>16</sup> The data for Bosnia-Herzegovina reflects the new law which sets a maximum processing time of five days for proper registration. The other data is based on the national report for Bosnia-Herzegovina which still reflects current differences between the constituent Entities of the country. For this table the lowest and highest values of those Entity's data have been taken into account and the result is only indicative, not precise.

<sup>17</sup> In Moldova various steps of registration and additional procedures are integrated into a one-stop shop procedure. The one stop shop is however still incomplete with five remaining steps/institutions to be integrated over the course of next year. See targets.



From the current table however, the following can be derived:

- (1) in the absence of one stop shops and online registration, company registration is still a time consuming process in most countries,
- (2) the really excessive delays are usually in the phase of permits and licensing
- (3) the newly installed company registration systems in **Kosovo , Moldova and Montenegro** make them boast relatively swift company registration procedures, whereas **Serbia** is significantly slower (and is therefore now completing an overhaul of its procedures) Croatia and Albania could still make improvements.

Indeed, **Moldova** can boast, since 2002, a rather modern and efficient registration system which effectively operates as a *one stop system* incorporating various steps (registration proper, fiscal and statistical codes and data) and the approval of the company's name into one integrated electronic system at the State Registration Chamber, which connects various regional offices in a "real time" computer network. With this system, the number of formal steps was reduced from 13 to 2. In addition, a modernisation of the licensing process was initiated through a new Law on 24 June 2004. Economic entities are now exempted from the payment of notary services for the mandatory legal certification of documents required to obtain a license, and the whole process has been made simpler and faster: the number of activities which require a license has been reduced from 112 to 47 and some licensing has been decentralised to local authorities. The list of required documents has been also reduced (reduction from 255 to 126 for the 47 types of licensed activity i.e. an average of 3 per activity). New licensing conditions have been elaborated for all types of activities.

Last year's Charter report noted that company registration is still a slow and expensive process in **Serbia**. Therefore, a new *Law on Business Registration* was adopted on 21 May 2004, as well as the *Law on Business Registration Agency*. These laws regulate the streamlining of business registration, the setting up of a new, independent registration agency and the introduction of a system of *on-line registration*. Once in force and implemented, the law will simplify and concentrate registration in the Agency and allow the acceleration of registration (proper) to within 5 days. Online registration will require the additional enactment of the e-signature act in Serbia.

**Croatia**<sup>18</sup> simplified the registration of craftsmen last year. Through the establishment of the *Central Register of Crafts* in the Ministry of Economy, Labour and Entrepreneurship, the collection of data on registered craftsmen has been made faster and more transparent. Electronically linked to the central register, 108 registration bodies have been established locally, which makes the start of crafts relatively fast and efficient. If the applicant fulfils all the legally prescribed conditions, the usual registration delay is 2 days, maximum 15 days. Moreover, a government facility for craft start-ups offers the possibility of 100% coverage of the crafts registration costs. The Ministry finances the whole amount through the programme *Start-up for 2004*. Taking into account the need for an equally simplified procedure for other

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<sup>18</sup> After the reporting period for this report (September 2004) Croatia has, by a government decision of 15 October 2004, introduced a one stop shop procedure. Details of the changes will be reflected in next year's Charter report. One of Croatia's targets under this area reflects the planned enactment of this decision.

company start-ups, CEPOR<sup>19</sup>, Croatia's SME Policy Center, analysed the obstacles in launching new business enterprises and formulated a recommendation for a cheaper and faster start-up process in Croatia as a priority. The objective is to achieve by 2008 the following *benchmark values*: registration time for companies: 3 days, number of forms: 5, only 1 official license. In order to achieve these objectives, Croatia would also introduce the principle of "*silent consent*".

**Bosnia – Herzegovina** has been characterised by stark differences between the constituent Entities of the country and the European Union has called on the country to set up a uniform company registration procedure as part of the 16 policy priorities which the country must meet in order for the Commission to recommend the start of negotiations on a Stabilisation and Association Agreement. In July 2004 a new *Law on Registration of Enterprises* at State level was adopted by the Parliament, which seeks to regulate, expedite and harmonise (between Entities) the procedures and formalities for company registration. It also seeks to minimise registration delays to 5 days. Although clearly a step in the right direction, the law however does not regulate a (maximum) fee and still requires additional legislation at the level of the Entities. Regulating the fees at state level would require a change in legislation allowing courts autonomy in the calculation of fees.

**Montenegro** is undertaking a *pilot project* in one municipality (to be subsequently extended to three towns) to take stock of procedures, forms and formalities involved in the attribution of licenses and permits, which, as noted above, constitutes the main cause for start up delays. The project envisages to develop a *standard uniform model* (and when necessary a new legal measure) for all Montenegrin municipalities. This new format would define and simplify the procedure, the terms and the costs of issuing permits. Representatives of the private sector will be involved in the development of this new model.

In **Albania** company registration is still a very costly affair and the system of profit taxes, which involves advance payments, contributes negatively to this state of affairs and to the growth of the grey sector in Albania. The country is now setting out to address these problems (see targets).

In the **former Yugoslav Republic of Macedonia**, the *new Law on Trade Companies*, adopted by Parliament in April 2004, provides a new typology of companies and an easier and more transparent registration procedure, limiting the court decision for registration to seven days. The new law includes the use of a *one stop shop system* for registration, but the concept is not yet implemented.

In **Kosovo**, the new *Office for Permanent Business Registration*, which, although established in 2002 has up till 1 May 2004 mainly been charged with re-registrations of existing companies, is now operational for new companies and has effectively reduced registration time from 10 days to 1 since June 2004. It is technically prepared for online registration, but the e-signature law is not yet in place in Kosovo.

Various countries have quicker procedures for businesses with a smaller scope i.e. sole proprietors, shops or crafts (**Serbia, Croatia, former Yugoslav Republic of Macedonia**). In the former Yugoslav Republic of Macedonia this includes the "*silent consent*" principle for these companies.

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<sup>19</sup> [www.cepor.hr](http://www.cepor.hr)

*Online registration* is not possible in any country, with the exception of embryonic online registration systems in Croatia (for crafts) and Moldova.

The targets set for the next 12 month period in this area of the Charter are as follows:

**Albania**

(11) develop a new legal framework to reduce business registration time – September 2005

**Bosnia-Herzegovina**

(12) fully harmonised legal framework in Bosnia-Herzegovina for registration of companies

**Croatia**

(13) make start-ups for all crafts simpler and faster through technological improvements of the local government offices responsible for crafts registration (including new equipment)

(14) make start-ups for all companies simpler and faster through the enactment of the government decision of 15 October 2004 introducing a one stop shop procedure

(15) start first phase of online registration for companies early 2005

(16) opening of 2 new regional information centres of the HBOR (Osijek and Rijeka) to provide council and support to start ups.

**Kosovo**

(\*) introduction of online registration (*reinstated target of last year*)

(17) introduction of online help-line to advice citizens who are interested in starting a company

**Former Yugoslav Republic of Macedonia**

(18) preparation of by-laws to introduce a one stop shop system – November 2004

**Moldova**

(19) further refinement of one-stop-shop to integrate remaining administrative barriers/steps and reduce time and costs of start ups by 40 %

**Montenegro**

(20) approval of a new regulation streamlining and harmonising issuance of permits and licences (shortening the total procedure to no longer than 10 days) – June 2005

**Serbia**

(\*) introduce on line registration – early 2005 (*reinstated target of last year*)

### 3. BETTER LEGISLATION AND REGULATION

#### Actions recommended according to the Charter:

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

In **Serbia** the new draft *law on bankruptcy* was adopted by the government on 20 May 2004 and then submitted to the Parliament for approval. The new laws on business registration and the business registration agency were adopted on 21 May 2004 (see Chapter 1 of the current report). A planned reform of the Council for Regulatory Reform of the Economic System, which monitors economic development and proposes reform, has stalled due to elections and government changes. A main weakness of the Council is that ministries are not under an obligation to submit new regulations for an opinion.

**Bosnia-Herzegovina** is still characterised by the absence of harmonised policy framework – a planned (Charter 2003/04 report) harmonisation of state and entity laws regulating the sector of SME's (definitions, policy orientations, role of institution) has not made any progress. Under this year's Charter exercise, the state of Bosnia-Herzegovina is setting out to draft a national SME strategy which is an important step in the right direction and could lead to a progressive promulgation of state level policies and instruments for SME's. Next year's Charter report will therefore be critical in assessing the prospects of (state level) SME policies in Bosnia-Herzegovina.

**Croatia** is the first country in the Western Balkans to introduce, in April 2004, the principle of *Regulatory Impact Assessments (RIA)* and it is piloting the system on six new laws. In September 2004 the Croatian Parliament adopted *amendments to the Law on Business Premises*. The provisions of this Law provide for more effective and secure use of the rented business premises by the SME's. A new *Investment Promotion Act* is in preparation and is expected to make a significant impact on the SME sector. This new proposal aims, inter alia, the reduction of minimally needed invested capital. In March 2004, the new Croatian Government has adopted a *new SME Promotion Programme*.

In **Montenegro** a new *mortgage law* has been adopted by the government under which the court has established a mortgage registry, which improves conditions for acquiring bank loans. Likewise a new law on protection of deposits defines the protection of deposits in the banking system.

In **Albania** work on the implementation of the FIAS (IFC/World Bank Foreign Investment Advisory Services<sup>20</sup>) *action plan for reducing investment barriers* is gradually advancing. Working groups for four sectors have been established: tax administration, customs administration, land and construction, appeal system and licensing. Those groups are composed of experts from governmental institutions, business community, universities and

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<sup>20</sup> [www.fias.net](http://www.fias.net)

professional think-tanks. Albania has initiated the dialogue with the private sector to prioritise the FIAS recommendations and to select the appropriate measures for implementation. The Action Plan was adopted by the Council of Ministers on 1 August 2003. From September 2003 to September 2004 concrete achievements have been noticed, such as the *identification of all unregistered businesses*. The law on the *Compensation and Restitution of the land to the former owners* was decreed on 6 August 2004 – land ownership issues have been a major impediment to bank lending to small companies because of collateral requirements. The OECD has also finalised a study (financially supported by the European Commission - DG Enterprise) to analyse the substantial grey economy in Albania and the government is expected to adopt a concrete plan for its reduction in 2005 (see targets).

In **Moldova** the Governmental *Committee for Regulatory Reform* was created on 17 February 2004 which approved a *Plan on State Regulatory Reform* for 2004. Moldova is attempting to tear down its reputation as a business unfriendly environment with excessive bureaucracy and control by state bodies and the plan identifies 28 measures to re-orient the state from a controlling function to a facilitating one. In 2004 chargeable services were reduced by 12 % and controls and inspections of companies are being reduced. The plan foresees the introduction of *Regulatory Impact Assessments* with a view to optimising the impact of the whole body of legislation and regulation in Moldova on the business environment. Successive Charter reports will allow to track real progress in this field. A new *Law on Investment*, adopted on 18 March 2004, regulates investment activity and affords local investors the same rights as foreign ones.

The targets set for the next 12 month period in this area of the Charter are as follows:

#### **Albania**

(21) develop a concrete plan for the reduction of the grey economy

#### **Bosnia-Herzegovina**

(22) state level strategy on SME's covering the period 2005-2007

#### **Kosovo**

(23) design of a medium term strategy for SME's

(\* adoption of a new law on SME support and the Law on Foreign Investment (*reinstated target of last year*)

(24) law for the accreditation of SME trainers and SME service providers.

#### **Moldova**

(25) elaboration of the law with regard to the regulation of entrepreneurial activity – the law will seek to minimise the negative impact on SME's of the state's regulatory activity

(26) elaboration of the law on SME's regulating definitions, changes in policies and measures of the state vis-à-vis SME's

(27) further review (by government committee and the National Task Force for regulatory reform) of the list of chargeable services by public institutions and formulation of a proposal

for the reduction of the number of chargeable services

The combined implementation of all three measures should lead to a reduction by 50 % of chargeable services and a considerable reduction of controls and inspections on SME's and the institutions undertaking these. The bankruptcy procedure will likewise be simplified.

### **Montenegro**

(28) approval by Parliament of the new law on mortgage

(29) amendments in bank laws easing access to finance and services by SME's

## **4. AVAILABILITY OF SKILLS**

### **Actions recommended according to the Charter:**

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

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

There is a wide range of training programmes often delivered through local and regional mechanisms (business support centres/agencies) and it would go beyond the scope of this European report to mention individual projects. For that information, the national reports should be consulted. The current report only mentions those "value added" measures which pursue a more global, transversal or innovative approach and/or tackle generic issues such as, inter alia, the sustainability and rationalisation of such centres, quality control on services offered and the accreditation/certification of training and consultancy programmes and providers.

In **Serbia** a *Service Support Scheme* (SSS) was implemented in the period 2003/4. The main objectives of the SSS, in which seven regional SME support agencies/centres took part, were securing access for existing and potential entrepreneurs to high quality consulting services (mostly with assistance in the creation of business plans) and training courses at favourable (subsidised) prices. Regional agencies/centres have also been helped to identify and train SME service providers (trainers and consultants) and that network has almost doubled from 197 in March 2003 to 315 in March 2004. Serbia has also established a *Centre for Accreditation* of courses and training programmes, which is however not yet operational. The European Training Foundation launched the *Project of strengthening partnership among institutions for the education of managers and enterprises through the application of ETF tools* in Serbia in May 2004. The project should create favourable conditions for building management potential within the enterprises. The project's methodology should allow to efficiently establish the educational needs of an enterprise, define priorities and then design and deliver the appropriate training programmes.

**Bosnia-Herzegovina** has a similar scheme for training of instructors and counsellors for SME needs, but so far only in Republika Srpska, one of its constituent Entities.

In **Albania**, donor organisations are helping to upgrade and certify quality in business consultancy. SEED has organised training courses with the main objective to develop *capacity building for business consultants* to offer high quality service. GTZ trains experts and managers on the European certificate for auditors and ISO 9000 and is also training managers of Albanian business associations. Albania is developing a *curriculum on business management topics* needed by consultants in the country. These core skills will form the basis of a new qualification for business consultants.

In **Croatia**, the SME Policy Centre (CEPOR), in co-operation with the University Josip Jurij Strossmayer in Osijek, has finished a project *Designing an SME training model*, co-financed by the European Training Foundation and the Soros Foundation. The result of the project is a *growth and development of companies* training programme focused exclusively on the needs of SMEs with growth potential. The education is organised in modules which are customised according to previously determined needs of the concrete group of attendants. The experimental application of the training package in co-operation with the three entrepreneurial centres in Čakovec, Osijek and Pula is on course. The Croatian Small Business Agency (HAMAG) carries out a programme of education and *development of consultants network* and plans to certify up to 20 SME consultants by the end of 2004. The Employers Association, the Economic Institute Zagreb and Deloitte & Touche Croatia have, in July 2002, established the *Business Counsellors Association* <sup>21</sup>, a vocational association for the development and protection of the quality of business counselling services, which comprises 125 members.

In **Moldova**, the Chamber of Commerce and Industry and the National Agency for Employment are presently involved in the *design of a comprehensive training system on entrepreneurial skills for adults* with a view to the future adoption of a state programme. The *Voucher Programme* facilitates the development of a business advisory services market and, in doing so, upgrades the competitiveness of SMEs. A similar Voucher counselling scheme was planned for a start in **Kosovo** this year, but has been delayed. Kosovo has seen the establishment of 8 new local centres providing training of start-ups and business development.

Finally, the EBRD's *Turn-Around Management/ Business Advisory Services (TAM/BAS) programme*<sup>22</sup>, supports SME's with development potential, but which are facing problems in the period prior to - or following privatisation. The BAS component is successful in aiding the development of a *local consultancy market* in particular in Serbia, Montenegro and the former Yugoslav Republic of Macedonia.

The targets set for the next 12 month period in this area of the Charter are as follows:

#### **Croatia**

- (30) Further certification of 20 SME consultants in 2004 and 30 consultants in 2005
- (31) training of 3920 start ups through the Ministry's "start up programme"
- (32) enrolling of 4000 SME participants in the "growth programme" (cycle of seminars and e-education)

<sup>21</sup> [www.ups-amc.org](http://www.ups-amc.org)

<sup>22</sup> [www.ebrd.com/apply/skills/tam/about/main.htm](http://www.ebrd.com/apply/skills/tam/about/main.htm)

## **Kosovo**

(\*) implementation of a voucher scheme for training and consultancy services to SME's  
(*reinstated target of last year*)

## **former Yugoslav Republic of Macedonia**

(33) implementation of a voucher scheme for training and consultancy services to SME's

## **Moldova**

(34) creation of a single information system (database) for the national SME information, training and consultancy infrastructure

## **5. IMPROVING ONLINE ACCESS**

### **Actions recommended according to the Charter:**

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

Generally, online access as promulgated by the Charter is virtually non-existent in Moldova and the countries of the Western Balkans. **Croatia** is the only country that is gradually pulling ahead, with a specific SME web portal under construction and online access systematically programmed (although not yet realised) in government strategies.

In **Croatia**, in 2000, a *Central State Administration Office for E-Croatia* was created with the purpose to improve and simplify communication between public administration, citizens and business entities. In 2003, the Office has made an Action Plan for the implementation of *Programme 2007*. This scheme should allow state administration bodies to issue official patterns in electronic format so that citizens and business entities may access these online. Croatia will thus soon become the first country in the Western Balkans where a true interactive online access is in place. Projects of on-line access to tax accounting are being implemented. The following projects are also planned: the e-tax return, online submission of statistical financial reports, pension forms and others.

Croatia has also set up the *Central Register of Crafts* which allows electronic crafts registration and it contains data for all crafts in Croatia (see chapter 1). The Ministry of Economy, Labour and Entrepreneurship, has an interactive Q&A on its website for daily communication with entrepreneurs. The SME policy centre (CEPOR) co-finances the design of an *Entrepreneur portal* within the Entrepreneurship Center in Osijek<sup>23</sup>. This enables entrepreneurs, or those who want to become entrepreneurs, to use on-line advisory services for different types of information.

In **Serbia** the development of the Information Society is one of the government's priorities and the country has initiated a development programme for an informatics system, but results

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<sup>23</sup> [www.poduzetnistvo.org](http://www.poduzetnistvo.org)



are only embryonic. Use of internet sites is still mainly passive. The website of the SME Agency shows potential for further development as a SME web-portal, something that is also envisaged in **Montenegro** and **Albania**, but more design efforts are required for those websites.

In **Albania** the SME Agency is developing the Albanian branch of the SEEBiz.net<sup>24</sup> project as part of a plan to create an Albanian SME portal. The SME webportal will be available by the end of 2004 and is designed as a web-management tool that will serve as an official, dynamic, one-stop shop information source for SMEs on the business environment, business opportunities and business development in Albania and the whole of South Eastern Europe. The SME agency will assume ownership of the system. This SEEBiz.net webportal already includes Serbia-and-Montenegro as well as Bosnia-Herzegovina. The **former Yugoslav Republic of Macedonia** is also working towards its connection to this portal.

In **Moldova**, the government, in efforts to develop the information society, e-government and to introduce new economic activity in the country, has identified software design and production as a growth sector and introduced *favourable tax policies* for companies in this sector. Various economic web-sites are developing which SME's can use but there is not yet a central SME web-portal nor interactive online access, but both are planned to be developed by the end of 2004.

Progress appears slower in **Kosovo** and **Bosnia-Herzegovina**, although in the latter country there are some developments under the policy remit of the constituent Entities – the SME Agency of the Republika Srpska also has aspirations for the development of an SME web-portal.

In all countries, the *Euro Info Correspondence Centres*<sup>25</sup> are playing a constructive role in offering web-based information to companies. In various countries, donor organisations play an equally example-setting and pioneering role. The *Soros Foundation* is one of them, with small business sites in countries as **Albania**<sup>26</sup> and **Moldova**<sup>27</sup>.

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<sup>24</sup> [www.seebiz.net](http://www.seebiz.net)

<sup>25</sup> [http://europa.eu.int/comm/enterprise/networks/eic/eic\\_eicc.html](http://europa.eu.int/comm/enterprise/networks/eic/eic_eicc.html)

<sup>26</sup> The Albanian Business Information Centre [www.albic.net](http://www.albic.net)

<sup>27</sup> In co-operation with the Moldovan-American Centre for Private Initiative: [www.smallbiz.md](http://www.smallbiz.md)

<b>Table 6. Development of on-line access</b>				
	E signature act	Specific government or agency service and information website (“portal”) for small companies <sup>28</sup>	Companies can request information or advice by email	Interactive online access (applications, tax returns etc)
Albania	no	no	limited	no
Bosnia-Herzegovina	partly <sup>29</sup>	no <sup>30</sup>	limited	no
Croatia	yes	under construction <sup>31</sup>	yes <sup>32</sup>	complete online access programmed before 2007
Kosovo	no	no	limited	no
Former Yugoslav Republic of Macedonia	yes	no	limited	no
Moldova	yes	no	limited	no
Montenegro	yes	planned <sup>33</sup>	limited	no
Serbia	no	limited <sup>34</sup>	limited	no

<sup>28</sup> Not counted are purely promotional sites of the agencies themselves, or sites with simple passive listings of weblinks. A portal would normally function as a gateway directing entrepreneurs to other web-based information resources.

<sup>29</sup> E signature laws adopted at the level of Republika Srpska, but not at state level, nor in the other parts of Bosnia-Herzegovina

<sup>30</sup> Limited general information in the Entities, but not at state level and mostly not targeted at small companies

<sup>31</sup> www.poduzetnistvo.org.

<sup>32</sup> The Ministry of the Economy has an interactive Q & A for entrepreneurs

<sup>33</sup> the website of the SME Agency will be transformed into a portal

<sup>34</sup> the website of the SME Agency already has lists of relevant websites but no real guidance/portal function

The targets set for the next 12 month period in this area of the Charter are as follows:

**Albania**

(35) develop an SME information portal

**Kosovo**

(36) progressive development of web sites for all Ministries in Kosovo

**Moldova**

(37) develop an SME information portal

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

**Actions recommended according to the Charter:**

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

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

In September 2003, **Serbia's Agency for Foreign Investment and Export Promotion (SIEPA)**<sup>35</sup>, launched the *Programme of export development of the Republic of Serbia*. This two-year EU-supported programme worth €2.5 million assists companies in marketing in the broader sense (participation in fairs, exhibitions, research, product testing), establishes international business linkages and facilitates training of staff. Serbia's *National Competitiveness Council (NCC)*, which includes business representatives, continues to advise the government on issues relating to the international competitiveness of Serbian companies. USAID has formulated (and the Serbian government has accepted) proposals to improve on some of the perceived deficiencies of this forum and a revamped Council should restart its work in autumn 2004.

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<sup>35</sup> [www.siepa.sr.gov.yu/index.htm](http://www.siepa.sr.gov.yu/index.htm)

**Montenegro** has conducted a pilot project with 30 enterprises aiming to enhance their *competitiveness* in local and foreign markets, through a comprehensive package of analysis, training, and standards application as well as financial support to export. This included the promotion of a “*Made in Montenegro*” *campaign*. The main objective of this campaign, conducted in co-operation with the national broadcasting networks, is to influence and raise awareness of the need to create a brand image in the country. Specific attention was given to some opportunity sectors in Montenegro (wood, herbs and forestry, meat and healthy food/organic production sector).

**Albania** has recently established the new *Export Promotion Agency* which should start helping small companies to export to foreign markets. The *Albanian Centre for International Trade (ACIT)*<sup>36</sup> is a resource centre to develop export policies for the country.

**Croatia** and the **former Yugoslav Republic of Macedonia**, having signed the Stabilisation and Association Agreement with the European Union, are aligning conditions for trade with those of the international community and are placing emphasis on compliance with *international quality standards*. Further activities are planned in the former Yugoslav Republic of Macedonia to develop a coherent *image campaign for products* from that country and an *awareness campaign* is envisaged in the near future in this context. The Ministry for Economy in this country has a specific programme for export promotion in which 0,1 % of the revenues from trade are collected to be used for programmes to improve competition as well as export promotion activities (consultancy services, participation in fairs and exhibitions, market research etc.). The Opening of “*Macedonian Economic Offices*” in other countries is progressing .

**Croatia’s National Competitiveness Council** presented 55 recommendations to increase competitiveness of Croatia’s companies. In the framework of the above recommendations the Ministry of Economy, Labour and Entrepreneurship publicly invited Croatian companies to participate in a new project seeking to boost competitiveness. By introducing this “*20 keys methodology in 50 Croatian companies*”, a comprehensive method to improve competitiveness in companies is being tested and enhanced. The Ministry finances the participation of entrepreneurs in fairs and exhibitions and the *Croatian Bank for Reconstruction and Development (HBOR)* has special programmes to support export<sup>37</sup> (credits, insurance etc).

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

The targets set for the next 12 month period in this area of the Charter are as follows:

**Kosovo**

(38) establish at least two Free Trade Agreements with countries in the region

**former Yugoslav Republic of Macedonia**

(39) open first 4 offices for trade and investment opportunities in foreign countries

<sup>36</sup> [www.acit-al.org](http://www.acit-al.org)

<sup>37</sup> [http://www.hbor.hr/eng/fin\\_prog\\_030.asp](http://www.hbor.hr/eng/fin_prog_030.asp)

## Serbia

(40) Reorganisation of the National Competitiveness Council

### 7. TAXATION AND FINANCIAL MATTERS

#### Actions recommended according to the Charter:

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

#### Taxation

**Moldova** is a country where taxation is being used as an incentive instrument to promote the development of small companies and to curb the grey economy. The *Fiscal Code* with regard to the exemption from profit tax was modified on 10 June 2004. Small businesses that engage up to 19 employees and have a turnover € 203,000 can benefit from the *total exemption from profit tax for a period of three years* and a 35% exemption for the following two years. The new Law on Investments of 18 March 2004 equalises the rights and fiscal incentives of foreign and local investors. Customs tariffs were reduced, VAT registration thresholds were raised in December 2002 to the benefit of small companies, corporate tax rates were reduced in 2004 to 20 % and in 2003 the *Law on Exemptions for Innovative Enterprises* was drafted allowing tax exemption for the first five years from the effective application of an invention or any other intellectual property.

**Serbia** introduced new changes to the taxation law in June 2004 and reduced profit tax for companies from 14% to 10%. Serbia has investment tax credits of 20 % of the invested amount to a maximum of 50 % of the calculated tax. It has a two year tax credit for newly employed persons equal to 100 % of operative costs. Still, there are no special tax measures for start-ups and existing SME's. The government has reached agreement with business representatives to introduce further improvements in the tax environment for businesses, including a complete cancellation of the tax on financial transactions, a reduction of other rates and an easing of administrative and regulatory burdens on companies.

In 2003 **Croatia** introduced a flat sum tax for microsubjects (craftsmen and self-employed persons). Instead of keeping business records under certain conditions, they pay a flat sum of income tax and municipal taxes.

Other countries in the region have less favourable tax regimes, particularly **Albania** where entrepreneurs are liable to pay profit taxes in advance. Entrepreneurs in **Bosnia-Herzegovina** often face a plethora of tax rates from different echelons of government (state, entities, cantons) and the government has not been able to abolish these double taxation occurrences, as it set out to do last year. The projected abolishment of mandatory payments of name

protection fees has not been fully realised either. No specific tax incentives for business start-ups exist in the **former Yugoslav Republic of Macedonia**.

All countries in the Western Balkans should ensure compliance of tax measures with European State aid rules.

## Finance

Commercial bank lending is slowly progressing in all countries, interest rates are declining and there are indications that banks are becoming less SME unfriendly and bank staff are better trained and better disposed towards SME's. Nevertheless commercial lending remains insufficient, with the possible exception of **Croatia**. Various donors, both international and bilateral ones, have stepped in with a range of micro-credit organisations/programmes, credit lines as well as guarantee funds to leverage commercial loans from the banking sector. It is outside the scope of this report to give an exhaustive overview. Some of these funds are generic, others focus on special groups, objectives or areas (former zones of conflict, rural areas, employment creation). However, venture capital is virtually non-existent, with the noteworthy exception of the USAID small enterprise assistance fund SEAF<sup>38</sup> which operates in **Croatia** and the **former Yugoslav Republic of Macedonia**. Croatia's own HBOR fund also provides equity and Croatia also has four private equity funds.

General problems with credits to small companies are well-known and include the following aspects:

1. Banks perceive investments as risky and too time-consuming for the relatively small loans
2. High interest rates and high collateral demands by the banks
3. Small companies often lack track records and business plans and banks perceive their management as unprofessional
4. Banks often concentrate too much on the capital and are insufficiently present in other regions

All countries can be seen to be developing instruments to improve the situation, particularly through the development of guarantee funds (**Serbia, former Yugoslav Republic of Macedonia, Albania, Croatia, Moldova**)

In **Serbia** a new *Law on Guarantee Fund* was adopted last year. A *state guarantee fund* is also under discussion in the **former Yugoslav Republic of Macedonia** and a law has been drafted but final decisions are pending. **Albania** has been negotiating a new *€ 30 million credit guarantee fund* with the Italian government but uncertainties remain on the design and the management of the scheme. The implementation has consequently run into considerable delays. **Croatia** has a special *state agency for issuing guarantees, HAMAG*, whose mandate was broadened last year to become the Croatian Small Business Agency. **Moldova** has a small *state guarantee fund*, which was dormant for various years and was (modestly) replenished in 2004 by the government.

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<sup>38</sup> [www.seafweb.org](http://www.seafweb.org)

**Moldova** has also introduced the *Law on Micro-financing institutions* of 22 June 2004 which broadens the number of institutions which are legally empowered to provide loans to small business. In **Serbia**, on the other hand, the field of microfinancing by non-banking financial organisations and NGO's is legally not properly regulated, so that the activities of micro-financing institutions are underdeveloped when compared to neighbouring countries

A specialised bank catering to SME lending needs, *Pro Credit bank*<sup>39</sup>, created by the EBRD, IFC<sup>40</sup> and KfW<sup>41</sup>, is operating in **Albania, Bosnia-Herzegovina, Kosovo, the former Yugoslav Republic of Macedonia, Moldova and Serbia-and-Montenegro** and is quite successful in providing credits to small companies. Similar EBRD supported micro lending institutions are the *Opportunity Bank*, operating since April 2004 and *Alter Modus* (since March 2004) in Serbia-and-Montenegro, as well as *Mikroplus* in Croatia.

In **Croatia**, the *Croatian Bank for Reconstruction and Development (HBOR)* administers a range of financial schemes for small businesses and in 2001 launched the stock *capital investment programme*, but so far managed to approve only 8 investment requests acquiring 25 – 38 % ownership in companies.

Access to finance remains highly critical in **Kosovo**.

The targets set for the next 12 month period in this area of the Charter are as follows:

#### **Albania**

(\*) set up the guarantee fund (*reinstated target of last year*)

(41) adopt the new law on leasing – September 2005

#### **Croatia**

(42) improve HAMAG guarantee schemes for start ups leading to 1500 additional guarantees for SME's (total amount € 106.000 )

(43) training of 600 entrepreneurs who are submitting credit applications to the Croatian Bank for Reconstruction and Development (HBOR)

#### **Moldova**

(44) modification of the fiscal code in order to integrate several taxes into one tax so as to reduce compliance costs for companies

(45) declaration of the year 2005 as the Year of Microcredit and implementation of a national programme to facilitate access to microfinance

(46) reduction of profit tax from 20 % to 18 %, reduction of social charges for employers from 29 % to 27 %

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<sup>39</sup> [www.procreditbank.co.yu](http://www.procreditbank.co.yu)

<sup>40</sup> [www.ifc.org](http://www.ifc.org)

<sup>41</sup> [www.kfw.org](http://www.kfw.org)

## 8. STRENGTHEN THE TECHNOLOGICAL CAPACITY OF SMALL ENTERPRISES

### Actions recommended according to the Charter:

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

In **Serbia** the SME Agency initiated actions in the second half of 2003 for linking the SME sector with science and research. The *Electronic stock exchange* of supply and demand for the results of scientific and research work and the pilot project *Innovative vouchers* were initiated to reinforce the links between R&D organisations and SME's. Four day free-of-charge consultations were provided to SME's by certain of the relevant scientific and research organisations in Serbia. To date three clusters have been formed in Serbia (fruit, furniture and textiles).

In **Bosnia-Herzegovina** there are no special state programmes for technology dissemination. A first technology centre is planned in Tuzla with the support of the Norwegian government and first technology parks are planned in Zenica and Banja Luka. Clusters are in an embryonic stage but some initial development on identifying the scope for clusters is underway. One exists already on automobile parts.

The SME Agency in **Montenegro** has developed a *strategy paper* for establishing the first business incubators, technology parks and technology centres in Montenegro.

In **Albania** the development of *five new industry clusters* in the tourism industry, meat processing, herbs and spices, leather and media is planned in the framework of the Enterprise Development and Export Market Services Project (EDEM) financed by USAID.

In the **former Yugoslav Republic of Macedonia** the GTZ-Transfer of Technology Project covers four *Technology Transfer Centres* in Skopje and Bitola and aims to raise awareness on the importance of technology. It seeks to stimulate dialogue on technology transfer issues and to improve co-operation between R&D institutions and SMEs.

In **Croatia** the new *SME's Incentive Programme* has a stronger focus on technological development of SME's and operates in fields such as introducing new technologies, developing new products, introducing quality system and technical regulations, clusters, connecting science and production and innovation promotion.



In **Moldova** the Parliament adopted the *Code on Science and Innovations* in June 2004 in order to create a better legislative, regulatory and institutional environment for innovative entrepreneurs and scientific institutions. Envisaged state support includes tax and customs relief, state guarantees, logistical and financial assistance as well as the dissemination of information. The *National Agency for the Protection of Industrial Property*, AGEPI, is conducting a comprehensive campaign of training, seminars, partnership agreements and incentives to help small companies acquire and protect designs, models, trade marks etc. It attributes an annual “*Trophy for Innovation and Creativity*”.

The targets set for the next 12 month period in this area of the Charter are as follows:

**Kosovo**

(47) implementation of at least 1 business park and at least 2 business incubators

**Former Yugoslav Republic of Macedonia**

(48) launch a new programme for co-financing innovation and scientific research of young scientists – November 2005 (not specific for SME’s, but can be used by young entrepreneurs)

**Moldova**

(49) Creation of an Innovation and Technology Transfer Centre

**9. SUCCESSFUL E-BUSINESS MODELS AND TOP-CLASS BUSINESS SUPPORT**

**Actions recommended according to the Charter:**

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

E-business is in an embryonic, virtually non-existent phase in the whole of the Western Balkans as well as in Moldova. This state of affairs is related to the often

- (1) incomplete and deficient telecommunications infrastructure
- (2) insufficient liberalisation of the telecommunications market
- (3) incomplete legal framework
- (4) low internet access and low use of ICT
- (5) lack of incentives and training for SME's to use ICT and internet

However, the 2004 national reports generally reflect progress (and initiatives) in varying degrees in all of these areas. **Montenegro** has now adopted an e-signature law and is preparing for the adoption of an e-business law by the end of 2004 and **Serbia** has concrete plans to do so, both following in the footsteps of **Croatia** and the **former Yugoslav Republic of Macedonia** where both laws are adopted. **Moldova** also has both laws in place since August 2004. Various promotional measures are being taken in all countries, particularly in the field of ICT company training. However, even in countries with a complete legal framework, the actual blossoming of e-business is still hampered by the four other problems listed above.

**Serbia** published a report on the need to develop the information society in the country and organised a conference in March 2004 to highlight the steps to be taken in order to make progress in this field.

In **Albania** no e-signature law has been adopted. Some initial steps were taken last year to make some progress in this field, such as training initiatives, the computerisation of the banking sector and the development of GovNet, an electronic network to stimulate the exchange of information between government and the public.

### **Business support systems**

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

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

- The establishment of 5 new regional development agencies in **Bosnia-Herzegovina** as part of the new EU supported regional development programme (EU RED)
- The establishment of 3 new local economic development agencies (LEDA's) in **Albania**.

- In **Moldova** USAID is financing the BIZPRO programme which provides assistance and advice within *business associations*. It also helped to incorporate such associations into the *Moldovan Business Assistance Network (MBAN)*
- Finally, in **Kosovo**, the UNDP is in a process of establishing 2 new *Municipal Business Centers* in Shtime and Skenderaj. Planning and dialogue with donors is slowly progressing on establishing the first business incubator/parc in the municipality of Mitrovica, but the actual operational phase is not yet in sight.

**Table 7. Indicative overview of business support services**

	Local/regional business support centres	Business incubators	Clusters	Business/technology parcs
Albania	63 centres <sup>42</sup>	2 incubators	5 clusters <sup>43</sup>	none
Bosnia-Herzegovina	45 centres <sup>44</sup>	3 incubators	1 cluster <sup>45</sup>	none <sup>46</sup>
Croatia	68 centres <sup>47</sup>	15 incubators	2 clusters <sup>48</sup>	5 parcs <sup>49</sup>
Kosovo	9 centres <sup>50</sup>	none	None	none
Former Yugoslav Republic of Macedonia	20 centres <sup>51</sup>	7 incubators	5 clusters <sup>52</sup>	none <sup>53</sup>
Moldova	15 centres	3 incubators	1 cluster <sup>54</sup>	1 parc
Montenegro	7 centres	none	none	none
Serbia	13 centres	none <sup>55</sup>	3 clusters <sup>56</sup>	None <sup>57</sup>

<sup>42</sup> 50 business support centres, 10 regional development agencies and 3 local development agencies.

<sup>43</sup> In tourism, meat processing, herbs & spices, leather goods and media

<sup>44</sup> Altogether about 40 different business support centres. 5 new regional development agencies have recently been set up under the EU supported regional development programme (EU-RED)

<sup>45</sup> One exists on automobile parts and another is planned on knitwear in Srbac.

<sup>46</sup> Two are planned in Zenica and Banja Luka.

<sup>47</sup> About 40 local business support centres, 21 regional ones as well as 7 regional development agencies.

<sup>48</sup> Wood processing and leather

<sup>49</sup> In Rijeka, Zagreb, Split, Varazdin and Slavonski Brod.

<sup>50</sup> 5 regional enterprise agencies and 4 business support centres

<sup>51</sup> 5 regional enterprise support centres (RESC), 3 Enterprise Support Agencies (ESA) and the Prilep Regional Enterprise Development Agency (PREDA). In addition, there are 13 Local Economic Development Bureaux supported by the Association of Local Self-Government

<sup>52</sup> 5 clusters are being developed in wine, lamb and cheese, tourism, ICT.

<sup>53</sup> One is planned (feasibility study undertaken for the University of Bitola). In addition, the GTZ Transfer of technology project covers four technology transfer centres (TTC) in Skopje and Bitola. These aim to stimulate co-operation between RTD and entrepreneurs and raise awareness.

<sup>54</sup> wine

<sup>55</sup> With the exception of one private ICT incubator.

<sup>56</sup> In fruit and fruit juices, furniture and textile.

<sup>57</sup> 3 parcs are planned.

*Source: OECD 2004. National reports on the Charter.*

We can see from this table that the development of “generic” local and regional business support centres is well underway in all countries. Such centres are often set up with donor support, but in various countries these centres are already going into a phase of self-sustainability. In other countries, and in particular **Croatia**, such centres are increasingly being set up by counties without any intervention from donors. However, when it comes to more sophisticated and specialised business support structures such as clusters, incubators and business/technology parks, various countries still have some way to go, in particular **Kosovo and Montenegro**, where nothing of the kind appears to exist. Kosovo is intending to make progress in 2005 (see targets under chapter 8).

The targets set for the next 12 month period in this area of the Charter are as follows (some targets relating to clusters and technology parks are articulated under chapter 8):

**Croatia**

(50) full enforcement of legislation and by-laws related to e-business

**Kosovo**

(51) two study visits of the Kosovo business community to countries with good practice on (e-) business support structures

**Moldova**

(52) set up of the required technological instruments to effectively implement the e-signature law and allow circulation of electronic documents

**Montenegro**

(53) adoption of law on e-business – December 2004

**Serbia**

(54) Adoption of the law on e-signature – end 2004

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

**Actions recommended according to the Charter:**

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

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

Tripartite social dialogue, in the strict sense, only exists in **Croatia and Serbia** but issues remain of how well SME's are represented and, when represented, whether their opinions are taken on board in policy making. In both countries, the Employers Association in Croatia and the Chambers of Commerce of Serbia have a specific association of SME's which advocate the interests of those companies in tripartite social dialogue.

There are other instruments through which small companies can make their voice heard. Most countries have advisory boards or councils, accredited by the governments and through which policy makers can consult representatives of the private sector. In those forums as well, questions are raised (by private sector representatives) on some of the perceived shortcomings and, in particular, doubts as to whether

- they only showcase the willingness of the government to consult as opposed to being true mechanisms for dialogue
- governments should be under a formal obligation to consult as opposed to the use of these councils being at the discretion of the governments
- consultation should take place on specific draft legislation or merely on general policy intentions
- the regularity of meetings suits a government calendar or the needs of the companies
- the delegates in these fora are truly representative of small companies and whether their appointments are transparent

There is a continuous process to improve these channels of communication.

The government of **Serbia** notes that the *SME Advisory Board* needs to be revived. The Union of Employers of Serbia is involved in the preparation of draft legislation on employment, but appears generally disappointed with the frequency and serious intent of consultations.

In **Bosnia-Herzegovina** no mechanism for dialogue exists at state level but dialogue with Chambers of Commerce and associations of entrepreneurs at the level of the Entities exists.

In **Montenegro** a *framework co-operation agreement* was signed between the Assembly and Union of Entrepreneurs, the Montenegro Business Alliance, the Centre for Entrepreneurship and the Institute for Strategic Diagnosis to improve co-operation and to set out joint policy positions.

In **Albania**, a study has been undertaken which suggests areas for improvement in the existing *Business Advisory Council*, to make it more performant and inclusive of the small business community in Albania. There is a wide range of representative organisations for entrepreneurs in Albania, including various sector-organisations and a national Union of SME's.

In the **former Yugoslav Republic of Macedonia**, the *National Council for Competitiveness and Entrepreneurship* provides a channel for dialogue between the government and the private sector, but the needs and concerns of the SME sector are not sufficiently represented in this forum and, as in Albania and Serbia, the government is considering to restructure this Council. The Government has recently created the *Agency for Promotion of Entrepreneurship* as the successor of the National Enterprise Promotion Agency, with the task to implement the national SME strategy. The Agency was established in May 2004 and has recently appointed a Management Board, Executive Director and part of its staff. It will be increasingly active on behalf of the SME sector and will be a key mechanism for ensuring stronger and more effective SME representation.

In **Croatia**, representation of SME's is arranged in activities of the Parliament's committees, the Economic Social Council and the National Competitiveness Council . The Croatian Chamber of Crafts is however, pursuant to the Labour Act, not a social partner and cannot participate in social dialogue. The *Small Entrepreneurship Forum in 2003* is the first public mutual project of the Croatian Chamber of Commerce and the SME association of the Croatian Employers Association, organised with a view to the advocacy of SME needs in a joint and homogeneous way. The *SME Policy Centre*, CEPOR, is a specialised think-tank which aims to represent SME interests in an independent way.

**Moldova** is starting to explore the issue of business advocacy. There is only a weak network of small business associations, most of which operate at sectoral level. Moldova has an *Economic Council* to acquire policy advice from the private sector, but small companies are not adequately represented. Ad-hoc consultation appears in round table meetings and seminars. In dialogue with the business associations, the government is attempting to forge the establishment of a National Association of Small Business so as to acquire a partner for dialogue and consultation on policy matters affecting small businesses (see targets).

In **Kosovo**, the business community is represented in the *SME Consultative Council*

*Membership of Chambers of Commerce* is mandatory in Albania, Serbia and Montenegro and Kosovo and is voluntary in Bosnia-Herzegovina and the former Yugoslav Republic of Macedonia. In Moldova, it is mandatory for companies with more than 50 employees.

The targets set for the next 12 month period in this area of the Charter are as follows:

**Kosovo**

(55) set up of a Kosovo-wide network of local business centres to enhance business advocacy and co-operation

**Moldova**

(56) creation of a national alliance of small businesses which federates and represents SME associations in the country to enhance business advocacy and co-operation

**European Commission's action in favour of small enterprises in Moldova and the countries of the Western Balkans**

The strategic objective of Community actions in the Western Balkans, delivered via the CARDS programme, remains support for the Stabilisation and Association Process (SAP). In recent years, there has been a shift in Community assistance from post-conflict reconstruction and democratic stabilisation to other sectors more closely linked to the SAP reform agenda, economic transition and approximation of European standards, rules and regulations by public authorities and the private sector alike

Economic development in the Western Balkans is a priority policy goal. In the Thessaloniki Agenda, adopted at the EU Western Balkans summit of 21 June 2003, the EU urges the countries of the region to promote private economic activity and foreign investment. The 2004 Annual Report on the Stabilisation and Association process notes that the Western Balkan countries must attract sufficient levels of foreign direct investment to broaden their export base and to increase their production capacity to exploit their export potential. Donors

are working with the authorities and the private sector to implement reforms aiming to reduce the administrative and regulatory barriers to economic activity

Economic and social cohesion represents the second largest area of concentration in the Multi-Annual Indicative CARDS Programme 2005-2006. Efforts have been devoted to create linkages between the Western Balkan business organisations and organisations in the EU. Assistance has also been provided to develop a trade-related regulatory and policy framework to encourage trade and investment and to facilitate a higher quality of products, more efficient processing at frontiers, increase regional trade and enhance key institutional capacities. Credits for SMEs, and associated technical assistance have also been provided in several countries.

A Ministerial round table, “The Balkans: From Reconstruction to Economic Integration”, was held in Venice in October 2003 to promote private sector development and the creation of modern networks and infrastructures in the fields of energy and transportation.

Moldova falls under the remit of the European Neighbourhood Policy, which aims to enhance relations and prevent the emergence of dividing lines between the enlarged EU and its neighbours. Increased economic and political integration on the basis of shared fundamental values and objectives is at the heart of the policy.

Economic reform and the prospect of increased integration is a central benefit of the ENP for Moldova and its Action Plan, which includes a section on Enterprise Policy. Particular emphasis is placed on seeking out agreed ‘headline goals’, such as competitiveness, innovation and the role of SMEs. Individual actions are eligible for EU support from TACIS or (starting in 2007) from the new European Neighbourhood and Partnership Instrument, which is being developed to support the policy.

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

The Charter process is well under way in all countries concerned and a regional network of national co-ordinators has been established, which meets regularly in the region. The process is being used to further develop policies for small enterprises by setting precise targets. Elements of peer-pressure are clearly working, with countries wishing to close performance gaps with neighbouring countries in the region. This peer pressure is working now in several areas of the Charter and is impelling the region as a whole to move forward in various Charter areas. The Charter is therefore playing a very constructive role, allowing governments to take stock of national policies, to discuss these with stakeholders and to plan new policies and to set new objectives in an annual, cyclical process.

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

The national co-ordinators of the Charter often need to rely on ad-hoc contributions for the Charter report from other ministries and stakeholders. A true “mainstreaming” of the Charter within the whole of the national administration is far from accomplished. Some co-ordinators are attempting to set up permanent multi-stakeholder working groups for the Charter and all countries are advised to follow such examples.

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

Finally, in consultation with the Stability Pact for South Eastern Europe paths could be explored which could lead to a stronger regional ownership of the Charter process. For some of the Stability Pact’s ventures conducted in the region some of the countries could host a presidency/secretariat function, which would rotate amongst the countries in the region. Such a structure could also be beneficial for the Charter process, now that a true regional process has effectively been established.



## ANNEX 1

### Scoreboard Targets 2003-2004

**A= achieved IP = in progress but delayed NP= no significant progress or no information on progress**

	Albania	Bosnia-Herzegovina	Croatia	Kosovo	Former Yugoslav Republic of Macedonia	Montenegro	Serbia	Summary
1. Education and training for entrepreneurship	(1) National training programme for internationalisation of Albanian companies  <b>IP</b>					(2) Special business knowledge training programme for 1000 trainees.  <b>A</b>  (3) Establishing entrepreneurship as optional in five pilot primary schools (entrepreneurship schools)  <b>A</b>	(4) Two additional extracurricular programmes of Junior Achievement/ Youth Enterprise. Compulsory in final year of secondary education for agro processing  <b>A</b>	3 A, 1 IP
2. Cheaper and faster start ups		(5) reduce the costs to € 500 and time to 20 days  <b>IP</b>	(6) match funds with local government to ensure provision of credit to 100 small companies which fail to ensure bank credits due to insufficient collateral  <b>NP</b>	(14) introduce online registration and thus reduce registration time from 10 days to 1 day.  <b>IP</b>	(10) simplify registration documentation and publish user friendly guide for starters  <b>IP</b>	(11) realisation of pilot project “business barriers” in 3 towns reducing to 10 days delay for issuing licenses  <b>IP</b>	(12) reform and concentrate business registration regulations within a new Business Registration Agency, reducing registration formalities to 5 days	1 A, 7 IP, 2 NP

			<p>(7) increase the number of registered companies from 161.270 to 164.430</p> <p><i>A</i></p> <p>(8) increase number of employees through recruitment in crafts sector from 704.980 to 741.600</p> <p><i>NP</i></p> <p>(9) introduce online registration for the crafts sector</p> <p><i>IP</i></p>				<p><i>IP</i></p> <p>(13) introduction of online registration</p> <p><i>IP</i></p>	
3. Better legislation and regulation	<p>(15) implement national action plan on reducing business barriers (FIAS)</p> <p><i>IP</i></p>	<p>(16) harmonisation of state/entity laws regulating the sector of SME's (definitions, policy orientations and role of institutions)</p> <p><i>NP</i></p>		<p>(21) introduction of new laws on competition, SMEs, Investment and Chambers of Commerce</p> <p><i>IP</i></p>	<p>(17) publication of 4 user friendly guides on regulations and standards of relevance for small enterprises</p> <p><i>IP</i></p>		<p>(18) new bankruptcy law</p> <p><i>A</i></p> <p>(19) finalise company law, e-signature law and new business registration law</p> <p><i>IP</i></p> <p>(20) revitalise Council of Regulatory Reform and ensure inclusion of business</p>	1A, 4 IP, 2 NP

							community	
							<b>NP</b>	
4. Availability of skills				(24) establish voucher system for business training and counselling <b>NP</b>	(22) implement training programme on business skills for 300 trainees and consequently design benchmarks of good training practice in this field <b>A</b>	(23) add 1 additional regional business centre to current network of 6 <b>A</b>		2 A, 1 NP
5. Improving online access						(25) setting up of a dedicated government website to facilitate communication with the private sector <b>IP</b>		1 IP
6. Getting more out of the single market						(26) pilot project on increasing competitiveness of 30 companies <b>IP</b>		1 IP
7. Taxation and financial matters	(27) establishment of a loan guarantee fund <b>NP</b> (28) further expansion of micro	(29) cancellation of double taxation and obligatory membership of Chambers of Commerce <b>IP</b>			(31) increase utilisation of credit lines to 10 % above current trend <b>A</b>	(32) legalisation of 20.000 job positions through a reduction of tax and social contributions on salaries to the level of 20 % <b>A</b>		3 A, 2 IP, 2 NP

	credit scheme <b>IP</b>	(30) cancellation of obligatory annual name protection fee <b>NP</b>				(33) national review of all taxes and articulation of a government proposal for tax reduction <b>A</b>		
8. Strengthen technological capacity of small enterprises			(34) increase the number of ISO certified subjects from 250 to 300 <b>A</b>	(37) start up of a business incubator programme and an operational Investment Promotion programme <b>NP</b>		(35) design of a distinct strategy technology parks, business incubators and innovation centres <b>A</b>  (36) implementation of the project “application of technology in the development of SME’s” leading to an increased intake of technology in small companies <b>NP</b>		2 A, 2 NP
9. Successful e-business models and top-class business support			(38) execution of an e-learning project introducing e-learning in 30 companies <b>NP</b>		(39) establishment of a fully operational EICC <b>A</b>	(40) adoption of the e-signature and e-business laws <b>IP</b>		1 A, 1 IP, 1 NP
10. Developing stronger, more effective representation	(41) increase the effectiveness of the Business Advisory Council –							1 IP

	preparation of a specific programme to realise this <i>IP</i>							
Summary	4 IP, 1 NP	2 IP, 2 NP	2 A, 1 IP, 3 NP	2 IP, 2 NP	3 A, 2 IP	6 A, 4 IP, 1 NP	2A, 3 IP, 1 NP	13 A, 18 IP, 10 NP
	Albania	Bosnia-Herzegovina	Croatia	Kosovo	Former Yugoslav Republic of Macedonia	Montenegro	Serbia	41 targets