



University of Novi Sad
UNESCO chair for entrepreneurial
studies



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**EU policy in entrepreneurship support
- the case of the Western Balkans countries**

Master thesis

Novi Sad, 2011.



Univerzitet u Novom Sadu
UNESCO chair for entrepreneurial studies
Ključna dokumentacijska informacija

Redni broj: RBR	
Identifikacioni broj: IBR	
Tip dokumentacije: TD	Monografska dokumentacija
Tip zapisa: TZ	Tekstualni štampani materijal
Vrsta rada (dipl., mag., dokt.): VR	Diplomski master rad
Ime i prezime autora: AU	Nikola Vranić
Mentor (titula, ime, prezime, zvanje): MN	Dr Bahrija Umihanić, redovni profesor Ekonomskog fakulteta u Tuzli, gostujući profesor na UNESCO katedri
Naslov rada: NR	Politike EU za razvoj preduzetništva - primer zemalja Zapadnog Balkana
Jezik publikacije: JP	Engleski jezik
Jezik izvoda: JI	srp. / eng.
Zemlja publikovanja: ZP	Republika Srbija
Uže geografsko područje: UGP	AP Vojvodina
Godina: GO	2011
Izdavač: IZ	autorski reprint
Mesto i adresa: MA	Novi Sad, Trg Dositeja Obradovića 5
Fizički opis rada: FO	(8 / 89 / 7 / 43 / 133 / 2)
Naučna oblast: NO	Preduzetništvo



Naučna disciplina: ND	Uvod u preduzetništvo
Predmetna odrednica, ključne reči: PO	Evropska Unija, Zapadni Balkan, Mala i srednja preduzeća, Evropska povelja o malim preduzećima, dostupnost finansijskih sredstava, Princip “Misli prvo o malim stvarima”, Akt o malim preduzećima, Sedmi okvirni program, Okvirni program za konkurentnost i inovativnost, Evropska mreža preduzetnika
UDK	
Čuva se: ČU	Biblioteka Univerziteta u Novom Sadu
Važna napomena: VN	
Izvod: IZ	<ol style="list-style-type: none"> 1. Definisane i struktura MSP-a u EU i zemljama Zapadnog Balkana 2. Evropska povelja za mala preduzeća 3. Akt o malim preduzećima 4. Okvirni program za konkurentnost i inovativnost
Datum prihvatanja teme od strane NN veća: DP	8.4.2011
Datum odbrane: DO	
Članovi komisije: (ime i prezime / titula / zvanje / naziv organizacije / status) KO	<p>predsednik: Prof. dr Vojin Šenk, redovni profesor Fakulteta tehničkih nauka</p> <p>član: Prof. dr Bahrija Umihanić redovni profesor Ekonomskog fakulteta u Tuzli, gostujući profesor na UNESCO katedri</p> <p>član: Doc. dr Dušan Dobrimirov, docent Fakulteta tehničkih nauka</p>



University of Novi Sad
UNESCO chair for entrepreneurial studies
Key word documentation

Accession number: ANO	
Identification number: INO	
Document type: DT	Monograph documentation
Type of record: TR	Textual printed material
Contents code: CC	Master thesis
Author: AU	Nikola Vranić
Mentor: MN	Bahrija Umihanić Ph.D, professor at the Faculty of Economics, Tuzla, visiting professor at the UNESCO Chair
Title: TI	EU policy in entrepreneurship support - the case of the Western Balkans countries
Language of text: LT	English
Language of abstract: LA	eng. / ser.
Country of publication: CP	Republic of Serbia
Locality of publication: LP	Province of Vojvodina
Publication year: PY	2011
Publisher: PU	Author
Publication place: PP	Novi Sad, Dositeja Obradovića Square 5
Physical description: PD	(8 / 89 / 7 / 43 / 133 / 2)



Scientific field SF	Entrepreneurship
Scientific discipline SD	Introduction to Entrepreneurship
Subject, Key words SKW	European Union, Western Balkan, Small and Medium Size Enterprises, The European Charter for Small Enterprises in the Western Balkans, Small Business Act, access to finance, Think Small First Principle, Europe Enterprise Network, Seventh Framework Programme, Competitiveness and Innovation Programme
UC	
Holding data: HD	Library, University of Novi Sad
Note: N	
Abstract: AB	<ol style="list-style-type: none"> 1. Definition and structure of SMEs in the EU and in the WBC 2. The European Charter for Small Enterprises in the Western Balkans 3. Small Business Act 4. Competitiveness and Innovation Framework Programme
Accepted on Scientific Board on: AS	April 8 th , 2011
Defended: DE	
Thesis Defend Board: DB	<p>president: Vojin Šenk Ph.D, professor at the Faculty of Technical Science</p> <p>member: Bahrija Umihanić Ph.D, professor at the Faculty of Economics, Tuzla, visiting professor at the UNESCO Chair</p> <p>member: Doc. dr Dušan Dobrimirov, assistant professor at the Faculty of Technical Science</p>



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Glossary

Key words:

European Union, Western Balkan, Small and Medium Size Enterprises, The European Charter for Small Enterprises in the Western Balkans, Small Business Act, access to finance, Think Small First Principle, Europe Enterprise Network, Seventh Framework Programme, Competitiveness and Innovation Programme



1. PREFACE

1.1. DEFINING THE RESEARCH PROBLEM

The European experience has shown that small and medium enterprises or SMEs represent the main framework for the realization of a wide range of initiatives and the main generators of new jobs. They do not represent driving force of economic growth of the EU only, but also of the developing economies such as the Western Balkans. In 1956, European leaders, through the Rome declaration, put a strong pillar for the future economical community of the united nations of the Europe. Today, the European Union is not only an economical but also and a political state alliance. One of the greatest aims of the EU is the creation of the most competitive economy in the world. EU put this aim in the Lisbon growth and job strategy, which should help all member states as an orientation in the creation of new opportunities for their citizens. Its heart represents small and medium size enterprises that are considered to be the real backbone of the EU economy.

All the Western Balkan countries declare that their aim is to become equal members of the EU, in the time when they prepare their economies and societies to adopt all the rights and obligations arising from the membership in the same. This is one of the major reasons, why this master thesis should enable a complete understanding of the vast number of topics that are closely connect with the EU, entrepreneurship and in this regard, position of the Western Balkans Countries. The crucial part of the pre-accession process is to identify the real needs of the SMEs and to put them in the right place in WBC's legislation and take actions for development of their economies. Small and medium-size enterprises are key drivers of competition, innovation, growth and job creation, particularly in developing countries. Hence, the main purpose of this SMEs research will be to find every existing gap or possibility in order to improve process of making policies. Their implementation will be chance for improvement the Western Balkans overall competitiveness and opportunity for taking our own lives in our hands. Probably, the best solution would be to learn from those who successfully overcome many obstacles on their way of development and who offer their help through different type of funds.

The main objective of master thesis is to detect and highlight all advantages and disadvantages that can be produced by the implementation of the EU policies for entrepreneurship in the WBC. Also, it is needed to explain to decision-makers and other interested professional community, what are the characteristic of the EU policies, as well possibilities that can be used. Insufficient number of information and the lack of agility, prevent SMEs in the WBC to achieve the benefits that are offered by the EU funds for development of entrepreneurship.

Problem questions that need to give adequate answers in order to formulate this work in the following manner are: What is the current situation in some aspects of the entrepreneurship in the WBC, its weak points and which EU policies should be used in order to achieve high level of economic development in the WBC?



1.2. HYPOTHESIS AND RESEARCH OBJECTIVES

Placement of certain hypotheses and assumptions has defined the research objectives. The topic of this paper "EU Policy in entrepreneurship support – the case of the Western Balkans Countries" was developed using the following hypothesis:

1. EU policies represent one of the major factors that determine position of micro, small and medium enterprises in the WBC
2. EU policies have big influence on the improvement and development of entrepreneurship in the WBC
3. Determination of strategies for SME development and action plans are based on the European experience
4. The governments bodies use, some of the EU funds, for financing its projects
5. All WB Countries have accepted and adopted the EU policy framework and their decisions are made according to EU policy framework

In accordance with this set of hypothesis, follows the major aim of this mater thesis. It is based on the theoretical and empirical scientific knowledge, aiming to determine the impact of EU policies on a development of micro, small and medium entrepreneurship in the WB. Other objective will be to show and create suggestions that will promote and develop entrepreneurship in the area of the Western Balkans.

In addition to the general goal, there are placed and specific goals of this research, as follows:

1. The application of appropriate scientific research methods for testing and conformation of these hypothesis
2. Presentation of an influence of the EU policies on SMEs in the WBC
3. Analysis of the SME position in the WBC in term of direct and indirect factors
4. Evaluate the quality requirements in terms of legislation, infrastructure in which SME operate
5. Make a comparative analysis, based on the research made by various number of international organizations and combined them with the local and foreign professional literature in order to define the starting point for the advancement of SMEs position
6. Make recommendations and proposals for activities, oriented on the improvement of entrepreneurial environment.

1.3. RESEARCH METHODS AND MATERIAL

Processing threats master's thesis, it has used appropriate applied scientific research methods in the realization of the objectives of this research. First of all, the scientific literature was used in the theoretical description of the entrepreneurial environment in the WB and the impact of the EU policies on its development. For this it has been applied the comparative method. Comparison of attitudes and opinions of individual scientists and experts have formed a certain



theoretical views and conclusions. Many studies, made by the EU experts, as well experts from the WB, have been adopted and implemented for the purpose of this research. Throughout the study, it has been combined the procedures of induction and deduction. Deductive-logical approach was considered in the theoretical assumptions, while induction method was used in analysis of the results from empirical research made by the EC, OECD, World Bank etc. Empirical research of the impact of the EU policies on the development of entrepreneurship in the WBC (made by the EC) was used in combination with surveys made by various numbers of other international organizations, through the comparative method with aim, to create a new suggestions and action proposals for enhancing SME position in the WB region.

1.4. THE CONTENT AND STRUCTURE OF THE MASTER THESIS

In the context, of the adopted methodological approach and objectives, research work in addition, have introductory and concluding consideration as the generic parts and four parts, namely: a theoretical part that is exposed in the second, fourth and fifth chapters and an empirical part, as combination of five big research made by international organizations, is presented in the third chapter. Parts of the research are mutual connected and form a unique logical part.

In the second chapter named “Definition and structure of SME in the EU and in the WB”, it is given the conceptual explanation of the official definition of SMEs made by the European Commission. The content of this chapter provide a complete understanding and acceptance of the EU definition, further explanation of the SME role and the market share which SMEs take in specific industries. The implementation of the official definition has large influence in defining the thresholds (staff headcount, annual turnover or annual balance sheet), which is especially important in aspects of the improvement of their access to capital and taking into account different relationship between enterprises. In this chapter, it will be explained and the comparison between the EU official definition and other definitions in the WBC. Mostly, they are very similar. Part of this chapter is, as well structure of specific industries in the WBC and in the EU, that show, in which industries are concentrated SMEs and which relationship occur between their market share and their employment or output share.

The third chapter named “The European Chapter for Small Enterprises in the Western Balkans” is based on the research made in the framework of the European Chapter, made for the Western Balkans in the years of 2007 and 2009. The aim was to make further investigation and to provide additional explanations and proposals arising from the use of comparative method in the GEM research, Doing Business research made by World Bank, OECD Investment Index and Global Competitiveness Index. It has 10 subparts and every of them are consisted of the assessment framework, overall dimension score table and list of of good practices made in these countries. The objective was to show the point of development of entrepreneurship in the Western Balkans and to suggest in which direction it should be developed and how much potential, exist for this purpose.



The fourth part named “Small Business Act” represent a set of 10 principles. These principles are used as a guide for the conception and implementation of the EU policies in the Western Balkans Countries. Very important role of this master paper is to show to decision makers in the Western Balkans, good practices from the EU and to try trough comparison with the situation in the WB region to find all weaknesses, gaps and potential solution to the problems. In this chapter, it was used the vast number of official documents, professional reports and examples of good practices in order to create a good proposals for the improvement of overall environment and conditions for doing business in the WBC.

The fifth part “Competitiveness and Innovation programe” has explained the CIP as a program, which provide to SME better access to finance, support to innovation activities (including eco-innovation) and overall business support. It has been consisted of three major subprograms and each of them, has its own working programme, where have been explained priorities and activities for every year. The reason for displaying this programme, as a separate entity, is its importance that it has in the EU. Its budget amounts to over 30 billion EUR and provide access to SMEs from the Western Balkans. This chapter contains, and explanation of each part of the program and explains its plan for functioning and financing and other useful information necessary for participation in it.



2. DEFINITION AND STRUCTURE OF SMES IN THE EU AND IN THE WBC

The Thessaloniki EU - Western Balkans summit that took place on 20th June 2003, confirmed EU perspective of all Western Balkan countries. As a consequence, the EU decided to invite all Western Balkans countries to participate in the European Charter for Small and Medium Enterprises. In 2005, after endorsement of the Lisbon Growth and Job Strategy (by the EU and its' replacement with the EUROPE 2020 - European strategy for smart, sustainable and inclusive growth), the WBC decided to invite the EU to continue the Charter process ("Belgrade Declaration" – October 2005). The result was that the EU restarted the process in 2006, and undertook the obligation to apply it at least for the following three years. The last assessment has been made in 2009 and the next one will be made in the framework of the most recent EU document for SMEs – the Small Business Act. The Charter and SBA will be explained further in part 3 and part 4 of this research.

The importance of SMEs for the Economy of the EU and the WBC is crucial, because SMEs represents 98% - 99% of all European and Western Balkans businesses and they are the true back-bone of the European economy, being primarily responsible for wealth and economic growth. They provide over 80 million or two thirds of the private sector jobs and contribute to more than half of the total value-added created by businesses in the EU (60% of total GDP).¹

All Western Balkans countries, apart from Bosnia and Herzegovina, which does not have official definition of SMEs, use the definition and categories rankings of SMEs that is consistent with the EU one. Albania, Kosovo under United Nation Special Council Resolution 1244/99, Montenegro and Serbia have differ thresholds apart from the EU one, in part that is related to absolute amount of SMEs turnover and balance sheet. Croatia and the Former Yugoslav Republic of Macedonia have a full consistency with EU definition.

In this regard, complete understanding and acceptance of the EU definition will help in further explanation of the SMEs role. "An enterprise is considered to be any entity engaged in an economic activity irrespective of its legal form."²

¹ ec.europe.eu

² Commission recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises C (2003) 1422



The new SME definition came into force on the on 1st January 2005 and defined three major categories of the SMEs:

1. The category of micro, small and medium sized enterprises (SMEs), a medium enterprise is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or annual balance sheet total not exceeding 43 EUR million.
2. Within the SME category, a small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million.
3. Within the SME category, a micro enterprise is defined as an enterprise which employs fewer than 10 persons whose annual turnover and/or annual balance sheet does not exceed EUR 2 million.³

The major reasons for establishing a new SME definition was:

- updating thresholds
- promotion of micro enterprises
- improving access to capital
- promotion of innovation and improvement access to Research & Development
- taking into account different relationship between enterprises.⁴

It will be also useful to clarify two things related with this definition, which is also in use in the Western Balkans countries. It is obvious that legislation of the WBC is in a small variety different from the EU one, and that's why the definition of different types of threshold and ownership is interesting. Firstly, when we speak about thresholds, we refer particularly to staff headcount, annual turnover and annual balance sheet. Staff headcount includes the owner manager, employees, partners engaged in regular work of the company and they are express as Annual Work Unit (AWU). Other threshold that is considered is annual turnover, which represent capital that enterprise receive during the year from its sales or giving service and it shouldn't include VAT and other indirect taxes. Secondly, we should make difference between autonomous enterprise (which is totally independent or has one or more minority partnership, every less than 25%), partner enterprise (other enterprise is holding equal or greater part than 25% of capital or voting rights but no more than 50% in other enterprise or *vice versus*) and linked enterprises (other enterprise holds more than 50 % or vice versus).⁵

³Commission recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises C(2003) 1422

⁴ 'The new SME definition'- user guide and model declaration, Enterprise and Industry publications

⁵ 'The new SME definition'- user guide and model declaration, Enterprise and Industry publications



	ALB	BIH	CRO	XK	FYROM	MON	SER
Population (million)	3,1	3,8	4,4	2,1	2,0	0,6	7,3
% of number of all register business	99,6%	87.33%	99,4%	99,8%	98,7%	99,8% (roughly 40.000)	99,8% (304.017)
% of total national GDP	72,9%	N/A	44%	N/A	54,3%	60%	56.7%
% of total employment	71,4%	N/A	65%	N/A	78,4%	67%	65,5%
SME industrial structure	Trade sector, construction, transport communication	Transport, communication, hotels and restaurants, retail stores	Retail trade and repair services (34,9%), real estate renting and business activities (16,9%) manufacturing(13,28%)	Retail shops (50%) transport, storage (14%) beverages and tobacco (9%), hotels and restaurant (9%)	Retail trade (43,9%) manufacturing (14,5%) health and social work (10%) transport (9,4%)	Whole sale and retail trade, repair service, manufacturing	Whole sale and retail trade, repair service (37,5%), manufacturing (16,8%), transportation and connection (10,7%)

Table 1.- Western Balkan Countries – SMEs participation in overall economy and their structure⁶

ALB – Albania; BIH – Bosnia and Herzegovina

⁶ Table is made according data from national SME agency websites, Doing Business 2010 and the ECSE for WB 2009

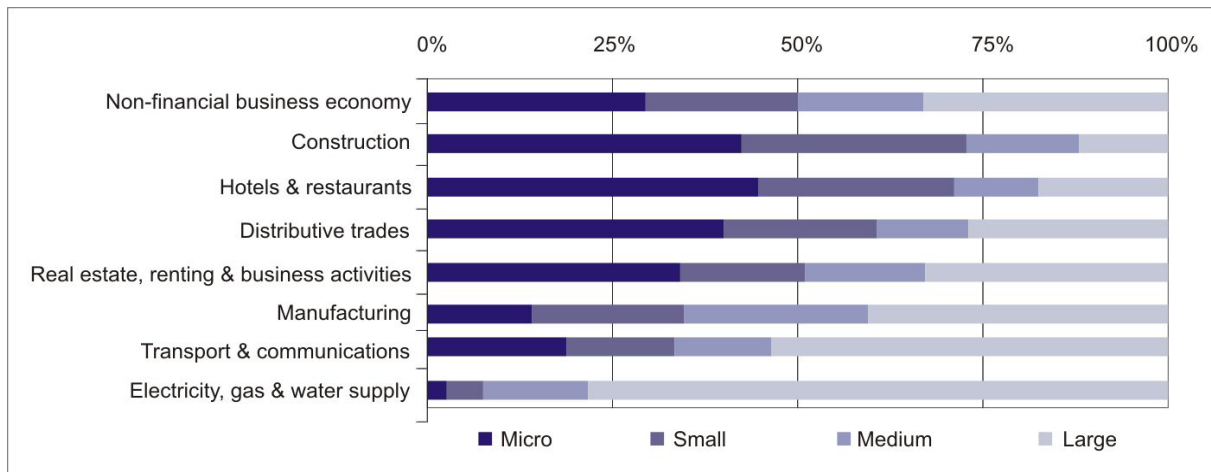


CRO – Croatia; XK – Kosovo under UNSCR 1244/99

FYROM – Former Yugoslav Republic of Macedonia

MON – Montenegro; SER - Serbia

As we can see in the Table 1, SMEs make a great majority of all register business in WBC. That is the main reason why policy makers should make greater attention to SMEs and improve their communication with them through public private dialog. A great number of them are, in fact, micro enterprises which have the dominating role in the WBC's SME sector (82,6% in Bosnia and Herzegovina, 98,3% in Kosovo under UNSCR 1244/99, 77% in Montenegro etc.). If we compare it with the situation in the EU we can see that the average number of employees in SMEs are 4,3 (12 in Slovakia, 7 in Estonia, Ireland, Latvia and Germany and less than 3 in Greece, Czech Republic etc.). For instance, EU policy makers considered this situation and made some significant effort in specific treatment of micro enterprises especially in areas of administration fees, taxation, VAT thresholds etc. The fact that the policy makers in WBC should realize its importance and put micro enterprises in the heart of their SME policies is also of great importance.



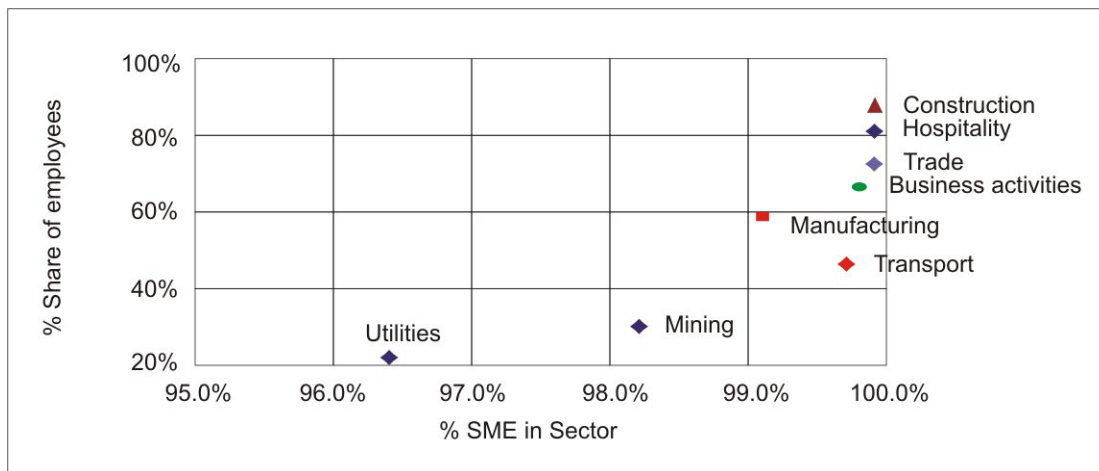
Picture 1. - Structure of the EU enterprises per special industries⁷

Structure of specific industries shows that SMEs in the WB take the biggest share in retail and repair service, manufacturing, transport, communication, tourism industry, while in the EU SMEs take the same share in construction and real estate, renting industry (this industry is high in case of Croatia). There is one geographical fact common for all Western Balkans' SMEs, is

⁷ 'Enterprise by size-class – overview of SMEs in the EU' – Manfred Schmiemann, Brussels 2008



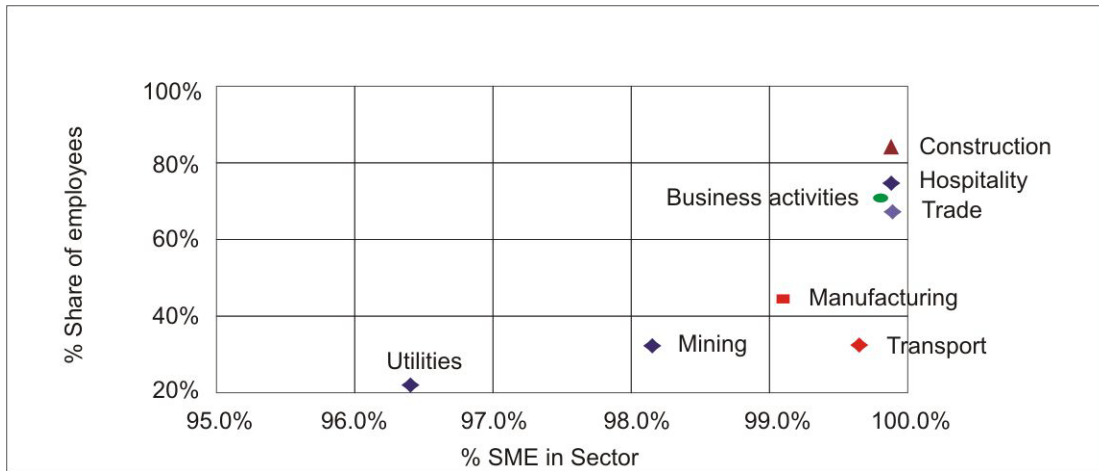
that one third of SMEs have its headquarters in the capital city. When we consider the percentage ratio, which SMEs have in relation to the national GDP or total employment, there exist some differences among the WB Countries. The EU average for SME share in employment of overall businesses is 67,1% while in cases of average turnover is 70% and in share of total GDP is 60%. According to table 1, presents that Albania has bigger SMES share in employment and national GDP than the EU average (72,9% of sector employment and 71,4% of total GDP). In terms of employment, the vast majority of WBC are on the average level (Croatia -65%. Montenegro-67%, Serbia – 65,5% with growth rate of 10% according to 2004).The highest share has FYROM with 78,4%. The share of Western Balkans SMEs in total GDP is also on the similar level with the EU one (Montenegro - 60%, Serbia has slightly smaller GDP, as well as FYROM, with 56,7% and 54,3%). Only Croatia due to its bigger administrative burdens to SMEs has smaller amount of 44%.



Picture 2. - SME share of employees in sector and SME share in sector⁸

Picture 2 and 3, represents SME share of total sectors output and employment, compared with the proportion of SMEs in that sector. In some sectors (for instance utilities and mining) SMEs make up a small proportion of the total business, employ relatively few people and make a relatively small contribution to EU output.

⁸ Evaluation of the application of the Think Small First Principle in the EU legislation and programmes'- James Leather , GFK, Brussels



Picture 3. - SME share in sector output and SME share in sector⁹

⁹ Evaluation of the application of the Think Small First Principle in the EU legislation and programmes' - James Leather , GFK, Brussels



3. THE EUROPEAN CHAPTER FOR SMALL ENTERPRISES IN THE WESTERN BALKANS

According to ‘Thessaloniki agenda’, whole Western Balkan expresses their full commitment to adoption and implementation of the European Charter for Small Enterprises. Soon after Thessaloniki, the WB leaders signed ‘Belgrade declaration’ in 2005, which confirmed their dedication to its’ further implementation. Once more in 2009 on their meeting in Zagreb, they confirmed huge interest for acceptance of the newest set of policies contained in the Small Business Act, which would complement the European Charter for SMEs and introduce new indicators in ten major areas of the SBA.¹⁰ The main purpose of EU policies is to help enterprises in fields of lowering administrative burdens, improving environment for small business, strengthening the spirit of innovation and entrepreneurship, which enables European business to face the challenges ahead. Index of SME Policy was made in order to determine the status and progress or regression of some parts of the Chapter. Index for SMEs is made for Western Balkans in 2007 and in 2009. The purpose of this part of the master thesis is, in comparison with the Global Entrepreneurship Monitor, OECD Investment Reform Index, World Bank – Doing Business and other accompanying documents, to show the point of development of entrepreneurship in the Western Balkans and to suggest in which direction it should be developed and how much potential there is for this purpose.

The Charter has 10 key areas such as:

1. Education and training for entrepreneurship
2. Cheaper and faster start-up
3. Better legislation and regulation
4. Availability of skills
5. Improving online access
6. Getting more out of the Single Market
7. Taxation and financial matters
8. Strengthening the technological capacity of small enterprises
9. Successful e-business models and top-class business support
10. Developing stronger, more effective representation of small enterprises’ interests.¹¹

It is very significant to define properly the level of assessment of these areas so that a good estimate of desirable directions of the development could be made:

¹⁰ ‘Application of the European Charter for SMEs in the Canton of Tuzla in 2009’- Bahrija Umihanić Ph.D., Adil Kurtić Ph.D.

¹¹ ‘The European Charter for Small Enterprises’



1. 'Level 1: There is no law or institution in place to cover the area concerned
2. Level 2: There is a draft law or institution, and there are some signs of government activity to address the area concerned.
3. Level 3: A solid legal and/or institutional framework is in place for this specific policy area
4. Level 4: Level 3 + some concrete indications of effective policy implementation of the law or institution.
5. Level 5: Level 3 + some significant record of concrete and effective policy implementation of the law or institution. This level is closest to good practices identified as a result of the EU Charter process and the OECD Bologna Process.'¹²

3.1. EDUCATION AND TRAINING IN ENTREPRENEURSHIP

As a consequence, of communist policy, the mindset of people from Western Balkans, which was developed within 50 years, in recognition that everyone will have a job and something to eat. But, with the fall of Communist regime, some tectonic changes happened, which could be described the most properly, with a “credo” of capitalism, made by John Maynard Keynes - ‘There is no free lunch’¹³ and this sentence will become a basis for the modern liberal capitalism theory. Job insecurity, poverty and other factors have influenced the development of the so-called ‘entrepreneurship out of necessity’. Nevertheless, entrepreneurship represents a very important pillar of WB economies and thus the priority should be given to entrepreneurial education in the national educational system. This type of education should start from primary school. The change of ordinary people perception, that we can take our destiny into hands and make a difference in our lives with a such little change, will mean a lot to a common man. If we want to establish a real entrepreneurial environment, it would be necessary to train people to obtain necessary knowledge and entrepreneurial skills. We are witnesses of many privatizations, where people get some money as shareholders to initiate a self-employment, but they unnecessarily spent it for the wrong purpose. This makes the necessity of training and development of the entrepreneurial awareness even stronger.

Better educational level would help employability and, as a result, progress in increasing the employment rate would help reduce poverty.¹⁴ In the case of Western Balkans (in this regard Croatia, Serbia and Bosnia and Herzegovina) it could be noticed in the picture 4, that the population in this region still has a relatively high fear of taking risk, which prevents many entrepreneurs from taking over the venture. This is main reason why entrepreneurial intention is

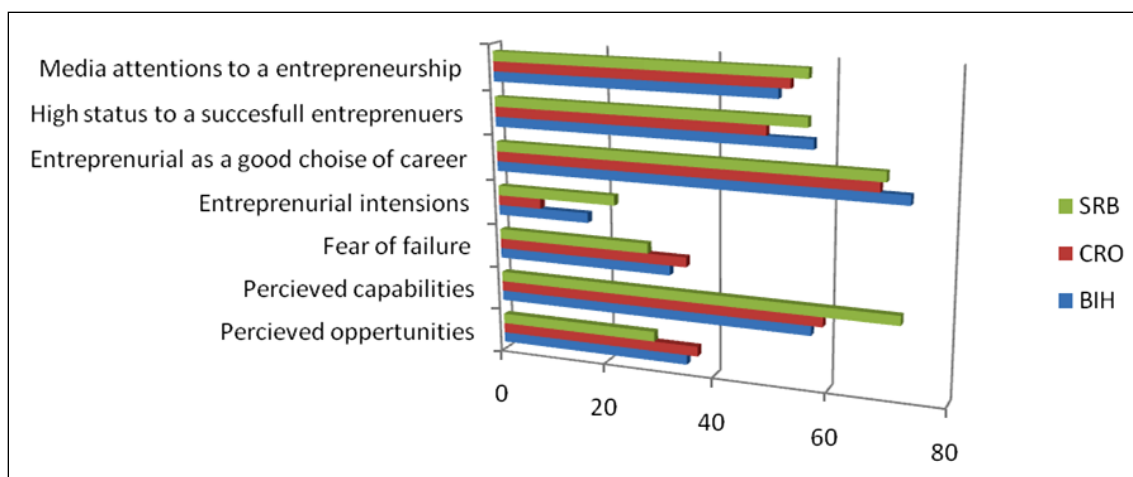
¹² ‘The Charter Process in the Western Balkans and the SME Policy Index Methodology in 2009’

¹³ ‘Macroeconomics’ – Kosta Josifidis Ph.D. – The faculty of Economics, Novi Sad , 2003

¹⁴ ‘EUROPE 2020’ – European strategy for smart, sustainable and inclusive growth, Brussels 2010



on a low level¹⁵. As it was previously explained, many factors have influenced a situation along the way (transition period). While reviewing the table, it could be noticed that, apart from big percentage of people who are looking in entrepreneurship as a likely chance for career, perceived opportunities and capabilities are on a relatively low level. One of the major reasons for this situation is that many people, who are seeking for the job cannot find it. As a consequence, they are deciding to take action only for the reason of necessity. Media campaign is relatively not engaged enough in encouraging people to take a risk. One of the possible solutions is to inform the people about wide range of opportunities that entrepreneurship offers. Therefore, government should consider media campaigns as a possible direction for their further actions.

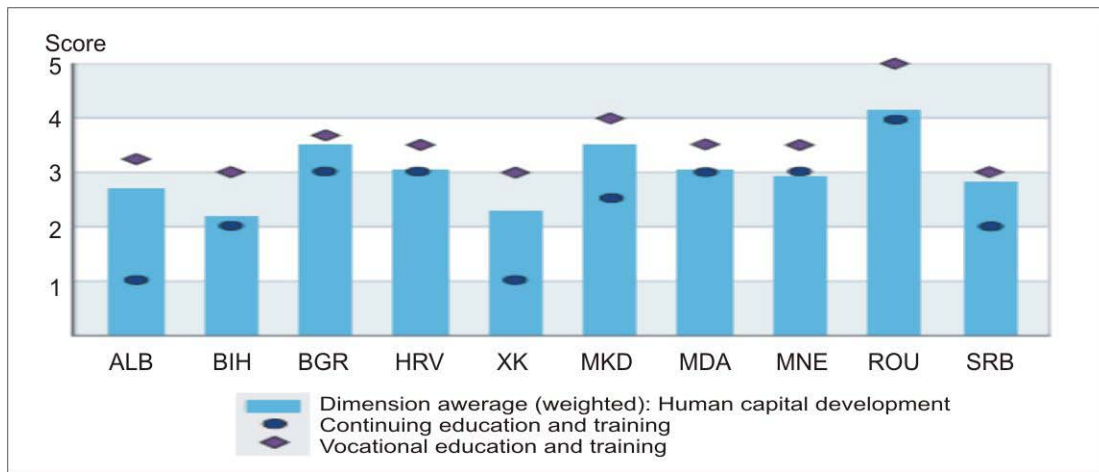


Picture 4. Entrepreneurial attitudes and perception in Croatia, Serbia and Bosnia and Herzegovina¹⁶

OECD indicators of development of human capital pointed at existing misalignment, which occurs between needs and skills which market is demanding. This is why all WB governments should actively develop private-public dialog and give employers chance to participate in planning the educational process especially in vocational schools. Albania and Kosovo under UNSCR 1244/99 have big issues in continuing education, while Serbia and Bosnia and Herzegovina are also on the low level of HC development. All countries should be very careful in this area and try to find and develop encouragement for people to start their own business.

¹⁵ 'Recession reduce the entrepreneurial activity in BiH' – Bahrija Umihanić Ph.D., Rasim Tulumović, Mirela Afirović, Slađana Simić, Emir Spahić

¹⁶ Picture is made according to data from 'Global Entrepreneurship Monitor' – Executive Report 2009



Picture 5. - Human capital development in SEE ¹⁷

In the Charter for Western Balkans for 2009, there are 5 major areas in which partner organizations (EC, OECD, EBRD) in cooperation with experts from this region evaluate the situation in this region. The main purpose of the Charter was to encourage and promote youngsters' entrepreneurial and make an effort in developing appropriate training schemes for managers in small enterprises.



Picture 6. - Assessment framework for dimension 1. ¹⁸

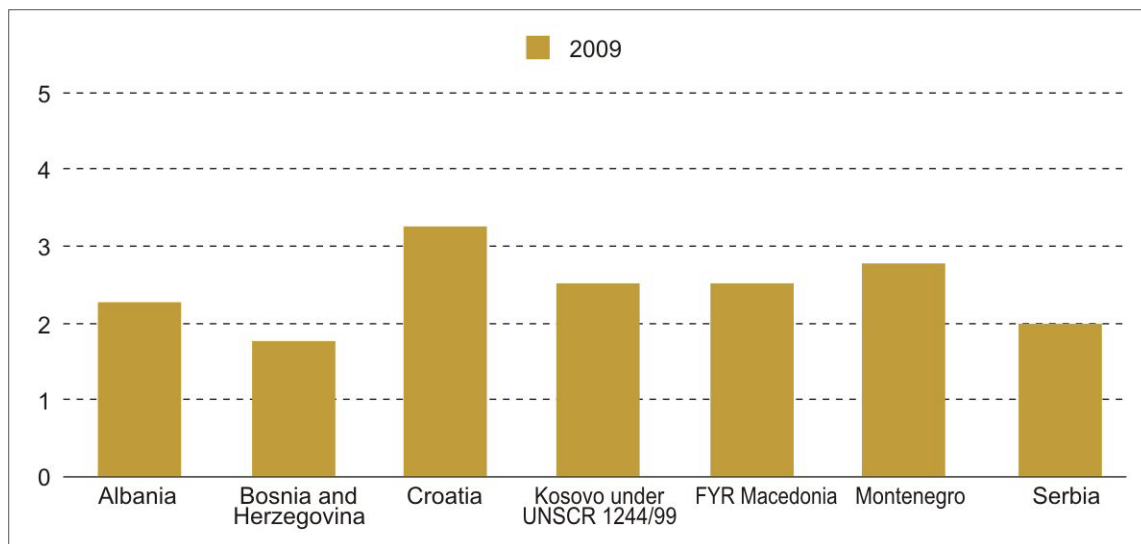
Educational and training policies should be based on Oslo agenda, which contains recommendation for the direction of the development of lifelong learning. As we mentioned earlier Bosnia and Herzegovina and Albania have big problem in this area. Almost every WB country do not have a clear policy established in this area. The only country that made a great step ahead in policy making is Croatia, where the partnership between ministries with formal engagement of Chamber of Commerce is developed. In other WB countries there are some strategies for improvement in this area but mostly financed by donors and they are very

¹⁷ OECD Investment Reform Index 2010

¹⁸ 'The European Charter for Small Enterprises in Western Balkans in 2009'



concerned about the realization of these strategies. This is why WB governments should find their own interest in making good policies and to realize that quality entrepreneurial education will decrease common problems in economy with which they are facing every day. Both in lower and upper education in WB countries are existing only pilot projects. In Kosovo under UNSCR 1244/99 are existing The Strategy for Entrepreneurship Education and Training that offer scholars to choose entrepreneurship as a optional subject in their schools. This type of involvement of scholars in entrepreneurship in the EU secondary schools has been a part of projects named ISCED 2 and ISCED 3. WB could create friendly environment for starting business if they would implement these two projects. Even this progress is still slow because there should be more trainings and educational activities for professors who would work with scholars. In the fields of good practices and non-formal learning there are no significant efforts made by WB countries. When we considered areas of monitoring and evaluation processes, we could notice that these processes are present in all WB countries, particularly in Montenegro and Bosnia and Herzegovina. Many people in WB very often fail to re-examine their own work and do not want to make further explanation of why something has happened. Moreover non-formal education as one of the most successful types of learning trough trainings is almost completely ignored in WB. In order to enhance position of entrepreneurial education and training, WB countries should more encourage their regional cooperation and to support framework for entrepreneurship key competence development. In Picture 7, there are presented overall scores from which it can be seen Croatia has the best position in formalization of the co-operation between policy makers and industry. On the last position is Bosnia and Herzegovina, especially in starting of ISCED 2 programme, non formal learning and monitoring.¹⁹



Picture 7. - Overall scores for dimension one²⁰

¹⁹ 'The European Charter for Small Enterprises in Western Balkans in 2009'

²⁰ 'The European Charter for Small Enterprises in Western Balkans in 2009'



3.2. CHEAPER AND FASTER START-UP

In this field it will be compared two research, one had done by World Bank and other made for the Charter. Investors are predominantly interested in the efficient start-up process, which is charged with small amount of money and represent the streamline process. In Table 2, there are facts connected with the start-up process in the region. The greatest development is made by Albania, which fulfills the entire company registration reform where is established one-stop-shop solution, highly recommended by Small Business Act and delegated this process from central court in Tirana. According to table 2, Albania has made progress for 21 places on the World Bank ranking list. Beside one-stop-shop for registration, Albania also decreased the number of days and procedures needed for registration and fully eliminated minimum capital, which was required in 2010. Bosnia and Herzegovina is the only country, which do not complete the reform of the company registration process and that is the main reason for 160th place. The only improvement was the decrease of required costs that are smaller than in 2009. Croatia has made some progress from 2009 and on the list is now ranked as 101st (progress of 16 places). The greatest improvement has been made by reducing the required procedures for registration (from 40 in 2009 to 22 in 2010). For Kosovo under UNSCR 1244/99 there is no data for 2009. Kosovo is ranked on the 164th place in the WB according to starting business data.

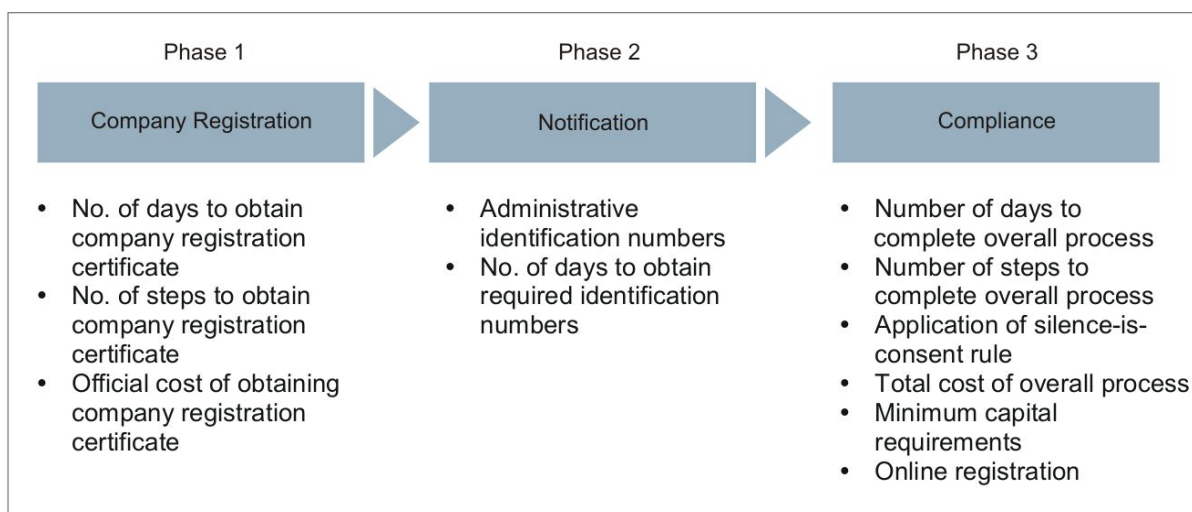
	Albania		Bosnia and Herzegovina		Croatia		FYROM		Montenegro		Serbia	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Starting business (rank)	46	67	161	160	117	101	12	6	105	85	106	73
GNI per capita (US dollar)	3290	3836	3580	4506	10460	13574	3460	4138	5180	6440	4173	5705
Procedures (number)	6	5	12	12	8	7	7	4	15	12	11	7
Time (days)	8	5	60	60	40	22	9	4	21	13	23	13
Costs (% of income per capita)	25,8	0,0	30,8	15,8	11,5	8,4	3,8	2,5	4,4	2,6	7,6	7,1
Minimum capital (% of income per capita)	32,3	0,0	36,3	29,8	16,6	13,4	0,0	0,0	0,0	0,0	6,9	6,1

Table 2. - Western Balkans Countries according to starting business ²¹

²¹ Table is made according to data from World Bank Doing Business 2009 and 2010



It takes 9 days to start business and potential investors should pass through almost 52 procedures which is extremely high. There is also a very bad situation in the area of minimum necessary capital, with a rate of almost 169,5%. The best ranking on the list has FYROM, currently in the 6th position. Here, the fastest start-up procedures can be completed in 4 days and require only 4 steps. What is more, investors don't need to have any capital on their account when they want to start-up business. In case of Montenegro, some progress has been made in area of required days for start-up, which is now 13 (21 in 2009). Montenegro has also followed the region trend in required minimum capital for start-ups, and it is 0. Serbia has also made some progress in this area (make a boom of 33 places). The number of days is declined by 4 and now it takes 7 days to finish all the procedures. However, Serbia didn't follow trend in their neighbor policy in the field of minimum capital and still amounts to 6,1% of income per capita.



Picture 8. - Assessment framework for dimension 2²²

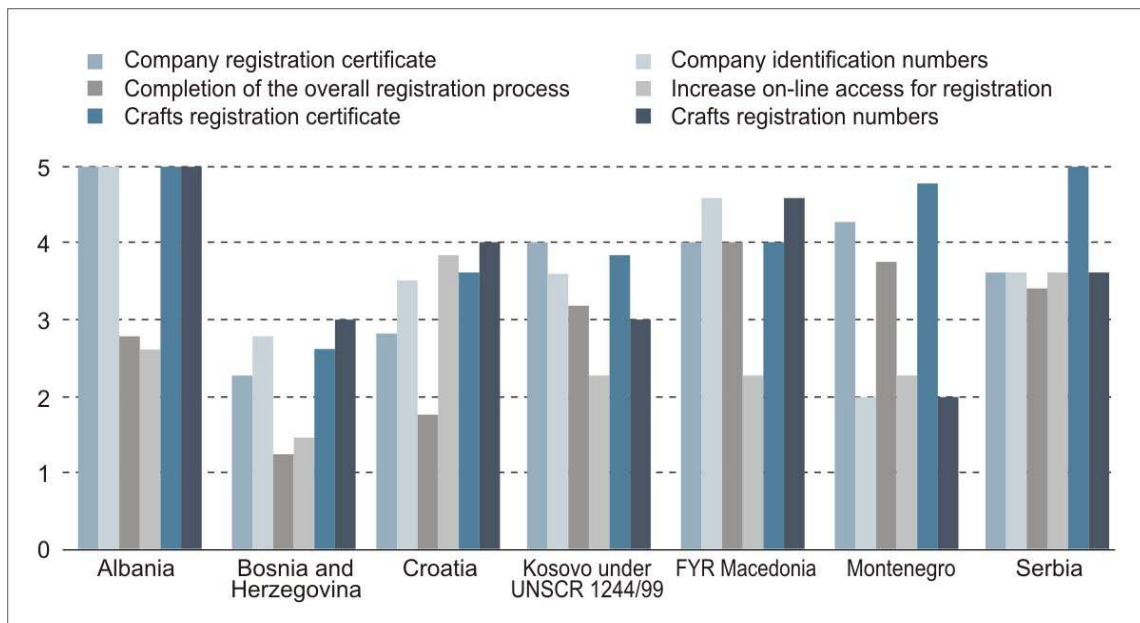
As previously mentioned, Albania has made the most radical progress with establishment of one-stop-shop for the company registration. National Registration Centre (NRC) reduced the notification process to only one day. In addition, FYROM and Croatia have made significant progress and with Albania represent the leaders in establishment of one-stop system. In the aspects of the notification, FYROM made a few steps forward in getting a unique identification numbers system. Yet, in other countries, many procedures remain cumbersome and heavily affected by a large number of bureaucracy issues. In this area, the worst situation is in Montenegro, where you have to collect five identification numbers it to spend from 5 to 15 days in obtaining all this number. Montenegro government should enforce better regulation of this area because it can badly affect its own entrepreneurial capacity. Registration of the craft can be easily done in Kosovo under UNSCR 1244/99 (for one day and for 9 EUR fees), Croatia (at the HITRO contact point within 5 days) and in FYROM (by the Chamber of Crafts for 9 days and average 100 EUR fees). Compliance is previously explained in table 2. On-line opportunity for

²² The European Charter for Small Enterprises in Western Balkans in 2009'



registration is available in Croatia, where electronic signature has been fully operated. In Western Balkans, the main obstacle in launching on-line registration system is the lack of operational electronic signature system. Some of license and numbers are available in Croatia and Serbia.

The main suggestion for WB governments would be to enhance their legislatives and enable on-line registration as soon as possible, with reduction of unnecessary procedures, such as cumbersome administrative burdens, pending numbers, permits and other accompanying papers. This would effectively cut SME cost and encourage, by easier, cheaper and faster start-up, all those who hesitate, to take the plunge. The employment rate will also increase, thus direct and indirect benefits would be easily seen.



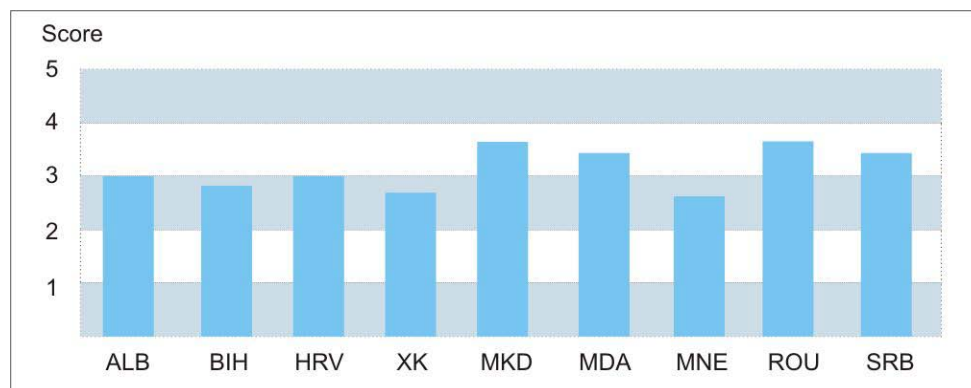
Picture 9. - Overall scores according to sub-dimensions²³

²³ 'The European Charter for Small Enterprises in Western Balkans in 2009'



3.3. BETTER LEGISLATION AND REGULATION

Administrative burden could present a very big and unnecessary obstacle to the SMEs. The government should develop models and other useful mechanism for their reduction and complete abolishment. Some of the EU surveys show that a big enterprises spend one euro per employee, which when it is compared with the regulatory data, point to the disparity with a medium-sized enterprise, that have to spent roughly 4 euro and a small business up to ten euro.²⁴ With the acceptance of the Charter, all WB countries had undertaken an obligation to make the Regulatory Impact Assessment (RIA), which should help in achieving cost-effectiveness of regulatory decisions. Looking the picture, it can be noticed, that all WB countries have reached the average level of the regulatory reforms and parliamentary process. The capacities of WB parliaments are crucial point in a decision acceptance and making basis for their further implementation. It should strengthening partnership with universities, non - government organization and other interested parts of community. Some of the crucial area, on which should be turned special attention are starting a process of making decision. Policy makers must think on SMEs and their needs and to try to encourage their involvement in this area, to enhance monitoring and evaluation process, which is extremely bad in WB region, to exempt SMEs from all necessary obligations and to simplify procedures. Also they need to inform SMEs trough website or by organizing training about recent improvements, giving them enough space and time to adjust and prepare properly to new legislations.



Picture 10. - Regulatory reforms and parliamentary processes in the WB²⁵

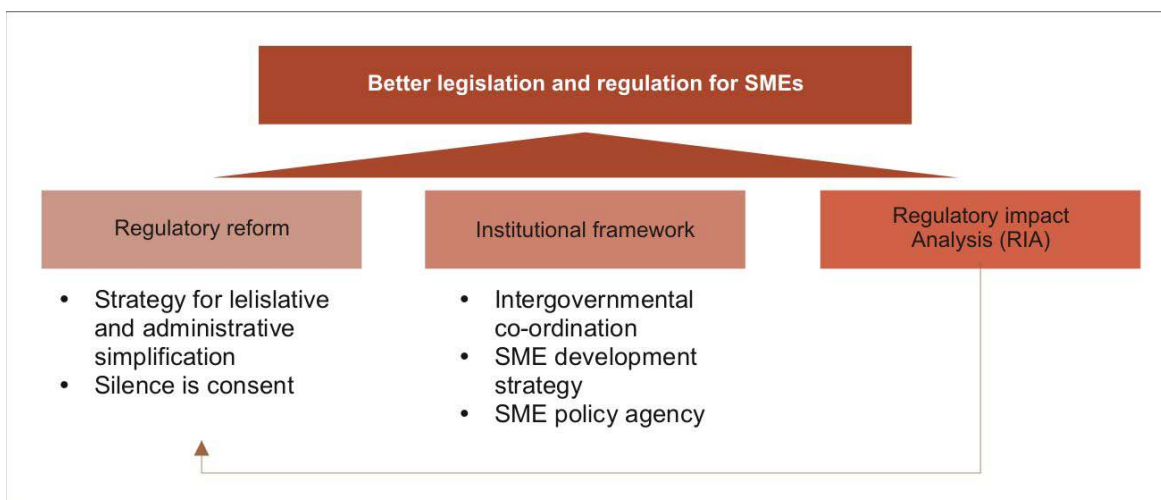
SMEs in all legislation should have privileged treatment trough reducing fees, to be excepted from some obligations and to provide them faster service. The WB countries have launched “Simplification of SME-related legislation” in order to keep the regulatory environment free from overburden and overregulation. The biggest progress in this area made again Albania, Croatia and FYROM, who have adopted their existing strategies and tried to simplify them. Montenegro has made an operational plan for SME legislation, while Serbia and Bosnia and

²⁴ 'Models to reduce the disproportionate regulatory burden on SMEs', Bruselss 2007

²⁵ OECD Investment Reform Index 2010



Herzegovina have made some sluggish improvements. However, Bosnia and Herzegovina's major problem in decision-making, is their state structure, which greatly hamper the implementation of almost all government's decisions at the entity level, which again have great influence on decision implementation. Kosovo under UNSCR 1244/99 should primarily to try to better establish overall business environment.²⁶



Picture 11. - Assessment framework for dimension 3.²⁷

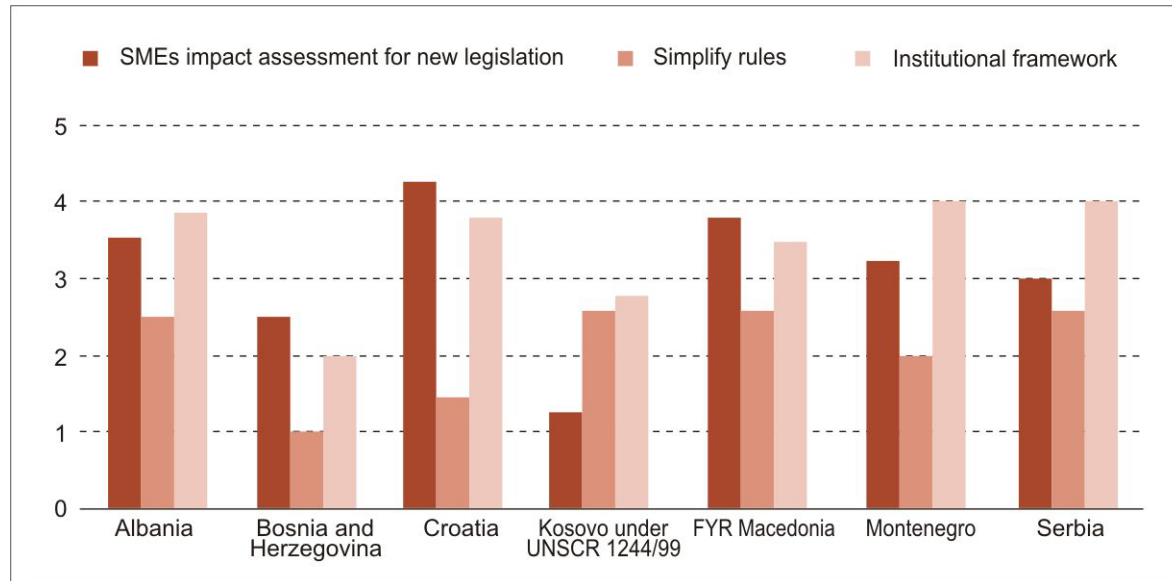
The most advanced countries in the use of the RIA are Serbia and Croatia, who both put the RIA into their legislation (Croatia use possibilities of the CARDIS programme, while Serbia set up the Council for Regulatory and Quality Control). What is same, very disappointing is the fact that Bosnia and Herzegovina and Kosovo did not do anything in this area. Apart from establishing executive agencies in the WB Countries, which are responsible for SMEs policies, there should be created a better communication line between policy making bodies and these agencies. The greatest progress made Serbia, which has got a new agency for SMEs (legal heir of Agency for SME development) – National agency for regional development that have a good cooperation with the Ministry of Economy. Montenegro has Directorate for SME Development, Albania - Albainvest, in FYROM is established Agency for Promotion and Entrepreneurship, Croatia – Agency for small enterprises – HAMAG, Kosovo has recently established SME Support Agency, while Bosnia and Herzegovina, because of entity disagreement do not have the agency that is responsible for whole territory (they have agency on entity and cantonal level). Some of the problems of this agencies, are that they do not have good communication with their governments (but this is not common issue), very limited budget and in some cases they are responsible also for some other issues apart from entrepreneurship. In the vast majority of cases (apart from Serbia and Montenegro) they do not have developed network of local offices, which

²⁶ 'The European Charter for Small Enterprises in Western Balkans in 2009'

²⁷ same source as 28



could be crucial in day-to-day communication with local SMEs in giving them counseling and advices for better resolving of financial and legislative issues.



Picture 12. - Overall scores for dimension 3. ²⁸

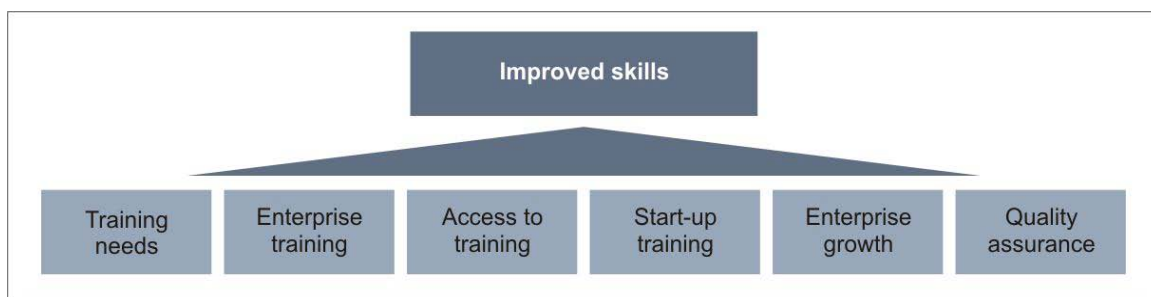
3.4. AVAILABILITY OF SKILLS

EU has ensured that training institutions, complemented by in-house training schemes, delivered an adequate supply of skills adapted to the needs of small business and provided lifetime training and consultancy.²⁹ The WB countries made some steps in this area. Human capital has essential value for SMEs and find it's own placed in the new EU strategy – EUROPE 2020, where economy growth is connected with economy based on knowledge. As previously was mentioned, Albania and Kosovo under UNSCR 1244/99 have the biggest problem in continuing learning. Some studies also show that almost 80 million people in Europe have low or basic skills and this is a reason why by 2020, “16 million more jobs will require high qualifications, while the demand for low skills will drop by 12 million jobs”³⁰. Achieving longer working lives will also require the possibility to acquire and develop new skills throughout the lifetime. On picture 13, has been presented 6 assessment parts which has smaller differences from assessment taken in 2007.

²⁸ “The European Charter for Small Enterprises in Western Balkans in 2009”

²⁹ European Charter for Small Enterprises

³⁰ “EUROPE 2020” – European strategy for smart, sustainable and inclusive growth



Picture 13. - Assessment framework for dimension 4.³¹

Analysis of training needs and entrepreneurial training are created in the way to ensure right identification of all weakness and gaps in existing workplaces and to suggest new approaches for fulfilling them. Other indicators will be use in order to see what is quality of trainings, is there need for advanced one, are all private or public institutions involved in this process and to create an effects for further development of SMEs. The leader positions in the area of access to skills have Croatia, Serbia and FYROM. These countries, together with Albania and Bosnia and Herzegovina, have launched the training schemes for developing entrepreneurial environment. They try to promote these activities and the main target was unemployment people, so it can be concluded that the major aim was development of “entrepreneurship out of necessity”. Kosovo under UNSCR 1244/99 has developed enterprise model for survey of small companies needs. Good example is also Montenegro, where authorities, according to their survey discover that only 15% SMEs has benefits from start-up training and that only 1% of small enterprises has engaged in training from the period when they started. Other good example is Croatian HITPOP, which made a very good web portal where it can found all available offer of training by geographical area. Some training materials can be downloaded or it can be taken part in discussion panels. Other countries, such as Serbia and FYROM, made some steps forward by launching their own web sites (Serbia has launched web portal as a part of official web site of National Agency for Regional Development – where it can be found a list of possible training issues, a few publications, legal help or all data about regional network where it can be personally taken part and asked for some further explanation).³² Montenegro has launched its own projects and many of them are just in form of giving information without further assistance.³³ Apart from good examples, in practice there are many cases in which entrepreneurial trainings are organized by one agency (there exist some cases of mutual organization but without any sufficient cooperation between them). All this reason combined with the lack of information or access to the Internet (Croatia has its own web portal for entrepreneurial training) prevent a large number of entrepreneurs from attention of some of those trainings, especially before or after inception of the business. As a part of training centers, it should also be developed parts in which entrepreneurs can come and find all necessary help and

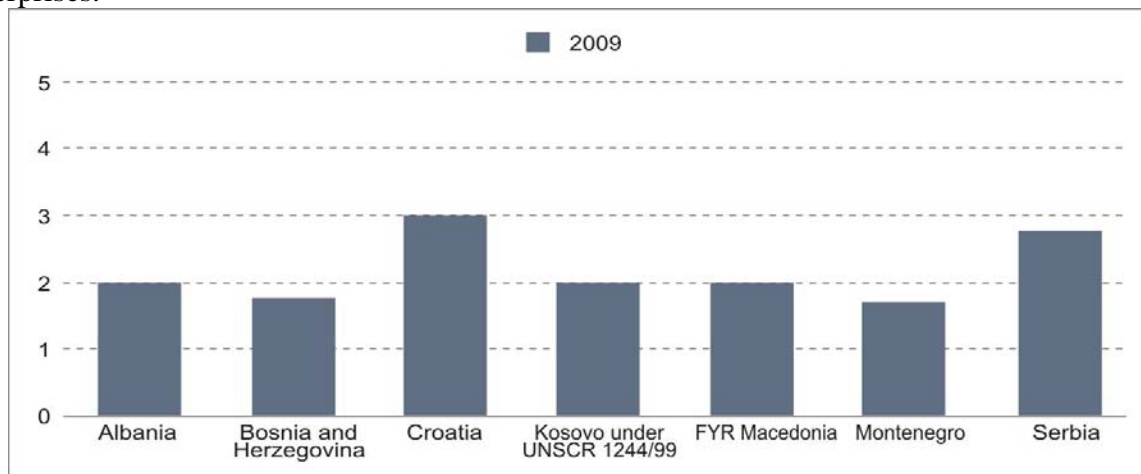
³¹ 'The European Charter for Small Enterprises in Western Balkans in 2009'

³² www.narr.gov.rs

³³ www.nasme.me



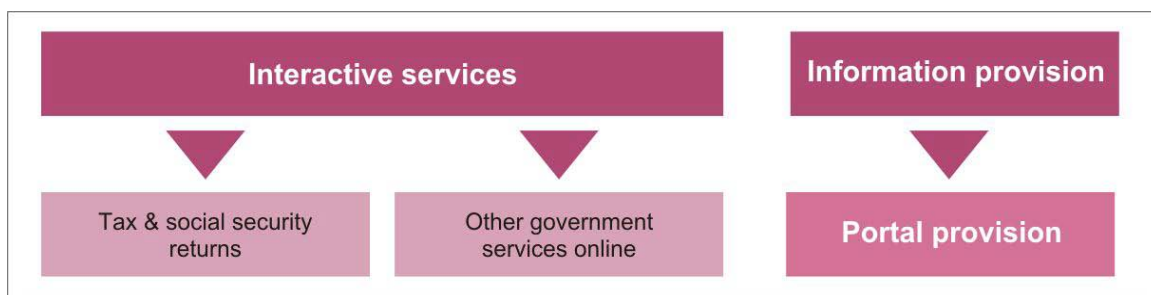
advices for their problems. The WB Countries could increase budgets for this purpose and to try, with more data collecting from the local level, to improve situation and to make some better strategic decisions in order to satisfy demands, from increasingly large population of the enterprises.



Picture 14. - Overall scores for dimension 4. ³⁴

3.5. IMPROVING ON-LINE ACCESS FOR SMES

Companies will be able to receive advice, make applications, file tax returns or obtain simple information online, therefore faster and more cheaply³⁵. From large importance is to enable on-line access for SMEs in order to reduce costs and because of the reason that they have smaller budgets. Information Technologies are a true future for SMEs and the Western Balkans countries have to realize this opportunities and to try with small amount of money to upgrade competitiveness of their SMEs.



Picture 15. - Assessment framework for dimension 5. ³⁶

³⁴ 'The European Charter for Small Enterprises in Western Balkans in 2009'

³⁵ European charter for Small Enterprises

³⁶ 'The European Charter for Small Enterprises in Western Balkans in 2009'



Many issues could be resolved with additional understanding of a role that internet can play. Some of the possible solution is filing the taxes, applying for public procurement, cadastre, on-line registration of a company, downloading necessary documents, on-line trainings, communication with authorities from government, for collecting statistical data etc. One of the major problems that most of the WB countries have made some steps in e-signature legislation but implementation is still very slow. The only country from the region, which has fully operational e-signature, is Croatia. There exist fully explained procedures, which it has been known before potential entrepreneur decide to start it's own company with very useful guides. For instance, when somebody decide to start business he can go on e-Company web portal of HITRO and to check if name, that he choose for business is available, as well to download payment slips. After verification of documents by notary, it is available to sent that documents trough e-Company portal to the National Classification of Activities and to get business identification number. With the end of all registration procedures, it is available to apply employees, trough e-Health and e-Pension portal, for health, social and pension contributions. E-Tax portal enables SMEs to get their VAT and other tax obligations papers trough this portal and submit all necessary procedures connected with tax obligation.³⁷ Croatia also made big steps in improvement of their e-government system, as well as in public access to financial reports of great variety of SMEs trough FINA web site.³⁸ Albania has made some progress, but still not enough, because of the lack of the implementation of e-signatures. The crucial taxes such as VAT, income and profit tax can be completed and paid on-line, but because of previously mentioned weakness, all these documents have to be signed and certified by authorized person manually. What is the same, public procurement procedures can be fulfilled online. On the official web site it can be founded any useful information for SMEs and in general, it is primarily intended for foreign investors.³⁹ Montenegro has its own system and it can found data from central register for social insurance and online tax returns. Moreover, on web site for SME, are presented available public calls for different type of award contests, a few funds offer etc. On Kosovo under 1244/99 web site have really, wide range of information about action plans and projects (such as upcoming events) of SME agency, but there is still no opportunity for on-line fulfillment of the application of taxes and social insurance.⁴⁰ In Serbia, government has approved e-signature law but it's implementation is still lacking. All necessary statistics about SMEs can be found on official sites combined with other useful information about taxes, social insurance, financial reports and other financial data of SMEs.⁴¹ FYROM have similar problems and opportunities for small business and its Public Procurement Bureau has published public calls on-line.⁴² FYROM has established action plan for online filing taxes and social insurance. Bosnia and Herzegovina has no unique site for whole state, but information can be founded on three separate sites (every of them is dedicated to one part of state - Federation of Bosnia and Herzegovina,⁴³ web site is under the construction, Republic of Srpska⁴⁴ - it can be found public

³⁷ www.hitro.hr

³⁸ www.fina.hr

³⁹ www.albinvest.gov.al

⁴⁰ www.sme-ks.org

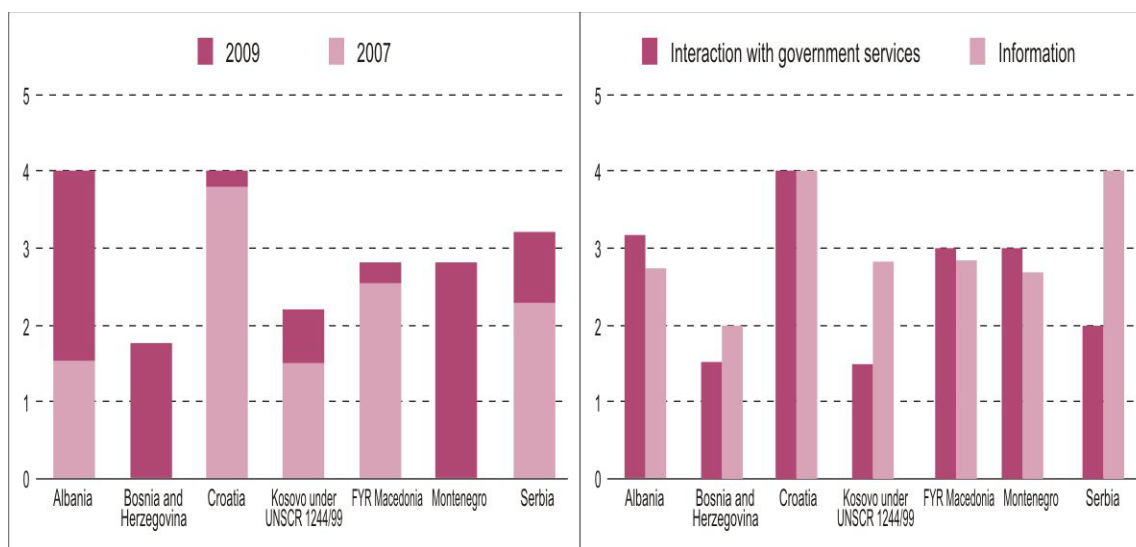
⁴¹ www.apr.gov.rs

⁴² www.egov.org.mk/Project_e-Procurement.htm

⁴³ www.fmrpo.gov.ba



calls, offer for credits and subsidies, actions, many information about business zones in municipalities and forum on which it can be exchanged experience and possibility to communicate with local authorities, District of Brčko⁴⁵ - there are placed necessary information about public calls, laws, statistical data etc.). All of these web sites are available on their official and English language. On Kosovo under UNSCR 1244/99, web sites information can be found apart from local and English as well on Serbian language. In FYROM information are available on Albanian language, while in Bosnia and Herzegovina, on the major number of sites, information can be found on three official languages (it is important to remark that between Bosnian, Croatian and Serbian language is no major differences existing).



Picture 16. - Overall scores for dimension 5.⁴⁶

3.6. GETTING MORE OUT OF SINGLE MARKET

The Commission and Member States have pursued the reforms underway aiming at the completion in the Union 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. At the same time, European and national competition rules have been vigorously applied to make sure that small businesses have every chance to enter new markets and compete on fair terms.⁴⁷ One of the major aims of the creation of economic union of the European states was to take all possible advantages from the Single Market. Fact that Western Balkans is geographical part of Europe, logical way of development and integration is full membership in the EU. This process is long, but benefits

⁴⁴ www.rars-msp.org

⁴⁵ www.bdcentral.net

⁴⁶ 'The European Charter for Small Enterprises in Western Balkans in 2009'

⁴⁷ European charter for Small Enterprises



could be sufficient. In the works of David Ricardo, John Stewart Mill and Adam Smith's Bible of modern economy – 'Welfare of the Nations', it is fully explained and proofed that countries could take a lot of benefits from their cooperation. David Ricardo's theory of 'competitive advantage of countries' explained on example of Portugal and England, what potential benefits of cooperation could be. He based his theory on the fact that Portugal has more effective production of wine than England has and they will not want to lose unnecessary longer time in production of some other product, for instance manufacturing of textile (England need less time for textile production). In this regard, they will specialize for wine production and buy textile from England and *vice versus*.⁴⁸ The WBC started their European integration and slowly they are becoming equal part of this market (Kosovo under UNSCR 1244/99 is only country from region that did not sign SAA – the Stabilization and Association Agreement and due to unresolved status, is at the beginning of the negotiations with the EU). Croatia advanced the most in the negotiation with the EU and after a brief blockade, take by Slovenia in reason of territorial disputes, the negotiations were stopped on 32 out of 35 Accession Chapter. Montenegro and FYROM is a candidate country and the only reason why the final negotiations, in case of FYROM, were not start is dispute with a Greece over the name of the country. Albania and Serbia are associate members, which are in process of submitting responses to the questionnaire and are waiting to become the candidate countries. Bosnia and Herzegovina has signed SAA, which is important trade agreement with the EU that allows access to the Single Market, but they integration process is very slow due to big political problems.

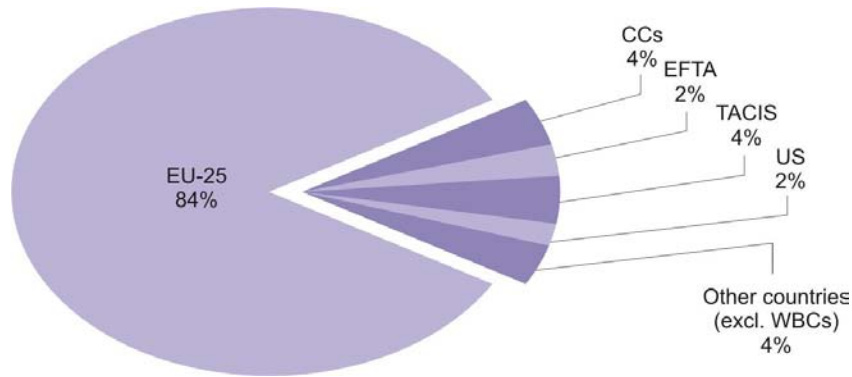
This is some of the features of WB trade with the rest of the world:

- The growth rate of external trade was higher with the EU than with the rest of the world
- The European Union is trade partner number 1, accounting for more than 84% of WBC trade
- Among the WBC, Croatia is the major trade partner of the EU, accounting for 50% of all WBCs' trade with the EU
- Trade made between Croatia and Bosnia and Herzegovina and between Serbia and FYROM accounts for nearly 70% of all the total trade between WBC.⁴⁹

The main reason for this statistical data, it is earlier explained trade relationship between the EU and WBC. What the same, all the WBC are member of CEFTA - Central Europe Free Trade Agreement and they try to find all possible markets for their own goods and service.

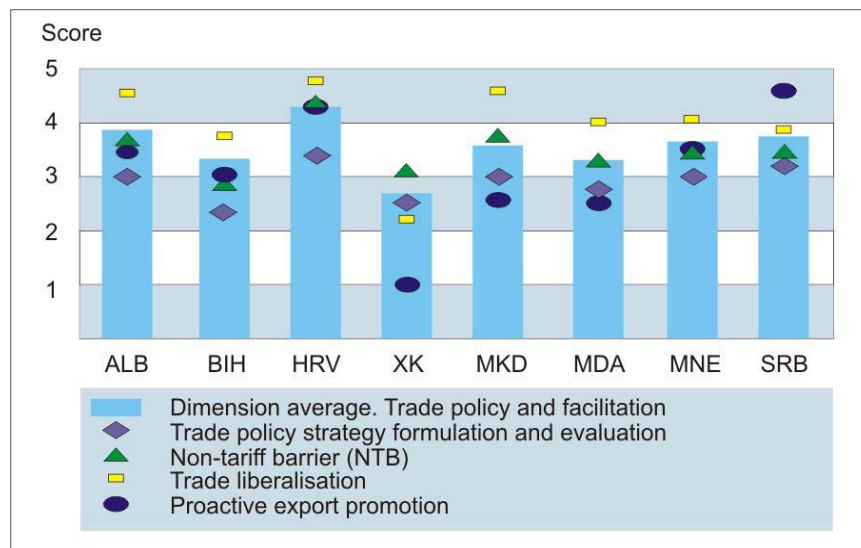
⁴⁸ 'International Economy'- Zora Prekajac Ph.D, Futura Novi Sad 2005

⁴⁹ 'External Trade of Western Balkans Countries' – Evangeols Pongas (Eurostat)



Picture 17. - External trade of WB with the rest of the world⁵⁰

When we are discussing about trade structure, we could notice that the biggest export from WB to EU is consist of manufactured goods such as textile (16%), base metal and products from the base metal (15%) and machinery and electric equipment (13%), while exports from the EU to WB is consist of machinery and electronic equipment (22%), vehicles (11%) chemicals (10%) and base metals (9%).



Picture 18. - Trade policy of WB countries⁵¹

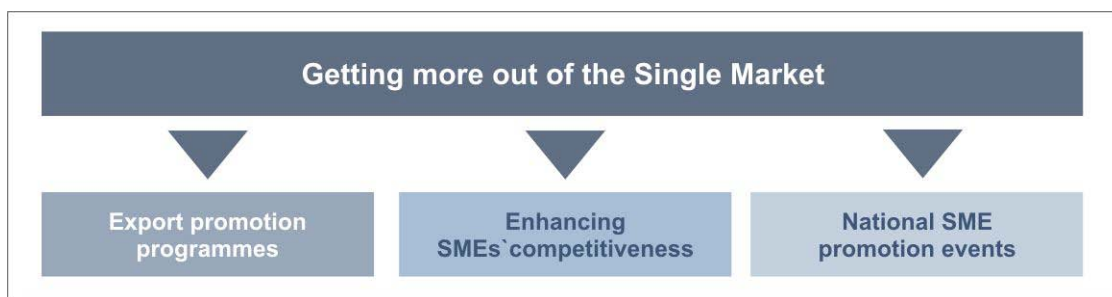
⁵⁰ 'External Trade of Western Balkans Countries' – Evangeols Pongas (Eurostat)

⁵¹ OECD Investment Reform Index 2010



Also, one of the major conditions of accession process to the EU is full membership in the World Trade Organization (Croatia, Albania are members). The WTO is organization primarily responsible for configuration and implementation of international trade rules among member countries in order to built market on which both, developed and undeveloped countries can compete fairly. Some of WB countries have been already members and therefore they have obligation to reduce tariff and non-tariff barriers on agricultural products and adjusted it on the world level, while the process of reducing customs on industrial products have to speed up.

Major concern for this dimension is to discover on which level of development are the export agencies and what are they role in enhancing the SMEs export.



Picture 19. - Assessment framework for dimension 6. ⁵²

Kosovo under UNSCR 1244/99 did not take big steps in a section of export and its promotion. It has established Investment Promotion Agency of Kosovo, which in majority cases is oriented on foreign investors and giving advisory for them (especially in providing information about taxation, location of the business parks etc).⁵³ Montenegro trough Direction for Development of SMEs offer opportunities for forming clusters and company assistance programme. In Albania programmes for promotion export is formerly oriented on foreign investors, but apart from it they organize presentation of Albanian SMEs at trade fairs abroad, providing information about free trade regimes in other countries, custom regimes etc. Bosnia and Herzegovina has recently establish BHEPA (Bosnia and Herzegovina export promotion agency), that succeed for short time to manage creation of the register of exporters, to help SMEs trough guides for financing the exports, to provide information about necessary documents for export, to give trade profile of other markets and other useful data for exporters. There also exists possibility to communicate with the authorities and to give some suggestions for reducing unnecessary regulation, list of fairs in Bosnia and Herzegovina and abroad. Other major advantage of a portal is an option used for finding foreign partner.⁵⁴ FYROM and Croatia are only two countries in the region which launch National Competitiveness Council (NCC) trough which they provide that the key stakeholder take part in policy elaboration (Serbia has similar council as a part of Ministry of

⁵² 'The European Charter for Small Enterprises in Western Balkans in 2009'

⁵³ www.invest-ks.org

⁵⁴ www.bhepa.ba



Economy). For instance, FYROM has Competitiveness Fund with annual budget from 5-7 million of euro and its aim is to refund all SMEs investment made in technical and quality standards improvement or for marketing activities.⁵⁵ Croatia has BICRO, which is primarily oriented on innovation, but also supports a SMEs role in regional development, development of innovations, and part of forming clusters, positive mindset and for these purposes give financial support.⁵⁶ SIEPA (Serbian Investment and Promotion Export Agency) has been established in 2001 and represent one-stop-shop solution. It has been launched in order to provide information and advices, to help foreign investors (through available data about taxation, start up procedures, relevant legislation), to maintain database of exporters, to organize a participation of Serbian companies on a trade fairs abroad, to offer training, financial support etc.⁵⁷ Serbia, Croatia, FYROM and Montenegro (Bosnia and Herzegovina fulfill procedures to become associated member) are part of Europe Enterprise Network. EEN is network of 600 partner organizations in 40 countries and one of its aims is to give a chance to its members to get into contact with other SMEs across the EU and to learn about EU policies in this regard. One of interesting project, which is created in cooperation with EU is SECEP – Support to Enterprise Competitiveness and Export Promotion and Serbia take part in this project. It has three major components:

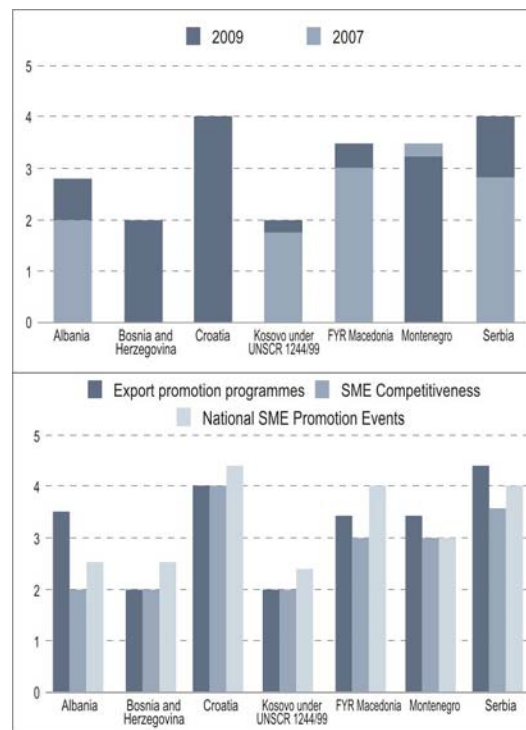
- Cluster development (The Three Star Location Quotient methodology (a statistical model)), favored by the European Cluster Observatory – allowing Serbia to be ‘benchmarked’ with other European economies. The Three Star methodology focuses on 38 industrial and commercial sectors and utilities employment and/or industry concentration to identify municipalities and districts in Serbia where there exists a density of companies from one of the 38 sectors, and thereby suggesting the possible presence of a cluster.
- Supplier Development Programme seeking to improve the Serbian company’s performance (SMEs) through improving product quality and business acumen so that they may become effective and efficient suppliers to Multi-National Companies working/ operating in Serbia.
- Internalizations - through actions such as market analysis and partner search but also to network outside of Serbia with clusters in other countries (e.g. exchange of experience and joint marketing activities) together with linkages to CEFTA countries.⁵⁸ SECEP is evidence how small countries can use the EU help programme in developing their competitiveness, strengthen their market position and try to take as much as possible benefits from possibilities of the Single Market.

⁵⁵ www.investinmacedonia.com

⁵⁶ www.bicro.hr

⁵⁷ www.siepa.gov.rs

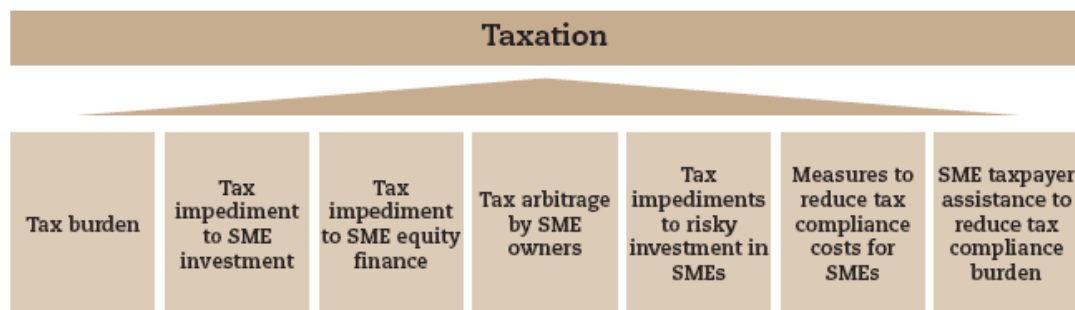
⁵⁸ www.secep.rs



Picture 20. - Overall scores for dimension 6.⁵⁹

3.7. TAXATION AND ACCESS TO FINANCE

Tax systems have to be adapted to reward success, encourage start-ups, favor small business expansion and job creation, and facilitate the creation and the succession in small enterprises.⁶⁰



Picture 21 - Assessment framework for taxation⁶¹

⁵⁹ 'The European Charter for Small Enterprises in Western Balkans in 2009'

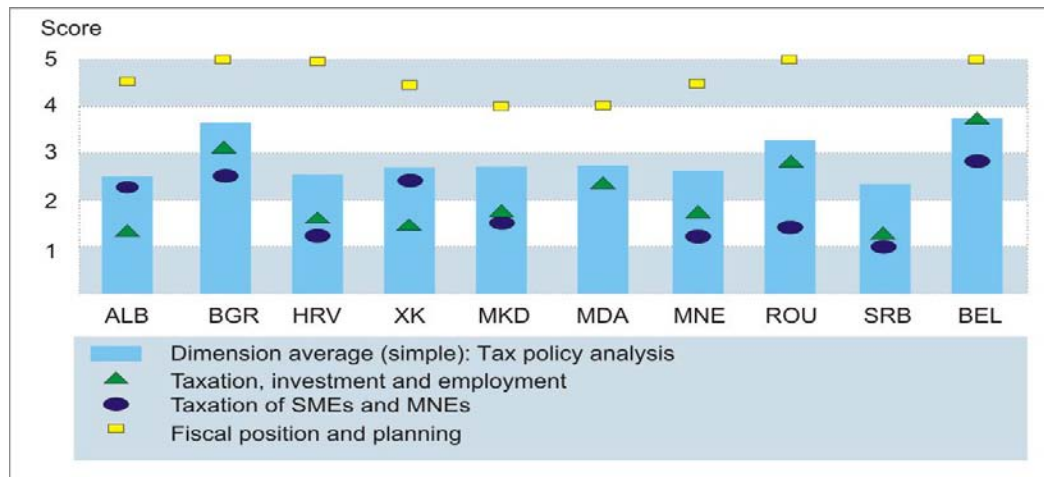
⁶⁰ European charter for Small Enterprises

⁶¹ 'The European Charter for Small Enterprises in Western Balkans in 2009'



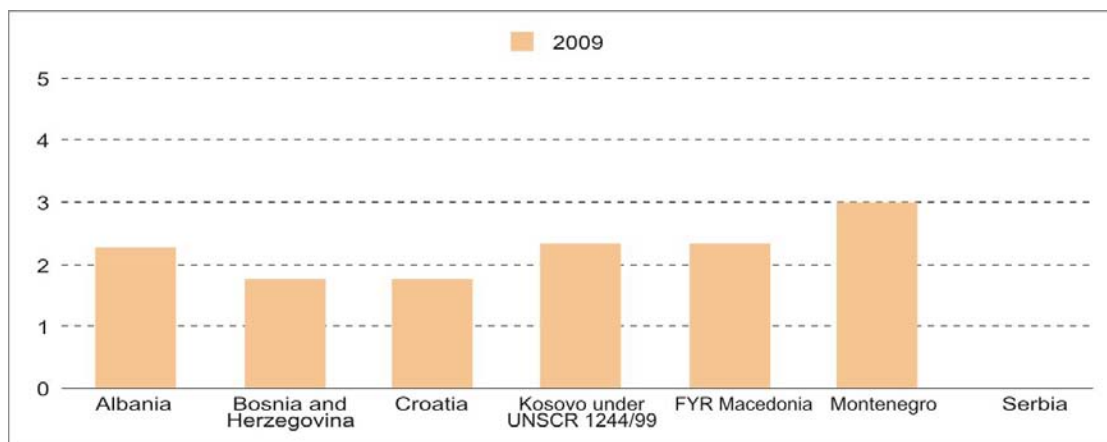
Western Balkan countries did not made significant improvement in area of taxation. Some facts such as OECD Investment Reform Index show that WB countries in aspects of SME taxation are between level 1 and 2, which is very low. In aspect of tax burden, for instance, FYROM provides preferential treatment for small business' investments in fixed assets. Also, Croatia and Albania enable its unincorporated companies to be treated by a tiered personal tax rate. Other countries also try to follow this example, in regard that micro stimulation models give a policy makers information on how they can strike on a desirable way to balance between tax affection of small business. This model provides distinguishing of taxpayers by type (that could stimulate production and further self-employment). Other models, which are use for better understanding and improvement of SME position in taxation, is OECD model – METR (marginal effective tax rate), which facilitate policy analysis and assessment of tax reforms (such as net impact of corporate and personal taxation on investment). FYROM and Montenegro make some steps in implementation of this OECD tax model. “METRs measure the degree to which any *additional* income would be “taxed away”. METRs are therefore useful measures for evaluating the financial incentives to engage in activities meant to generate or increase income.”⁶² But, in the WB taxation, there exist many impediments for SMEs. Some of them are double taxation, especially in case of dividends and capital gains. This fact could discourage potential entrepreneurs in launching new business (particularly in the part of making a decision of type of a company registration). Croatia is the only country that made great improvement with the exemption of dividends and capital gains from taxation (FYROM has flat rate – 10%). Other concerns of the WB SMEs are also different type of income taxes (wages, dividends, capital gains, self-employment income etc.), which affect every of these incomes in different percentage. In this case it is big probability of altering business decision of entrepreneurs in order to reduce tax liabilities. Fully symmetric treatment of profit and losses can be crucial for business stability. FYROM enable to their taxpayers to combine losses realized in one category of income and to deduct them from other category in a same year. Croatia has established five-year loss offset rules, while Albania did the same thing just for period of three year. The projects of reducing tax compliance costs, lowering overall tax burden to SMEs, simplifying provision, tax payers education and assistance may help in achieving more neutral tax treatment of firms of varying size. Particularly are important compliance costs, which affect mostly smaller firms. Some actions can be done in area of VAT – where policy makers can opt for single VAT tax, which produce lower compliance cost or for multi-level VAT with bigger compliance costs but with lower prices for some categories of products (in case of Serbia basic needs like food, utilities etc.). Other issue connected with the VAT is determination of a threshold for VAT registration of small business and their inclusion in formal economy. All WB countries made their strategies concerning this issue as well as impact assessment.

⁶² ‘OECD Social, Employment and Migration working paper no. 18’ Herwig Immerwol



Picture 22. - Taxation in WB countries⁶³

For SMEs is very important that all information and accompanying documents be easily accessible for them. Albania, Republic of Srpska, Croatia and FYROM enable access to this documents trough internet, which has for result big cut of administrative costs. Also, they provide educational seminars about their tax systems and arrange regular meetings with taxpayers, in order to discover how to improve their assistance in tax systems. There is also software, which helps taxpayers to transfer electronically data to tax authorities without meeting them in person.⁶⁴



Picture 23. - Overall scores for taxation⁶⁵

⁶³ OECD Investment Reform Index 2010

⁶⁴ 'The European Charter for Small Enterprises in Western Balkans in 2009'

⁶⁵ 'The European Charter for Small Enterprises in Western Balkans in 2009'



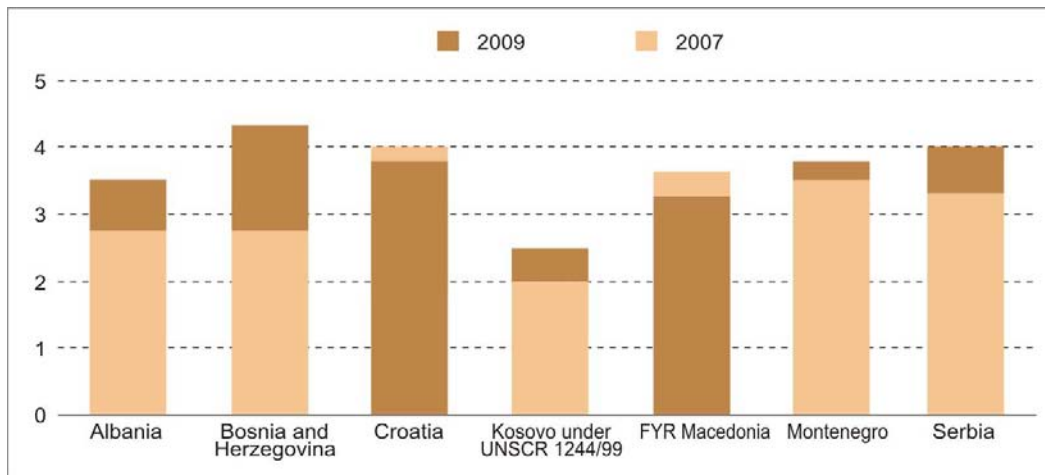
The large number of banks in the Western Balkans Countries is in foreign ownership. Apart from the World Bank, crisis that has happened in September and October of 2008, bank in the WB continued to provide a financial service in full capacity to its customers. Financial structure of the WB's financial sector is well developed and for instance, all WBC have non-bank microfinance institution, that provide necessary capital to SMEs (except Croatia). Bank reforms and further liberalization of interest rate are taken in every WB country, but we have increasingly growth of 20% of year-to-year interest rate (only in Croatia exist legislation which limit this growth up to 12%). Credit guarantee schemes could enable efficient allocation of resources to private sector. The leader in this section is FYROM, where exist three major funds (Macedonian bank for Development and Promotion – with total capitalization 4,5 million EUR, SIF – 2 million EUR and the last one with mainly US capital – 2,5 mil EUR). Collateral and provision requirements are extremely high and are in a range from 150% to 200% of credit demand. Bosnia and Herzegovina set a good standard in smoothly process of the registration of moveable assets and provide easier way of their usage as collateral (Montenegro, Serbia made also progress in this area). Serbia has a wide range of venture capital and equity funds (such as Salford, SEGF, Midland etc.). Data from cadastres are available online as was previously explained. Leasing industry, as one of a financial pillar of business, is well improved in all WB countries. All necessary information can be easily found online and in this aspect Serbia and Bosnia and Herzegovina are the leaders in the region. In the table 3, it is presented all sources and their structure of finance for SMEs.⁶⁶

Country	Internal funds or retained earnings	Equity (issue new shares)	Borrowing from banks	Trade credit	Other
Albania	75.11	5.77	13.56	0.09	0.68
Bosnia and Herzegovina	39.16	17.33	23.38	17.15	0.67
Croatia	56.57	0.84	31.7	5.61	5.28
The former Yugoslav Republic of Macedonia	63	4	25	2.40	1.50
Kosovo under UNSCR 1244/99	78.50	5.50	12.70	1.70	1.40
Montenegro	27	24	37	9.90	1.80
Serbia	45.90	12.10	27.90	10.30	3.90

Table 3. - Source of finance for SMEs⁶⁷

⁶⁶ 'The European Charter for Small Enterprises in Western Balkans in 2009'

⁶⁷ 'The European Charter for Small Enterprises in Western Balkans in 2009'



Picture 24. - Overall scores for access to finance ⁶⁸

3.8. STRENGTHENING THE TECHNOLOGICAL CAPACITY OF SMALL ENTERPRISES

EU has fostered the involvement of small enterprises in inter-firm co-operation, at local, national, European and international levels as well as the co-operation between small enterprises and higher education and research institutions.⁶⁹ Major support framework for strengthening innovation in the EU is CIP – Competitiveness and Innovation Programme. It has three pillars and will be explained further in special section. Croatia takes part in all three pillars while remaining countries take part in just first pillar (except of Kosovo under UNSCR 1244/99 which do not participate, while Serbia take place in first two programs).



Picture 25. - Assessment framework for dimension 8. ⁷⁰

⁶⁸ 'The European Charter for Small Enterprises in Western Balkans in 2009'

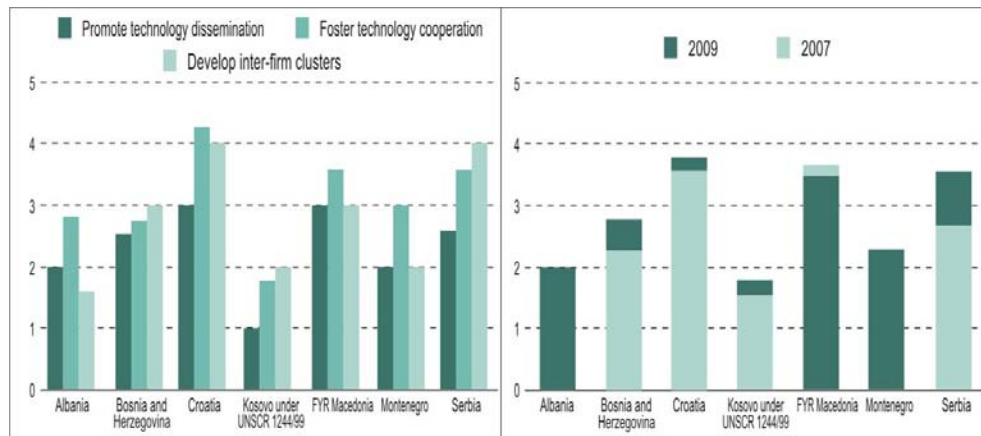
⁶⁹ European Charter for Small Enterprises

⁷⁰ 'The European Charter for Small Enterprises in Western Balkans in 2009'



When we are considering possibilities and access to technical training, we could notice that in terms of FYROM, this country established Voucher Counseling Scheme, which have been taken from the practice of some European countries. This scheme allows to users to use vouchers for manager advice and assistance with covering of 50% costs. Croatia has launched its own innovation centre BICRO in 2008 that has been started a few programmes for R&D support. KONCRO is one of the programs, which is oriented on establishing a network of all consulting advisors and on development of technical and managerial capacity of their customers (innovative enterprises). RAZUM is another programme that try to help by initial funding for newly establish knowledge-based enterprises and to fund their research and development projects, especially in the area of new products and services (it is invested a sum of nearly 30 million EUR). TECHRO has goal to increase successful commercialization of research outputs and the transfer of knowledge from R&D sector to business.⁷¹ All this programs have been launched by BICRO and try to ensure the leading position to Croatia in this aspect. As a consequence, Croatia has made big steps in the implementation of all legislative measures in area of the Intellectual Property Rights (IPR) and their protection. Several other governments have launched their projects for whole territory of WB such as WBC-Inco-Net. It's primary objective is to help in research activity and to establish a network of universities, developing centers and industry. Similar purpose has and Business Advisory Service, but its major aim is to provide consulting service to its members. As it is previously mentioned, FYROM, Serbia, Croatia, Montenegro and Bosnia and Herzegovina take part in Europe Enterprise Network, which enabled contact and managing of the cooperation with wide range of universities, R&D centers across all Europe. FYROM has established European Information and Innovation Centre (EIICM) with annual budget over 150000 EUR and its aim is to co-finance up to 50% total cost of R&D projects. Serbia has similar centre, but with much more larger budget with over 4,7 million EUR and it is mostly aimed for establishment and giving advisory to clusters. Bosnia and Herzegovina has started a few projects and there are mostly at entity level (Cooperation between University of Banja Luka and Agency for SME Development, technical parks in Zenica and Tuzla). In area of the IPR most countries made improvements in their legislation, but mainly their implementation is not on a significant level. The most of the countries should strengthen their technological capacity and to encourage local enterprises from one side and R&D centers, universities from the other side to develop their cooperation in order to use all benefits, that can be really high for both side

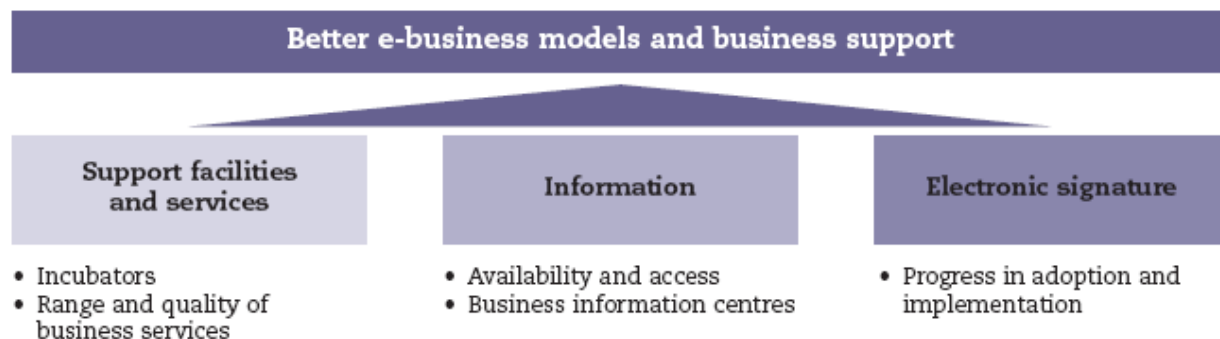
⁷¹ www.bicro.hr



Picture 26. - Overall scores for dimension 8. ⁷²

3.9. SUCCESSFUL E-BUSINESS MODELS

EU coordinated Member States and EU activity in order to create information and business support systems, networks and services which are easy to access and understand, and relevant to the needs of business. ⁷³



Picture 27. - Assessment framework for dimension 9. ⁷⁴

The completion of the regulatory framework for implementation of e-signature still remains one of the most urgent problems in the WB countries. This is why it has to be resolved as soon as possible. All countries finished job in the area of its adoption in the form of a law but e-signature is only fully operational in Croatia. Its full implementation will lead to further reduction of total costs, time and to enable all subjects can reach easier access and delivery of all necessary documents to authorities (for instance signing contracts, process of business registration, tax returns etc.). The supporting systems with relevant information can provide for the WB SMEs

⁷² 'The European Charter for Small Enterprises in Western Balkans in 2009'

⁷³ European Charter for Small Enterprises

⁷⁴ 'The European Charter for Small Enterprises in Western Balkans in 2009'

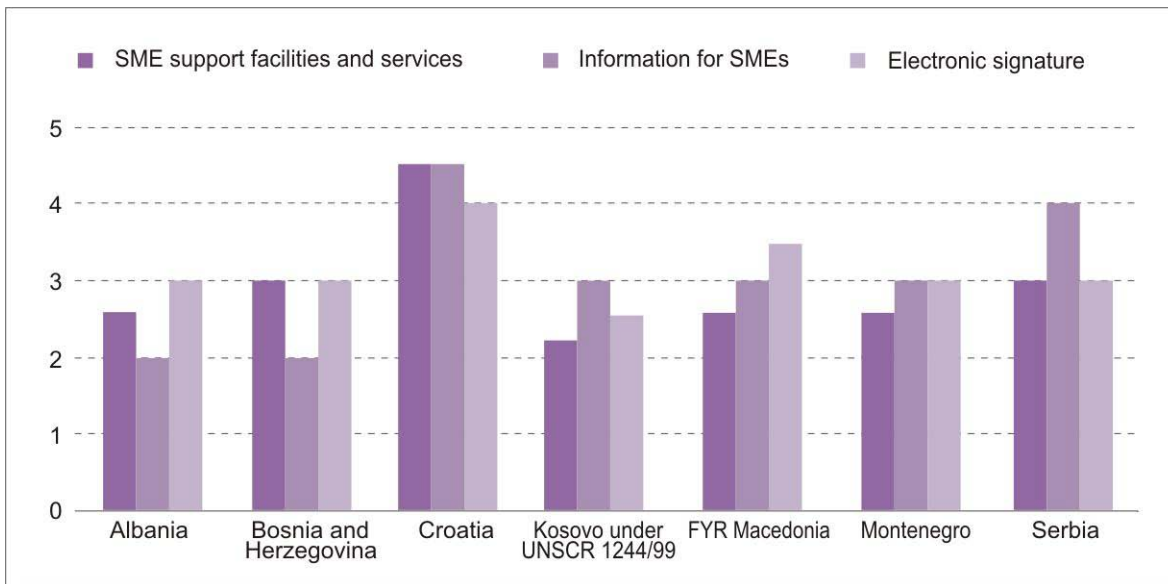


better position in taking advantage of benefits of growing markets in Europe. Use of new technology could improve their effectiveness and competitiveness. Through this system, SMEs should be encouraged to apply good practices and to establish a network, where they can exchange their opinions and experience in business. Croatia has developed a large network of supporting systems. One of those is certainly HAMAG, that has published stories of successful entrepreneurs, lists of consultants who can help in resolving of business problems for free, providing educational trainings and relevant terms. As well it can help in developing of entrepreneurial structure (where is extremely interesting business incubators' list with their addresses and contacts).⁷⁵ Business incubators has aim to provide a full support and help to SMEs, particularly in the initial phase. Their tenants are mostly young people who do not have enough money but have very good ideas. BI should provide IT support for its tenants, appropriate facilities, strategic assistance and skill development at low prices. The main problems, that occur the WB BI's, is that they are mostly financed through a donor-programs (especially from abroad). When expire time planned for financial support, they stopped their activities because of the lack of money. Unfortunately, many of them are not oriented on the innovation and high-tech SMEs, who generate the economic growth the most. Yet, in the WB exist a wide network of the BI. They exist in Croatia (Zadar, Split, Rijeka, Pakrac, Osijek), Macedonia (Prilep, Veles, Ohrid), Serbia, Bosnia and Herzegovina, Albania. Business centers for counseling are available all over larger cities in Croatia. The major concern related to Croatian BS is their incomplete access to the customers in smaller cities. Other countries try to establish their own network through donor programs, with different levels of success. Serbia and Montenegro have developed its own network of local offices. FYROM offer vouchers through ARPPM for business service and cover up to 50% of total costs, for SMEs. Every country should consider developing if this centers, in order to provide adequate support to SMEs especially in early stages of their development (for instance they can organize workshops, establish voucher counseling system etc.) Some of countries (Bosnia and Herzegovina, Croatia and Kosovo under UNCSR 1244/99) have launched certificate systems for their consultants. In regard of availability of information, countries provide a wide range of websites with lot of relevant information (Serbia-SIEPA, SBRA, NES, Croatia- MELE, HAMAG, Chamber of Commerce). In other countries, there is also a big availability, but their quality and extension are relatively low.⁷⁶ In FYROM is established BAS program, with support of EBRD, which provide market research, business partner and investors search, help in preparation of business plans, preparation and certification of quality management systems (ISO, HACCP), delivering useful information etc.⁷⁷ Programs like this is necessary for all WB countries, for reason of providing full advisory to their SMEs and helping development of its own economy.

⁷⁵ www.hamag.hr

⁷⁶ 'The European Charter for Small Enterprises in Western Balkans in 2009'

⁷⁷ www.basprog.com.mk

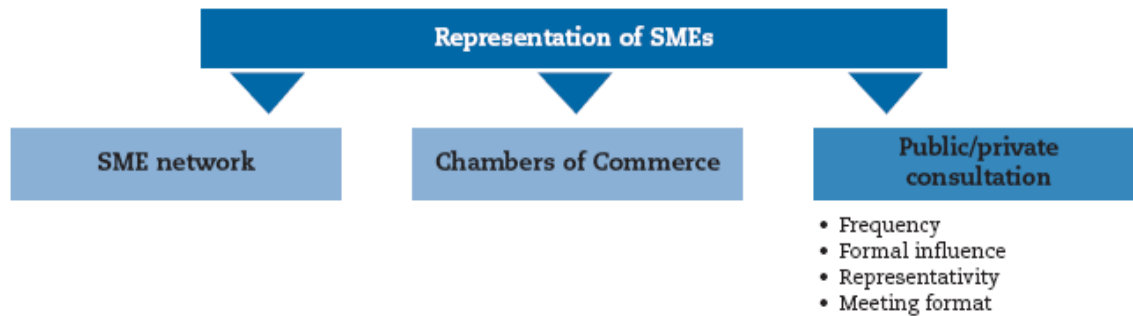


Picture 28. - Overall score for dimension 9.⁷⁸

3.10. DEVELOPING STRONGER AND MORE EFFECTIVE REPRESENTATION OF SMALL ENTERPRISES INTERESTS

All countries should work very hard on developing their capacity for private-public dialog (PPD). Its importance is extremely big for both sides. From one side the governments always have to listen their citizens, especially those who are business representatives. The governmental bodies, which can be establish as a formal or informal counseling agency of government should enable trough its own suggestions, elimination of business barriers, improvement of business legislation, better tax treatment of SMEs, putting forward all relevant interests of SMEs to the government. In their work should be included business representatives, governmental or non-governmental officers, local authorities and experts from this field (university professors, SME managers etc). Only in this way policy maker could hear a true voice of SMEs' needs and to take actions for improvement of SME position.

⁷⁸ 'The European Charter for Small Enterprises in Western Balkans in 2009'



Picture 29. - Assessment framework for dimension 10. ⁷⁹

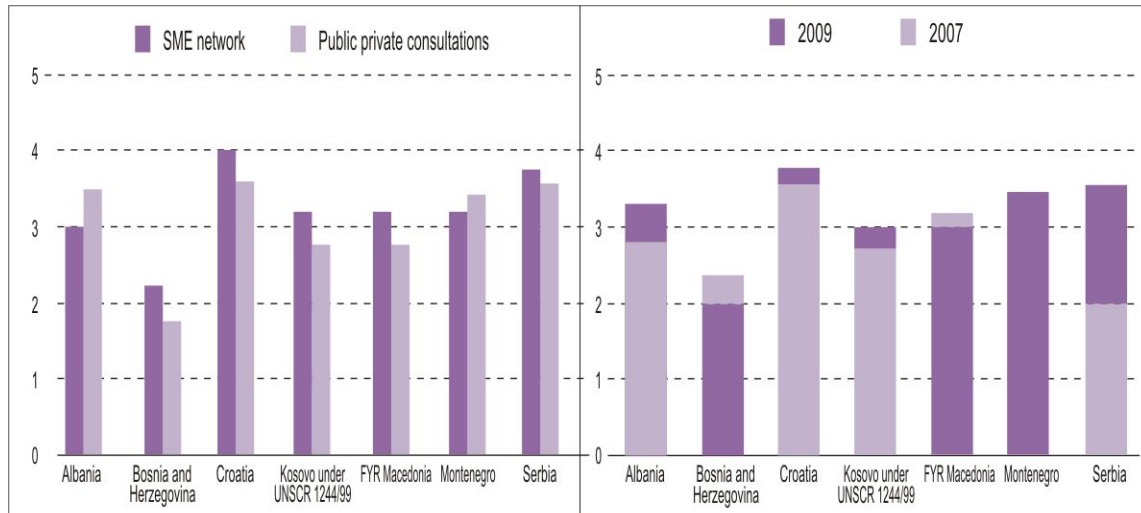
Some of the WB countries realize its importance and establish this type of bodies. The newest SME Forum have been launched in Croatia (as a formal part of Ministry of Economy, Labor and Entrepreneurship) Serbia (informal part as initiative of Chamber of Commerce) and FYROM. Aside from SME Forum, in Croatia exist and wide regional coverage with offices of Chamber of Economy. There exist and Chamber of Crafts, Croatian Employers Association. As a result of PHARE, in Croatia has been establish and SMEPED - SME Policy Enhancement and Delivery which have main aim to adopt SME policy and strategy, as well as its legal and regulatory aspects relevant to SMEs. Serbia, as one of the countries in which is established SME Forum, determine its bodies and networks of chambers and provide consultant role for government. It is important to stress, that local chambers in some WB countries has compulsory membership in the national chamber. FYROM also establish NECC – National Entrepreneurs and Competitiveness Counsel, but its major problem is that meetings were not held very frequently and modernity of its decision is really questionable. In Bosnia and Herzegovina this body do not exist on the national level, but there are Chamber of Commerce in Republic of Srpska, linked Cantonal Chambers in the Federation and Economic and Social Counsel in Brčko. Mostly, in countries where does not exist specific body for development of SME position in economy, representatives from the Chamber of Commerce take part and try to advocacy SME interests on appropriate level. The major concern could be larger enterprises, because mostly, they have stronger voice and influence in these bodies. Montenegro has several bodies, which represent SMEs interest such as MBA, Employer Union and Counsel for elimination of business barriers. In Albania operate Consultative Body at Ministry for Economy, Trade and Energy and out of 18, 11 members are business owners. In Kosovo under UNSCR 1244/99, the Chamber of Commerce has 5000 members and its own SME Consultative Council, but it is still in early phase of development.⁸⁰The most issues for all agencies in the WB countries, are that many of them have problem in communication with their governments. What is same, they have to better allocate their resources and to increase their capacities. Only in case when communication between

⁷⁹ 'The European Charter for Small Enterprises in Western Balkans in 2009'

⁸⁰ 'The European Charter for Small Enterprises in Western Balkans in 2009'



governments and SME developed, decision, policies and strategies for entrepreneurship will go in the right direction and it will have the right support from all interested subjects of society.



Picture 30. - Overall score for dimension 10.⁸¹

4. SMALL BUSINESS ACT

The European Charter for Small Enterprises was comprehensive guide for all member states of EU and as well for Western Balkan and Mediterranean countries. Its activities and progress in areas of the Charter have been documented until 2005 through the annual Charter Reports. The main instruments for discussion of the good practices were the annual Charter conferences, co-organized from the European Commission together with the respective Council Presidency. The conference attracted each year more than 350 policy makers and business organizations from more than 40 countries. For purpose of following, the progress in its implementation, EU made two charter reports for Western Balkan countries in 2007 and in 2009.

In the March 2008, the European Council expressed strong support for an initiative for further strengthening of SMEs' sustainable growth and competitiveness, named the "Small Business Act" (SBA) for Europe. Through SBA, the EU has placed the needs of SMEs at the heart of the Lisbon Growth and Jobs Strategy, with the use of the partnership approach. The SBA has been built on the Commission's and Member States' policy achievements and created a new policy framework, which integrates the existing enterprise policy instruments such as European Charter for Small Enterprises and the Modern SME policy. The symbolic name of an "Act" given to this initiative underlines the political will to recognize the central role of SMEs in the EU economy and for the first time, put SMEs on the right position in comprehensive policy framework for the EU and its Member States.

⁸¹ 'The European Charter for Small Enterprises in Western Balkans in 2009'



As one of the most important objectives of this master work, is to present to a policy makers in the Western Balkans, good practice examples from EU and to try to compare it with the situation in our region in order to find weaknesses, gaps and potential solution to the problems. The next EU report, related with the situation of entrepreneurship in the WB, will use SBA as a framework for scoring results. The decision makers confirmed SBA as a framework on Zagreb meeting in 2009. Awareness that entrepreneurship is one of the cornerstones for developed and strong economies is a reason why, in the WB region, we have to pay special attention to this segment and to try to encourage development of entrepreneurship in WB economies through better regulations as well as overall business environment. It is of crucial importance for decision makers to understand this, especially in period of great recession, which affects the whole world. The estimations made by the EBRD show that entire the WB region will have growth of only 0,3% in 2010 and will achieve a little better result in 2011 – 2,7%. Enterprise development can certainly represent one of the possible ways for overcoming the crisis.

This new framework for SME policy should help in better understanding of new needs for entrepreneurs. Its objective will be to try, in direct communication with SMEs, to improve overall environment and conditions for doing business. Its aim was to unite all existing initiatives under a single legislative document.

Small Business Act – SBA has installed a set of 10 principles to guide the conception and implementation of policies both, at EU and Member State level, as well in all countries, which pretend to be equal part of the EU such as the Western Balkans Countries:

4.1. CREATE AN ENVIRONMENT IN WHICH ENTREPRENEURS AND FAMILY BUSINESS CAN THRIVE AND ENTREPRENEURSHIP IS REWARDED

According to the facts from the Flash Eurobarometers survey, made in EU, United States, Norway and Iceland by Gallup Organization, shows that 45% of Europeans would prefer to be self-employed, compared to 61% in the US. The aim of the EC and its Member States will be to encourage people in Europe to be more aware of self-employment as a potentially attractive career option and to provide the necessary skills to potential entrepreneurs. In this regard, positive sign is that 54% of people between 15 and 24 years look on self-employment as potential good career option. Also, 44% Europeans answered positively on question “is their education played a dominant role in giving them entrepreneurship as of attractive options for employment”. If we compare the EU results with the WB countries (picture 4) we could notice that more people see self-employment as a good opportunity (Bosnia and Herzegovina 73%, Croatia 68% and Serbia 69%) which is also higher than in USA. The major reason for this disproportion is that the vast number of people consider entrepreneurship as a necessity rather than an opportunity (BIH – 39%, CRO-37%, SRB-41%), which is not case in the EU (where is a situation different – 60% of people look on it as a opportunity). When we compared data for expressed desire to start a new business and look on it as opportunity, the smallest index is in



Bosnia and Herzegovina (20 %). In Serbia (41%) and Croatia (39%) this ratio is much more consistent. Second reason for the implementation of this principle is estimation that 6 million small business owners will retire over the next ten years. The EU cannot afford a risk losing these businesses due to difficulties in business transfers and the lack of appreciation of the traditional role of family business. Educational system should be set in that way, to ensure full capacity of development of entrepreneurial culture among scholars (ISCED2 and ISCED3 programs will hopefully start very soon to implement in WBC). Furthermore, in the area of entrepreneurial potential, exists gender gap. As it has been shown in table 4, female entrepreneurship rate is smaller than male one. In Bosnia and Herzegovina is two times, while in Croatia and Serbia is almost three times larger than in case of female.

	Male	Female
Bosnia and Herzegovina	6	3
Croatia	8	2,5
Serbia	7	2,5

Table 4. - Nascent entrepreneurship rate in population between 18 – 64 years old⁸²

Crucial actions, which are started trough suggestion of the European Commission in raising awareness of its importance are:

- a) “European SME Week” launched in 2009 - an umbrella for many campaign which have aim to provide information on what the EU and national, regional and local authorities are offering as support to micro, small and medium-sized businesses and promotion of entrepreneurship so that more people, and in particular younger ones, seriously consider becoming an entrepreneur as a career option⁸³. SME Week 2009 included events in Serbia and Croatia, while SME Week 2010 will include events from all the WBC and Kosovo under 1244/99. These types of campaigns also include fairs, conferences, competitions, online events etc. Its role is to inform (provide and disseminate data about way of support for SMEs), support (create EU-SME partnership), inspire (motivate existing SMEs), share (float ideas and share the experience) and encourage (convince young people to become entrepreneurs).⁸⁴
- b) “Erasmus for Young Entrepreneurs” initiative start in 2008, has aim to promote exchange of experience and to train future entrepreneurs in this field. The EYE is exchange programme that offers new entrepreneurs a possibility to work for up to 6 months with an experienced entrepreneur in his/her SME, in another EU country. Its objective is to contribute trough improvement of know-how transfer across border and to foster networking between SMEs. This program will facilitate a successful start, enabling exchange of information of obstacles and challenges in development

⁸² Table is made according to data from ‘Global Entrepreneurship Monitor’ – Executive Report 2009

⁸³ Small Business Act

⁸⁴ www.wbc-inco.net



of their business ideas. It will also try to enhance market access and identification of new business partners for new entrepreneur.⁸⁵

- c) “EU network of female entrepreneur ambassadors” - The Network of Ambassadors (130 successful European businesswomen in 10 participating countries) aims to have successful entrepreneurs campaigning on the ground to encourage women - including women in active professional life and students - to set up their own businesses and become entrepreneurs. This network suits a need of young female, who are thinking on starting their own business, in regard to encourage them in schools, to provide them a lots of information about challenges with which they will face in their own business. Trough promotion of successful stories, they will create a new environment in which women will take more important role. Beside this project, there is also WES (European network for promotion women’s entrepreneurship) that has a role in providing advice, support, information, contact and representing initiatives to the governments and accompanying institutions to promote this type of entrepreneurship. Women Entrepreneurship Portals’ aim is to provide links to all networks, events, projects and organization that promote female entrepreneurship. There are a few special reasons why one of the major aims is a promotion of entrepreneurship among women. One of them is a results which show different type of obstacles that are women faced with:

- 1) Contextual obstacles: educational choices, traditional views and stereotypes about women, science and innovation
- 2) Economic obstacles: innovation sector requiring substantial investment and women being seen less credible financially than men
- 3) Soft obstacles: lack of access to technical scientific and general business networks, lack of business training, role model and entrepreneurship skills.⁸⁶

Some of the projects in the Western Balkans is ‘Women in Business’ organize by Ministry of Trade and Industry of Kosovo under UNSCR 1244/99. It is traditional trade fair and present promotion campaign of entrepreneurship activities of all women and good practices⁸⁷. Other the EC’s suggestions for creation an entrepreneurial environment, is to ensure that entrepreneur is correctly reflected in teacher training, set up up-to-date cooperation with business community, ensure taxation doesn’t hamper the transfer of businesses etc.⁸⁸

⁸⁵ The European Entrepreneur Exchange Programme

⁸⁶ ec.europe.eu

⁸⁷ www.sme-ks.org

⁸⁸ Small Business Act



4.2. ENSURE THAT HONEST ENTREPRENEURS WHO HAVE FACED BANKRUPTCY QUICKLY GET A SECOND CHANCE

Some of the major action will be to complete all legal procedures to wind up the business in the case of non-fraudulent bankruptcy within a year and to ensure that re-starters are treated on an equal footing with new start-ups, including support schemes. The facts shows that some 700 000 SMEs are affected, on average every year, and some 2.8 million jobs are involved throughout Europe on an annual basis. In the EU, society's underestimation of the business potential of re-starters is still present. Today, 47% of Europeans would be reluctant to order from a previously failed business. But all media and other public representatives should launch educational campaign to change this attitude because of fact that only 4-6% of all bankruptcies are fraudulent. Insolvency law in many EU countries should be change in order to change treatment that fraudulent and honest bankruptcy have .In this regard all legal procedures have to be more faster and easier and time necessary for finishing all procedures should not last more than a year. The average time to complete a bankruptcy in the EU, varies between 4 months and 9 years. Birth rate of a new business in the EU is 9% while death rate is 8% per year. It is also, well known that every successful entrepreneur face with failure at least one time, but almost all of them learn from its own mistakes. They need financial support as well assistance from public institutions.⁸⁹

	Closing business rate		Time (years)		Cost (% of estate)		Recovery rate (cents on the dollar)	
	2009	2010	2009	2010	2009	2010	2009	2010
ALB	181	183	N/A	N/A	N/A	N/A	N/A	N/A
BIH	60	63	3,3	3,3	9	9	35,9	35,9
CRO	79	82	3,1	3,1	15	15	30,5	30,5
XK	/	28	N/A	2	N/A	15	N/A	56,8
FYROM	129	111	3,7	2,9	28	28	16,7	20,9
MON	42	44	4,2	4,4	8	8	43,7	43,7
SER	99	102	2,7	2,7	23	23	25,4	25,4

Table 5. - Bankruptcy and average time for recovering in the WB⁹⁰

In table 5 there are no available data for Albania – but Albania adopted the amendment to the new bankruptcy law and established Agency for Insolvency Supervision, which will supervise and issues licenses to insolvency administrators. Kosovo under UNSCR 1244/99 also do not have available data for 2009. In 2010 Kosovo has the best result in the WB region and has been ranked as 28th in the Doing Business Report 2010. All legal procedures can be finished within 2 years, but costs for closure procedure increased. It is important to

⁸⁹ 'Overcoming the stigma of business failure - for a second chance policy ' COM (2007)

⁹⁰ Table is made according to Doing Business 2009 and 2010 Report



emphasize that all the WBC's average time for closure procedure is equal with the EU one. Yet, many of the countries like Bosnia and Herzegovina, Croatia, FYROM and Serbia are closer to upper limit of the EU average. Montenegro has good required time for finishing bankruptcy procedures, which takes 2 year. Their costs are much smaller than Kosovo and it cost roughly 8% of estate value. Bosnia and Herzegovina has also low cost according to the WB average (9%) but required time is still 3,3 years. FYROM made the greatest improvement in this area with diminishing necessary time for 8 months, from 3,7 to 2,9 years. The explanation for this progress could be connected with the creation of the Chamber of bankruptcy trustees and implemented a licensing regime. Bosnia and Herzegovina, Croatia and Serbia did not make any progress in this year. All the Western Balkans Countries should enforce their bankruptcy laws and to reduce, both time and cost, in order to enhance opportunity for second chance and possibility to regain the market share, hire new workers and thus contribute to strengthening their own economy.

4.3. DESIGN RULES ACCORDING TO “THINK SMALL FIRST” PRINCIPLE

It has been estimated that where a big company spends one EUR per employee for a regulatory duty, while a small business have to spend, on average up to 10 EUR (regulatory duties for medium business is about 4 EUR). Also, 36% of the EU SMEs report that bureaucracy has constrained their business activities over the past two years. According to Apendix 1, similar situation is present among the WB SMEs, who see inefficient government bureaucracy as one of the major problematic factors that SME are face with (Croatia 20%, Montenegro 16,1%, FYROM-14,7% etc.). This is a reason, why the EC and the Member States take action in the areas such as assessing the impact of forthcoming legislative and policy proposals on SMEs (“SME test”). They take the relevant results, into account when designing proposals and initiatives. Some of the countries such as Belgium, Germany, Finland and Denmark integrated “SME Test” in their decision-making approach. SME Test comprises 3 major steps:”

1. Preliminary assessment of business likely to be affected (consulting stakeholders in the early stage, when policy makers create an assumption for the impacts on SMEs). Some of tools, which the European Commission has been developing to open up communication with SMEs are “SME Envoy”, “European Enterprise Network” and “European Business test Panel”.
2. Measurement of the impact on SMEs (cost/benefit analysis) - including SME organizations for at least 8 weeks (this period is extent to 12 weeks in order to provide more time for translation of all proposals, gathering opinions of greater number of SMEs and expertise their influence on businesses) for making any legislative or administrative proposal that has an impact on businesses.
3. Use of mitigating measures, if appropriate - adoption of the targets of comparable ambition to the commitment to cut administrative burdens by 25% by 2012 at EU level and implement them. As a result, up to 5.4 million micro-enterprises could



profit from regimes better tailored to their needs, amounting to € 6.3 billion of potential savings for the EU economy⁹¹. This measures can be divided into 10 key areas:

- a) Size-related exemption
- b) Reduced obligations
- c) Simplified obligations
- d) Temporal exemption
- e) Administrative coordination
- f) Common commencement dates
- g) Tailored-made information, coaching
- h) Electronic service
- i) Privileged treatment of small business
- j) Early evaluation of regulatory effects on SMEs⁹²

Sized related exemptions could be done in taxation, employment rule, health standards, reporting duties etc. It is very important to reduce administrative and regulatory burdens, which are extremely big for small business and represent a real hurdle to their existence. Some of the examples are present in the UK, where VAT (it is defined in annual turnover) threshold is the highest in the EU (85000 EUR) according to some member states, such as Bulgaria, where VAT threshold is 25000 EUR (UK legislation helps their SMEs in reduction of total costs). Denmark made its own exemption when made SMEs free from the obligation to set up 'safety groups'. This measure saved over 3 million EUR to small business under 100 employees. In aspects of reducing obligations, good examples made Sweden with "The Customs' Stairway". It is system, that ensure that small business get a quality-assured certificate (once certificated, business enjoy better position). When SME possess it, pass much easier trough all customs procedures. It has 5 levels and number of certificate determine on which level SME will be. If SME has certificate for all products that it exports or imports, products will pass custom much easier apart from those on level 1 that do not have any certificate. Similar to one-stop-shop solution is as well 'on-one-spot' in Portugal, enabling to enterprises to start up their own business filling documents at just a single contract point for one hour and fees around 360 EUR. This solution saved roughly 135000 days and 700000 EUR to Portugal SMEs. Simplification of the obligations can always save a lot of internal work. For instance, small business in Slovakia can opt for the flat-tax rate of 40% for income tax purpose and in that case, they only need to register income, receivables and stocks, which can simplify their accounting. In Sweden, SME owners can authorize its tax accountant to fill electronic tax returns. When we consider temporal exemption it could be mean on longer time for adjusting to new legislation, longer intervals for paying some obligations etc. The Common Commencement Dates Initiative in the UK, invite SMEs, twice a year to give their propositions and opinions for all domestic regulations, which bear to SMEs. Information, which is consisted in the websites, in special guides and books should be tailored-made for SMEs purpose. Sometimes, the legal acts are not understandable as it should be (the EC launched

⁹¹ ec.europe.eu

⁹² 'Models to reduce disproportionate regulatory burden to SMEs' Expert group report, May 2007



initiative 'Fight-the-fog' for usage in more consistent manner of all legal and administrative texts). Therefore, SME should be informed about all regulation which considering them in a way which is understandable. "Entrepreneurs guide" is official website in Sweden, which provides all necessary information, related to starting a business. It represents a network of 70 government agencies and other public authorities. SMEs communicate with them through this website, by e-mail and getting a reply for a maximum 48 hours. The privileged treatment of SMEs is type of positive discrimination in order to balance the disadvantages that occur in relationship between SMEs and larger businesses. In the Austrian Patent Office has been launched express patent search project for SMEs needs. They can get help in providing the information if their technical solution can be patented and if their patent procedure will be successful.⁹³

Adoption of the Commission proposal, would permit the Member States to increase their threshold for VAT registration to €100 000 (for instance in the UK threshold is increased to 85000 EUR or in Germany and Denmark small enterprises may report on less frequent basis, such as quarterly, annually that is opposed to monthly, which is the case for larger companies). Reduction measures already that are adopted by the legislator, are expected to lead to reduced costs of €7.6 billion. Other measures pending adoption by the Council and Parliament could add €30.7 billion to that amount.⁹⁴

4.4. MAKE PUBLIC ADMINISTRATIONS RESPONSIVE TO SMES NEEDS

Objective of the implementation of this principle will be promotion of e-government and one-stop-shop solution in order to improve service and reduce costs. Its translation into practice will be invitation to reduce the level of fees requested by the Member States' administrations for registering a business, continuing to work to reduce the time required to set up a business to less than one week, accelerate the start of SMEs' commercial operations by reducing and simplifying business licenses and permits. For instance, the average time and cost to start-up private limited company is now 8 days (compared to 9 days in 2008) and the cost is €417 (compared to €463 in 2008). Good example is Slovenia, which electronic one-stop-shop system can register all forms of companies in 3 days or less and has resulted in savings of €10.2 million a year for Slovenian SMEs.⁹⁵ If we look in table 2, we can notice that all WBC can be divided into three groups. In the first one will be included Albania and FYROM, who made great improvement, establishing some of one-stop-shop solutions and diminished required time to 5 and 4 days, as well as start-up procedures to 5 and 4. Second group of countries include Kosovo under UNSCR 1244/99 (9 days required for starting a business and 52 necessary start-up procedures), Serbia (13 days and 7 start-up procedures) and Montenegro (13 days and 12 start-up procedures). It is essential to emphasize that apart from Serbia, only in Croatia and Bosnia and Herzegovina, SMEs need to have at least minimum capital amount, for starting business.

⁹³ 'Models to reduce disproportionate regulatory burden to SMEs' Expert group report, May 2007

⁹⁴ ec.europa.eu

⁹⁵ Small Business Act



4.5. ADAPT PUBLIC POLICY TOOLS TO SME NEEDS: FACILITATE SMES' PARTICIPATION IN PUBLIC PROCUREMENT AND BETTER USE STATE AID POSSIBILITIES FOR SMES

SMEs face obstacles (such as complicated procedures, difficulties in obtaining information, too high administrative burdens, large size of contracts, the lack of knowledge about tender procedures, cost of preparing a proposal, financial guarantees required, discrimination against foreign investors, too short time for preparing all required documents and permits) when they participate in the public procurement markets (which account for 16% of the EU GDP). This is a reason why SME, only marginally benefit from the State Aid (available as the support options). The EC issues directive to increase number of SMEs participating in the public procurements, which cover 16% of the EU procurement market. This directive should reduce costs, administrative burdens, make procurement system more transparent and to encourage use of the IT system (e-procurement) to simplify system. Some of the solution that the EC has proposed is setting up electronic portals to widen access to information on public procurement opportunities below the EU thresholds and to refocus State Aid policy to better address SMEs' needs, including the design of better targeted measures. The Commission also invited Member States to make the most of the "European Code of Best practices"- voluntary document for contracting authorities, which should provide more transparent system with reduction of bureaucracy in order to facilitate SMEs' access to public procurement contracts ('the SME Code') adopted as a part of the SBA in June 2008.⁹⁶

4.6. FACILITATE SMES' ACCESS TO FINANCE AND DEVELOP A LEGAL AND BUSINESS ENVIRONMENT SUPPORTIVE TO TIMELY PAYMENTS IN COMMERCIAL TRANSACTIONS

Possible market failures in SME finance provision must be, identified and corrected for further development of the European risk capital markets, to improve SMEs' access to micro-credit and mezzanine finance and to develop new products and services. Countries should encourage their credit institution and banks to reduce restrictions on availability of credits for SMEs. The biggest project has been launched by the EC and the European Investment Bank is Competitive and Innovation Programme (CIP 2007 - 2013). Plan is that CIP provide until 2013 access to 27 bn EUR to SMEs. It will provide around 10 billion EUR through economical measures and 3,1 billion more as a venture capital.⁹⁷ CIP Programme will be further explained in the next chapter.

⁹⁶ Small Business Act

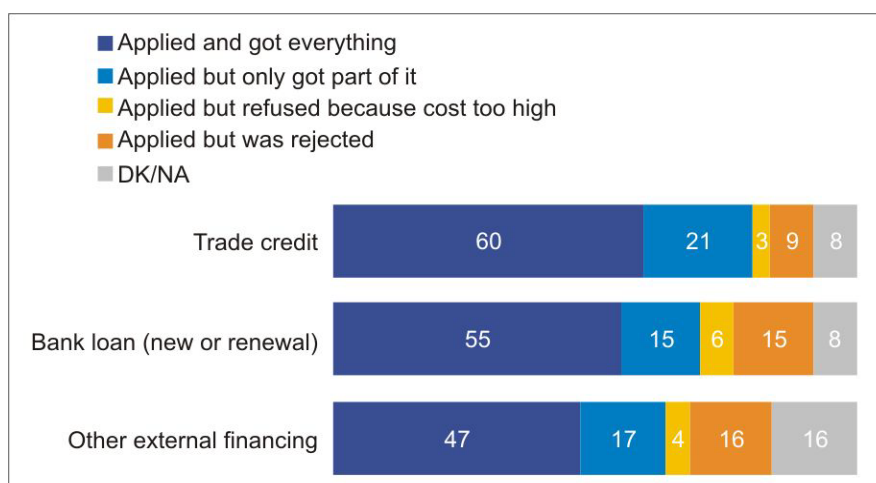
⁹⁷ 'European Union Support Programmes for SMEs' November 2007



Some of initiatives are JEREMIE- special emphasize start-ups, technology transfers, technology and innovation funds, micro credit and try to improve access to finance and supply of venture capital, micro credit or guarantees. Other similar initiative, JASMINE has aim to develop the supply of micro-credit in Europe in two ways: firstly, by providing technical assistance to micro-finance institutions in order to help them to be credible financial intermediaries and to obtain capital more easily. Secondly, by financing activities of non-bank financial institutions, in order to enable them to make a higher number of loans. It is particularly important, for unemployed people who want to start up their own business. As part of the EU strategy for giving financial support and their cohesion policy the EC allocate over 308 billion EUR for projects of European Regional Development Fund (ERDF), European Cohesion Fund (ECF) and European Social Fund (ESF). These projects have three major objectives: to speed up the convergence of the less developed regions, to help workers and companies to adopt on economic changes and to strengthen cross-border and interregional cooperation between SMEs.⁹⁸ SMEs often have a weak equity position, which is further undermined by the late payment culture in the Europe. In fact, depending on the country, SMEs have to wait between 20 and over 100 days on the average to get their invoices paid. This leads to the loss of 450 000 jobs and of €25 billion every year. The European Investment Bank (EIB) group has played a crucial role in improving SMEs access to finance in 2009. It has substantially increased lending activity dedicated to SMEs from 8.1 billion in 2008 to around €11.5 billion in 2009. One of good practice is the establishment by the EIB Group of a new “Microfund” - fund with an initial capital of around €40 million (of which €16 million will be from the EIB). Its aim is support for non-bank micro-finance institutions in the framework of the new micro-credit initiative of the Commission. In September 2009, the first investment (of € 1.85 million) has been made in the framework of the JASMINE initiative.⁹⁹ Structure of financing the EU SMEs illustrate that in term of getting trade credit SMEs do not have bigger problems, because almost 81% of them get a credit, every time when it needed (60% are getting full amount, while 21% get part of requested capital). In this term, bank loans have smaller percentage of approvals, but they still remain high in the EU-27 (70%). High percentage of approved loans shows determination of the EU to help SMEs in their further development and functioning.

⁹⁸ 'European Union support programme for SMEs' – November 2007

⁹⁹ ec.europe.eu



Picture 31. - Outcome of the application for external financing in EU-27¹⁰⁰

Qualitative analysis should start from development, which are made in Bosnia and Herzegovina, Croatia and Serbia in usage of movable assets as collateral. FYROM provide online access through improved software at a credit registry (public credit bureau receive data on a monthly basis and lowered the threshold for the loans). Serbia has launched regulation concerning guaranteeing borrowers the right to inspect data in the credit registry (provide borrowers to check their own data). As it can be seen in Table 6, the best ranking has Serbia, which improved legal rights on security interests in movable property and credit information index by one point each. Also, Serbia made the biggest coverage of creditworthiness of borrowers, made by banks and other financial institutions. In appendix 2, it could be noticed some of European financial support available in Serbia. Bosnia and Herzegovina in the area of creditworthiness coverage has also good position but this coverage is mostly, divided between public (central bank 23,2%) and private (64,3%) sector. Croatia also has big coverage of 77% by private sector, while in Albania, FYROM, Kosovo under UNSCR 1244/99 and Montenegro still remain on the low level. It should be emphasized that Albania and Montenegro have very high marks for legal rights index and as a consequence, have better regulations in security interest on movable property.

		ALB	BIH	CRO	XK	FYROM	MON	SER
Getting credit (rank)	2009	12	59	68	/	43	43	28
	2010	15	61	61	43	43	43	4
Strength of legal rights index (0-10)	2009	9	5	6	/	7	9	7
	2010	9	5	6	8	7	9	8
Depth of	2009	4	5	3	/	4	2	5

¹⁰⁰ 'Access to finance' - The Gallup Organization, September 2009



credit information index (0-6)	2010	4	5	4	3	4	2	6
Public registry coverage (% of adult)	2009	8,3	0,0	0,0	/	6,5	26,3	0,0
	2010	9,9	23,2	0,0	18,9	28,1	27,6	0,0
Private registry coverage (% of adult)	2009	0,0	69,2	71,8	/	0,0	0,0	91,9
	2010	0,0	64,3	77,0	0,0	0,0	0,0	94,2

Table 6. - Possibilities for getting credit in the WB ¹⁰¹

4.7. HELP SMES TO BENEFIT MORE FROM THE OPPORTUNITIES OFFERED BY THE SINGLE MARKET

SMEs do not fully benefit from opportunities provided by the Single Market (which is now consisted of 27 the EU Member State with over 500 million people), largely because of the lack of information on business opportunities and applicable rules in other Member States, as well as insufficient language skills. One of the projects launched in order to overlap this gap is the European Enterprise Network (it is explained in part 5). With the intention to stimulate cross-border operations on the Single Market, the Commission and the Member States jointly decided to further lower the fees for EU-wide trade mark rights by 40% and to simplify the registration procedure from 1 May 2009. The EC applied the Intellectual Property Rights (IPR) for SMEs, continues to work on an efficient, cost-effective, high-quality and legally secure patent system at the European level, including a Community Patent and an EU-wide Patent Jurisdiction. The EC increase financial support to promote SMEs' participation and defense of their interests in standardization process. What is the same, some of the projects contains proposals for establishing 'SME Helpdesk' that will provide an interactive service for SMEs and their representative organizations, to provide all necessary information, material to be used in campaigns and advices for SMEs. Also, the EC reinforce the SOLVIT problem-solving system to ensure that problems with the exercise of the Single Market rights can be resolved informally, speedily and pragmatically.¹⁰²The EU according to the Service Directive should open a single service market. This will increase trade in commercial services by 45% and Foreign Direct Investments by 25% bringing an increase between 0,5% and 1,5% increase in GDP.¹⁰³

¹⁰¹ Table is made according to Doing Business 2009 and 2010 Report

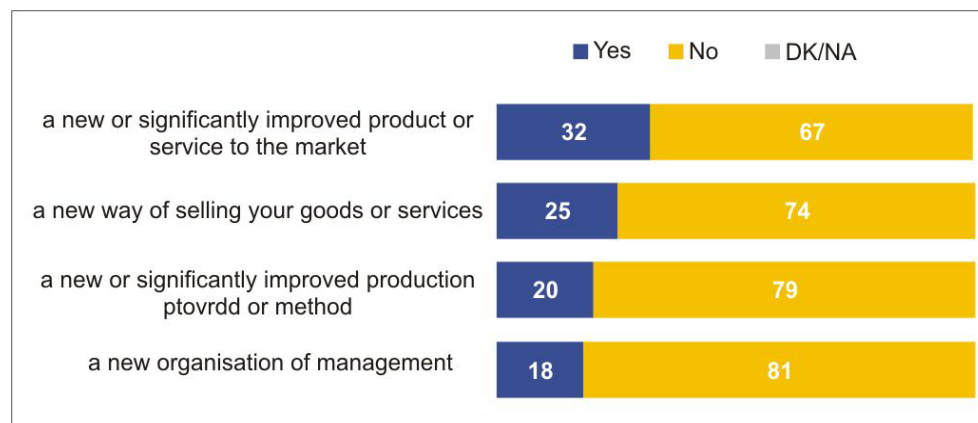
¹⁰² Small Business Act

¹⁰³ EUROPE 2020 – A European strategy for smart, sustainable and inclusive growth



4.8. PROMOTE THE UPGRADING OF SKILLS IN SMES AND ALL FORMS OF INNOVATION

SMEs suffer in particular from the lack of skilled labor in the field of new technologies. Only around 3 out of 10 SMEs in the EU indicated in 2007 that they have new products or have income from new products. On the picture 30 it is presented, which activities in product process, giving service, new products or service and organization of management made SMEs in the EU in 2009. As it can be seen roughly one-third (32%) of business reported that they have a new or significantly improved product or service. A quarter of them reported a new way of selling and improved production process, while only one in five (18%) reported a new type of organization of management. Therefore, it is important to better integrate SMEs into the research community and to foster the links between universities and SMEs. Second reason is that almost 60% of companies respond that schools and universities do not provide skills needed by SMEs. As one of good solutions for improving management skills is Leonardo de Vinci project for long life learning, which provide up-to-date skills and supports mobility and trainings (some of good projects are 'Insight into food marketing to extend business abroad', 'Helping SMEs to integrate foreign workers and to improve HR' and 'Picking styles from across Europe').¹⁰⁴



Picture 32. - Innovation activities in EU SMEs¹⁰⁵

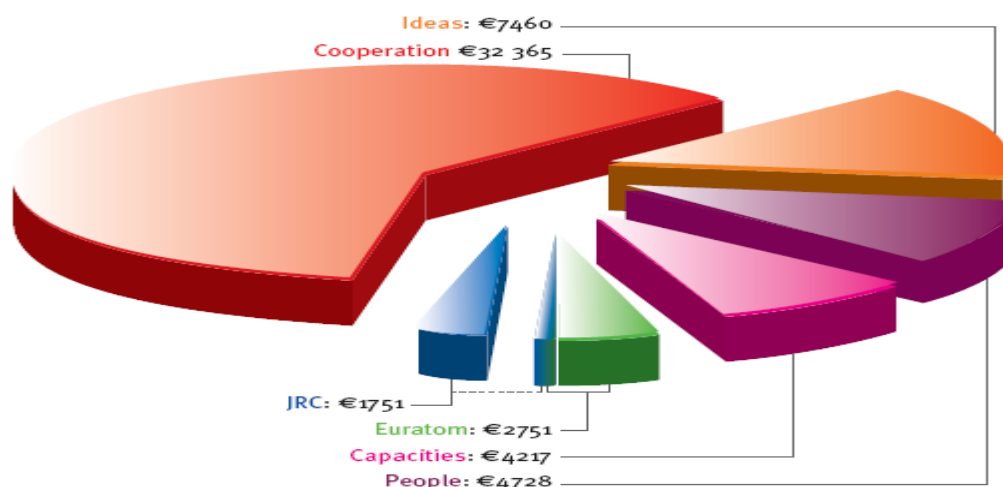
This programme is supported by Agency for Mobility and EU Programmes (Croatia) and National Agency for Educational Programmes and Mobility (FYROM). In aspect of improving innovation capacities and financial support for it, the EU has launched the European Reference Framework with focus on the crucial competences for lifelong learning, which aim to offer the necessary basic innovation skills to all young people, need to be implemented. Seventh Framework Programme has been designed as a complementary to the CIP, as well as other European Community programmes. The FP7 split its' major objectives into four categories:

¹⁰⁴ ec.europa.eu

¹⁰⁵ 'Access to finance' - The Gallup Organization, September 2009



Cooperation, Ideas, People and Capacities. (All this four categories formed a specific program together with a fifth specific program based on nuclear research, as well as non-nuclear research activities in Youth Research Centre).



Picture 33. - Allocation of FP7 budget (in million EUR) ¹⁰⁶

Some studies show that every euro that is invested in research programs in long-term will bring to SME from 4-7 euro. As part of the FP7, it has been established a network of NCP (National Contact Points), which provide services, training and information to regional SMEs and individuals. In Albania NCP is Ministry for Education and Science, in Serbia is Ministry for Science and Technological Development as well as Chamber of Commerce, in FYROM is University Cyril and Method, in Croatia is Institute of Technology and in Montenegro is Directorate for Development of Small and Medium Sized Enterprises). As part of FP7 it has been created web portal CORDIS where SMEs can communicate with authorities, find calls for projects, financial support etc.

'Research for the benefit of SMEs' aims to strengthen the innovative capacity of mainly medium to low - tech SMEs and their contribution to the development of new technology based products and markets. This will be facilitated by helping SMEs to outsource research activities, increase their research efforts, acquire technological knowhow, extend their networks, and better exploit research results. There exist two main funding schemes:

- 1) *Research for SMEs* - supporting small groups of innovative SMEs to solve common or complementary technological problems
- 2) *Research for SME associations* - supporting SME associations and SME groupings to develop technical solutions of problems common to large numbers of SMEs in specific industrial sectors or segments of the value chain.

¹⁰⁶ 'FP7 – Tomorrows' answer start today'



Marie Curie is part of the FP7 Programme aim to enforce transfer of knowledge, ideas and young researchers across Europe¹⁰⁷ EUREKA is the project of the EU that had been started in 1985 and has aim to raise productivity and competitiveness through technology. EUREKA has several programs such as EUREKA's Eurostar Programme - first European funding and supporting programme for research-performing SMEs, EUREKA 'Clusters' that bring together large companies, institutions and SMEs in mission to develop and commercially exploit a new technologies. Serbia has been member of EUREKA from 2002 and established its own EUREKA Programme as a framework for financing research institutions and SMEs that make consortium (at least one of sides have to be from another EUREKA Member State). Ministry for Science provided covering of maximum 50% of financial costs of the projects (up to 150000 EUR). Croatia has been EUREKA member since 2000. Until now, it has finished 21 projects and currently is running a new 23 projects (projects are mainly concern in environment, electronics and telecommunications). BICRO provide grants for covering up to 50% of eligible costs of projects for SMEs (150000 EUR and has duration time up to 3 years). FYROM is a new country (member from 2008) but already had two completed projects that concern industrial manufacturing and biotechnology. Bosnia and Herzegovina and Albania establish National Information Points that have role to prepare country for EUREKA membership and to provide communication with EUREKA and facilitate participation in projects. Montenegro and Kosovo under UNSCR1244/99 do not take any actions.¹⁰⁸

4.9. ENABLE SMES TO TURN ENVIRONMENTAL CHALLENGES INTO OPPORTUNITIES

The demand for environmentally friendly products and services can open the way for new business opportunities. Only 29% of SMEs have introduced any measures for saving energy or raw materials (compared with 46% of large enterprises). Only 4% of the EU SMEs have a comprehensive energy efficiency system in place compared with 19% for large enterprises. Possible solution would be to provide more information, expertise and financial incentives for full exploitation of the opportunities for new "green" markets and increased energy efficiency of SMEs.¹⁰⁹

4.10. ENCOURAGE AND SUPPORT SMES TO BENEFIT FROM THE GROWTH OF MARKETS

Only 8% of European SMEs report turnover from exports (7% of micro-enterprises reported exports), which is significantly low, compared with the figure for large enterprises (28%). Moreover, only 12% of the inputs of an average SME are purchased abroad. Fast-growing

¹⁰⁷ cordis.europa.eu

¹⁰⁸ www.eurekanetwork.org

¹⁰⁹ Small Business Act



markets present untapped potential for many European SMEs. Therefore, they need assistance in getting information on potential partners and openings in their markets. They also need help to overcome cultural barriers in business and differences in regulatory or legal environments. As regards the external dimension, Market Access Teams have been established in 30 key export markets, which should help SMEs with information about trade barriers outside the EU, provide business support, market access assistance, logistic support, finding commercial partners etc. The activities of the European Business Centre in India started in November 2008, while in China, the centre opened in 2010. In aspects of facilitation of SMEs access to benefits of globalization, the government measures should be oriented on improvement of SMEs participation in public procurements markets and enforce the IPR, ensure fair competition etc.¹¹⁰

		ALB	BIH	CRO	XK	FYROM	MON	SRB
Trading across border (rank)	2009	77	55	97	/	64	125	62
	2010	66	63	96	132	62	47	69
Documents to export (number)	2009	7	6	7	/	6	9	6
	2010	7	6	7	8	6	7	6
Time to export (days)	2009	21	16	20	/	17	18	12
	2010	19	16	20	17	12	14	12
Cost to export(days)	2009	770	1070	1268	/	1315	1710	1398
	2010	725	1125	1281	2270	1436	775	1398
Documents to import (number)	2009	9	7	8	/	6	7	6
	2010	9	7	8	8	6	7	6
Time to import (days)	2009	22	16	16	/	15	19	14
	2010	18	16	16	16	11	14	14
Cost to import (days)	2009	775	1035	1141	/	1325	1910	1559
	2010	710	1092	1141	2330	1420	890	1559

Table 7. - Trading across borders and their cost in the WBC¹¹¹

The WB Countries in aspects of external trade have different types of regulations, costs and necessary time to obtain all required documents for export or import. All countries have big trade deficit, which has bad influence on strength of their economies and currencies. One disproportion that can be seen is that in four out of seven WBC export is more expensive than it is import. Yet, policy makers should improve trade policies and to decrease costs, documents and time necessary for both, export and import. Albania made some steps in this direction with creation of electronic data interexchange, which improved risk-bodied inspections. Albania and Montenegro have the lowest cost of trade (that include documents, permits and accompanying papers but without bribe) with 725 and 775 US dollar per container. But, in aspects of required days Albania and Croatia has the worst result in the region. The worst position in the region has

¹¹⁰ Report on the implementation of SBA – Brussels COM(2009)

¹¹¹ Table is made according to Doing Business 2009 and 2010 Report



Kosovo under UNSCR 1244/99 with roughly 2300 US dollars cost, 8 documents and 18 days needed for finishing all procedures.

The SBA consists and a set of new legislative proposals, which has been guided by the “Think Small First” principle:

- A) General Block Exemption Regulation on State Aids (GBER) -This Regulation will exempt from prior notification categories of State Aid already covered by existing regulations in the field of aid to SMEs, for training, employment, R&D and regional aid and possibly also for new categories of aid. The new regulation will simplify and harmonize existing rules for SMEs and increase investment aid intensities for SMEs.
- B) Regulation providing for a Statute for a European Private Company (SPE) - This Regulation provides for a Statute for an SPE that could be created and operate according to the same uniform principles in all Member States.
- C) Directive on reduced VAT rates - This Directive will offer Member States the option of applying reduced VAT rates principally for locally supplied services, which are mainly provided by SMEs.

5. COMPETITIVENESS AND INNOVATION FRAMEWORK PROGRAMME (CIP)

The Commission has made real efforts to cut red tape for SMEs and has significantly increased the SME focus in major EU support programmes for 2007-2013 such as the CIP. In October 2006, the European Parliament and Council adopted decision on establishing CIP. CIP Programme has aim to improve greater access to finance to the EU Funds for SMEs, that promote development and economic growth within the EU, to create the most dynamic and competitive economy on the world market, capable for sustainable development, based on knowledge-based economy, able to offer more and better jobs, a world of social cohesion and preserved environment. The CIP supports innovation activities (including eco-innovation), provides better access to finance and delivers business support services in the regions. It is the EU Programme, which replaced previous 9 (MAP, Innovation, LIVE, STEER, SAVE, ALTER, e-TEN, e-CONTENT, Modinis).

The CIP runs from 2007 to 2013 with an overall budget of €3621 million. The CIP is divided into three operational programmes:

1. The Entrepreneurship and Innovation Programme (EIP)
2. The Information and Communication Technologies Policy Support Programme (ICT-PSP)
3. The Intelligent Energy Europe Programme (IEE)



Each of the three sub-programs has its own work programme managed by the European Commission and supported by appropriate management committee (composed of representatives of each of the EU Member States and observers from non-EU members that participate in program). Priorities and activities for each year are defined in the Work Programmes as well as basic information about Calls for Proposals and Calls for Tenders, which has been announced every year.¹¹² CIP Programme is opened for all Western Balkans Countries, but only Croatia participate in all three sub programs (Serbia participate in the EIP and ICT – PSP, while most of others WBC participate just in first sub-program).

5.1. THE EIP'S OBJECTIVES

1. Easier access to finance for start-up and high-growth SMEs
2. Encouraging investments in innovation projects
3. Support the creation of favorable environment for cooperation between SMEs
4. Encouraging eco-innovation
5. Support for economic and administrative reforms in the field of entrepreneurship and innovation¹¹³

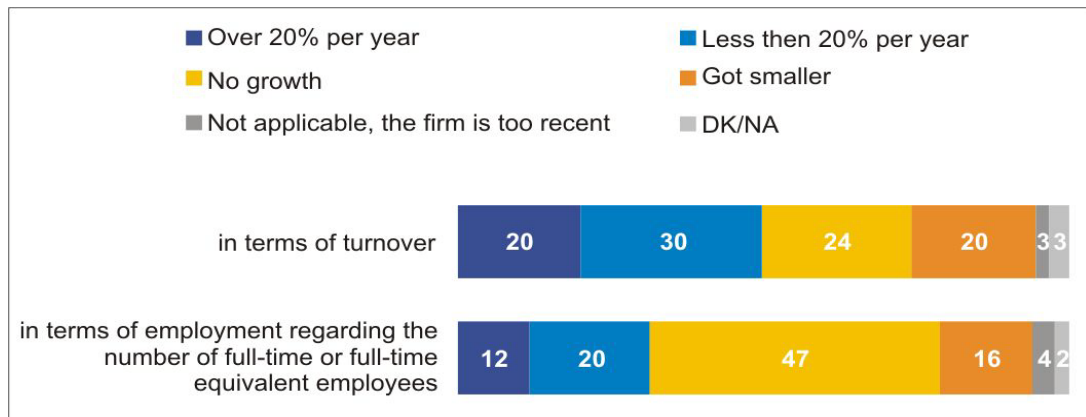
Instruments:

5.1.1. Access to finance, for SMEs through "CIP financial instruments"

The CIP financial instruments are implemented by the Commission through the European Investment Fund (EIF) on a trust basis. They have objective to contribute with establishment and financing of SMEs and the reduction of equity and risk capital market gap, which prevents SMEs from exploiting the growth potential, with aim to improve the European venture capital market and support innovative SMEs with high growth potential. This financing is especially important if we look in the picture 32, that present that are almost 20% of all SMEs in EU-27, with high growth potential in the field of turnover. Other 30% have smaller, but still some growth in the past year, while rest of SMEs has achieved no growth or even got smaller. This is reason, why the EC decide to concentrate more funds on high-growth SMEs, particularly those who are oriented on innovative, environmental friendly and high tech SMEs.

¹¹² cip.epicentre.rs

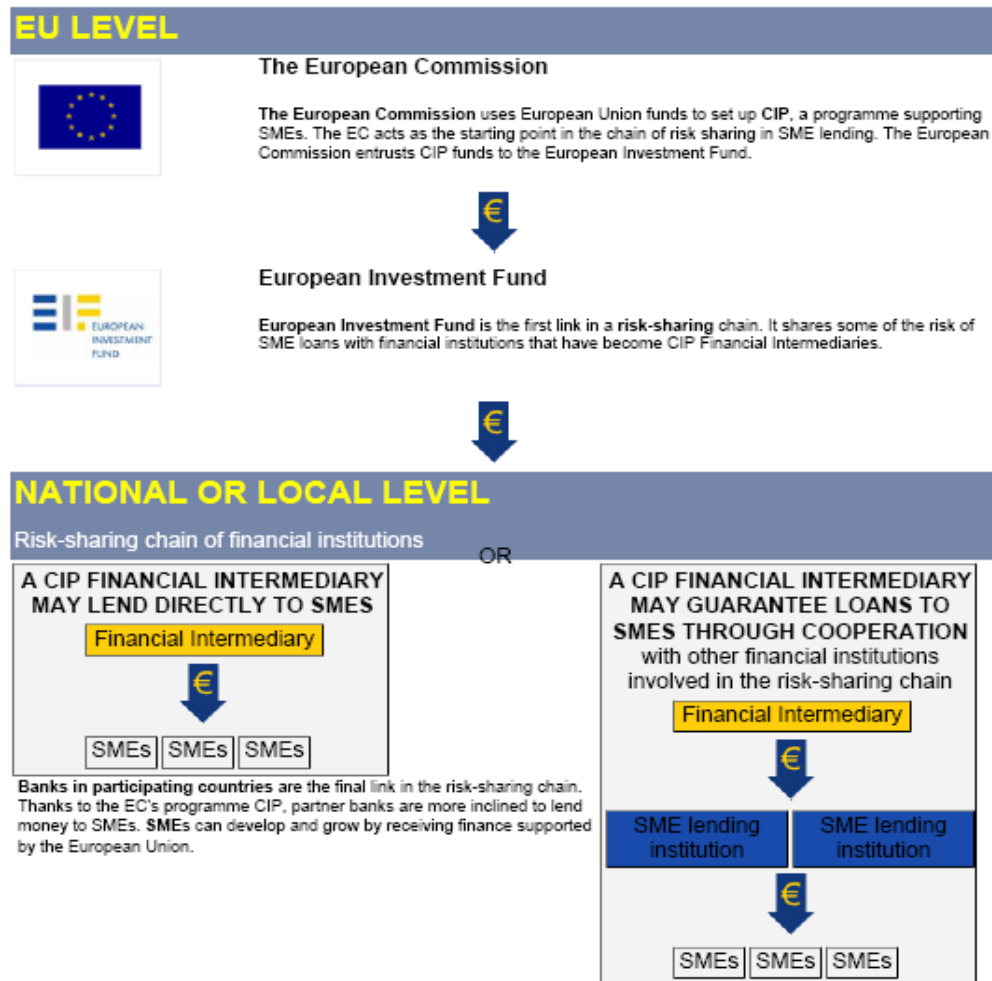
¹¹³ cip.epi.rs



Picture 34. SMEs average growth rate¹¹⁴

Financial instruments are not available directly to SMEs, already they have transmission through the European Investment Fund (EIF) and selected financial institutions (see picture 35)

¹¹⁴ 'Access to finance'- The Gallup Organization, September 2009



Picture 35. The Chain of risk sharing in lending to SMEs¹¹⁵

On picture 35, is presented scheme of taking risks for financial instruments in the CIP. They cover different needs depending on the stage of development of the small business.

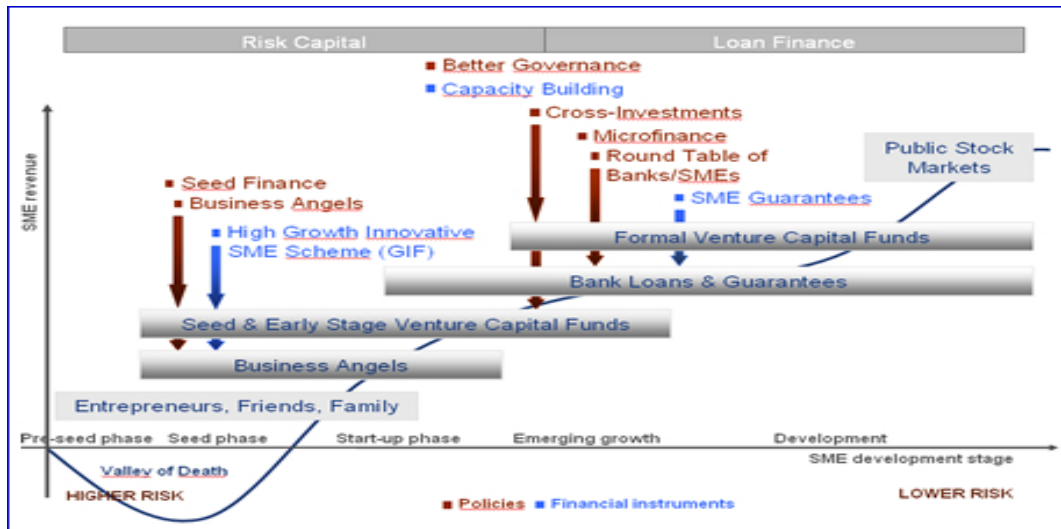
5.1.1.1. The high growth and innovative SME facility – GIF

- I. The high growth and innovative SME facility, GIF1, provides risk capital for innovative SMEs in their early stages GIF1: usually EIF invest from 10% to 25% of the total equity of the intermediary venture capital fund or up to 50% in specific cases. GIF1 covers early stage (seed and start-up) investments investing in specialized venture capital funds such as early stage funds, funds focused on specialized sectors, technologies or research, funds linked in incubators etc. Co-investments in fund promoted by business angels are permitted.

¹¹⁵ www.access2finance.eu

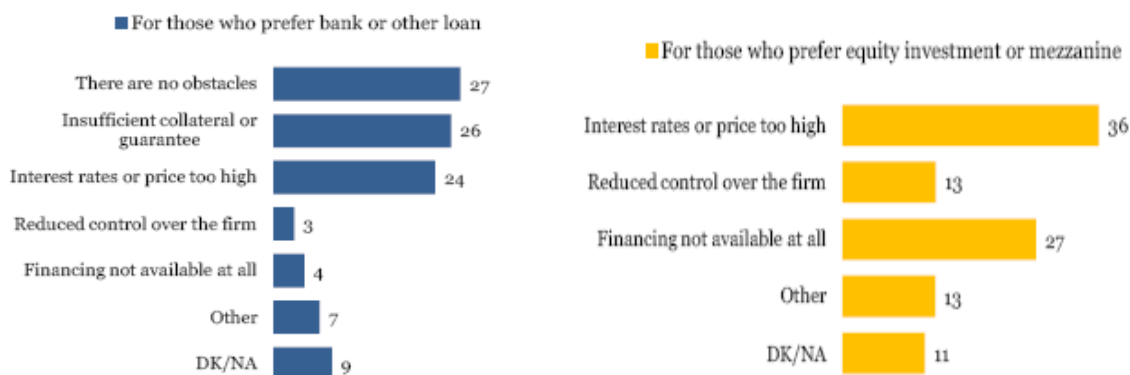


II. GIF2 provides risk capital for SMEs with high growth potential in their expansion phase. The EIF usually invest 7,5% to 15% of the total equity of the IVC (or 50% in specific cases). GIF2 covers expansion investments by investing in specialized risk capital funds, which provide equity and quasi-equity for innovative SMEs with high growth potential.



Picture 36. - Structure of financing in different phases of development SMEs ¹¹⁶

On picture 36 it is explained in which phase of development of SMEs, the EU established policy concern or financial instrument support for SMEs. The EU launched wide range of actions for helping and supporting SMEs in all phases of their development. Main problems that occurs SMEs can be seen in pictures 37.



Picture 37. - Limiting factors for external financing that slow down SMEs growth potential ¹¹⁷

In aspects of bank loans major problems are high interest rates and insufficient collateral or guarantee. Different situation is present in the field of equity or mezzanine financing where SMEs report that this type of financing is not present or that reduce control over firm.

¹¹⁶ ec.europa.eu

¹¹⁷ 'Access to finance' - The Gallup Organization, September 2009



5.1.1.2. SME guarantee facility (SMEG):

- I) *Loan guarantees* - Guarantee rate for every loan/guarantee in portfolio is up to 50% of Intermediary's commitment. Guarantee maturity, for each financing agreement covered, is 10 years from the date of the loan agreement. The intention is to reduce the number and scope of the difficulties that SMEs have in the way of obtaining finance either the result of increased business risks or the lack of adequate collateral.
- II) *Microcredit* – Guarantee rate for every loan/guarantee in portfolio is up to 75% of Intermediary's commitment. Guarantee maturity, for each micro-credit financing covered, is 5 years from the date of the loan agreement (minimum maturity is 12 months and maximum amount is 25000 EUR). Financial intermediaries may be supported for partial mitigation of high administrative costs of microcredit.
- III) *Equity and quasi-equity guarantees* – Guarantee rate for every loan/guarantee in portfolio is up to 50% of Intermediary's commitment. Guarantee maturity, for each financing agreement covered, is 10 years from the date of the loan agreement. (minimum maturity is 12 months and maximum investment amount is 500000EUR).
- IV) *Securitization* – guarantees to support securitization structure to assist financial intermediaries in mobilizing debt financing for SMEs. (The objective is to facilitate access to capital market for smaller banks – at least of 70% of securitized portfolio must be composed of SME financing). Guarantee rate is up to 100%, except for the First Loss Piece (guarantee rate limited up to 50%). Guarantees may be issue to support insurance structures that help financial intermediaries in the development of debt financing SMEs.¹¹⁸

5.1.2. Enterprise Europe Network

Business and innovation service centers (572 member organizations in 44 countries employing over 4000 experienced staffs helping in increase of competitiveness and addressing about 3 million SMEs) provide enterprises with a wide range of quality and free-of-charge services. EEN supply SMEs with information on market opportunities, EU policies, programmes and legislation; helping in finding business partner using its cooperation databases, tenders opportunities, international networking, brokerage events for technology and knowledge transfer, promotion and information material, individual on-site visits to companies to assess their needs; tools engaging SMEs in European policy making, etc.) During the first 18 months of operation, the Network organized more than 10 000 events in which around 400 000 SMEs participated and concluded more than 1 400 business and technology partnership agreements. European Enterprise Network is result of one-stop-solution principle of European Commission.¹¹⁹

¹¹⁸ www.eif.org

¹¹⁹ www.enterprise-europe-network.ec.europa.eu



5.1.3. Support for improving innovation policy:

Support transnational networking of different actors in the innovation process and innovative companies, including benchmarking initiatives and the exchange of best practice (under PRO INNO Europe initiatives). PRO INNO Europe has supported closer cooperation between innovation policy makers at different levels, thus contributing to creation of the European Innovation Space (a new innovation policy concept).¹²⁰ Europe INNOVA is an initiative, which aspires to become the laboratory for the development and testing of new tools and instruments in support of innovation with the view to help innovative enterprises innovate faster and better. Europe INNOVA is launched in 2006. In 2009 has been established a new high priority in policy areas: transnational cluster cooperation, eco-innovation and knowledge intensive service.¹²¹

The EC start two more initiatives for development of innovation policy:

Sector-Innovation Watch - performed a comparative analysis of innovation patterns and performance in different industrial sectors to provide policy makers, experts and others, better understanding of the drivers and obstacles to innovation activities and results in different sectors.

European Cluster Observatory – through quantitative analysis made map of all business clusters over the Europe, rank clusters toward their size, specialization and focus that give crucial information to entrepreneurs and investors what every cluster can do.

One of the projects will has aim to improve innovation capabilities, the methodology for the assessment of innovation policy, IMP3rove , enables SMEs to examine their performance in the field of innovation management online and to be assessed in comparison to similar companies in other countries to improve their business results.¹²²

5.1.4. ECO innovation

“Eco-innovation includes new production processes, new products or services, and new management and business methods eco-innovation means all forms of innovation reducing environmental impacts and / or optimizing the use of resources throughout

¹²⁰ www.proinno-europe.eu

¹²¹ www.europe-innova.org

¹²² cip.epi.rs



the lifecycle of related activities.”¹²³ According to OECD study, in the EU-27, goods and services provided by eco-industries is estimated to represent around 2.5% of the EU-27 GDP. The major call for supported projects, are in the fields such as: material recycling (improved sorting processes for waste materials, eco-friendly design and production of high quality consumer goods), food & drink sector (packaging methods and material that reduce environmental impact and maximize the use of raw materials in the food sector, improved efficiency water management processes, innovative products, processes and services reducing environmental impacts of consumption) building & construction sector and area of green business and “smart” purchase (services facilitating a better match between supply and demand of eco-innovative solutions, substitution of materials with reduced environmental impacts and higher resource efficiency).

Support can be distributed through various type of channels such as:

- a) Financial instruments (special supports to investment funds that have eco-innovation orientation) with a budget of 228 million EUR
- b) Pilot projects and projects of re-introduction to the market (195 million EUR)
- c) Network of national and regional stakeholders (10 million EUR)¹²⁴

5.1.5. Support for innovation and SME policy-making through contracts and grant

Major instrument in this regard is PRO INNO Europe that should become the most important point for innovation policy analyses (as it is mentioned previously). There are two types of calls: *Calls for tenders* are special procedures with aim to generate competing offers from different businesses looking to obtain works, supply or service contracts. *Calls for proposal* are procedures applied to generate offers from companies competing for works, supply or service contracts in the framework of public procurement. Analytic tools that support framework for making policies are:

- I. *The European Innovation Scoreboard (EIS)* provides a comparative examination of innovative results and progress in the European Union, the clustering of the Member States in relation to their results in the following categories: innovation leaders, innovation followers, moderate innovators or countries that are overreaching.
- II. *InnoBarometer* is annual survey made on 3500 random selected business in Europe that complements the results of EIS.

¹²³ ec.europa.eu/environment/eco-innovation

¹²⁴ ec.europa.eu/environment/eco-innovation



- III. *INNO-Appraisal* contributes to the formation, consolidation and strengthening the evaluation culture in Europe
- IV. *INNO-Grips* collected and further analyzed different studies around the world
- V. *INNO-Policy Trend Chart* describes and analyzes the main trends of innovation policy at national and regional level throughout Europe. Collected information is used to lead and maintain a database of innovative policies and measures, and as well as a basis for making annual reports and the preparation of the annual European Innovation Progress Report.

5.2. THE INFORMATION AND COMMUNICATION TECHNOLOGIES – POLICY SUPPORT PROGRAMME

Is brought together under the i2010 Initiative: the EU framework for addressing the main challenges and developments in the information society and media sectors in the years up to 2010. i2010 proposes three priorities for Europe's information society and media policies:

1. The completion of a Single European Information Space, which promotes an open and competitive internal market for information society and media;
2. Strengthening innovation and investment in ICT research to promote growth, more and better jobs;
3. Achieving an Inclusive European Information Society that is consistent with sustainable development and that prioritizes better public services and quality of life.¹²⁵

The programme contributes to a better environment for developing ICT based services (for instance ICT for health, ageing and inclusion, Digital Libraries, ICT for improved public services, ICT for energy efficiency and smart mobility, multilingual web and Internet evolution) and helps to overcome gaps in some fields such as the lack of interoperability and market fragmentation. The ICT – PSP policies are grouped in three categories:

- I) *Regulating the Market* - Electronic Communication regulatory framework, Mobile Roaming Charges, Radio Spectrum policy, 112 single emergency number, Audiovisual regulation, Copyright and related rights in the Information Society, Web accessibility
- II) *Stimulating the information society* – Bridging the broadband gap, Space policy, Public sector information, VAT on the electronic services
- III) *Exploiting the Benefits* - e-government action plan, electronic public procurement legal framework - with use of ICT in order to improve efficiencies in public procurement and which accounts 16% of the EU economy, e-health action plan, e-Learning, electronic customs - for creation a more efficient and modern customs environment. The EU domain: translating the European Single Market online, ICT industries and e-business,

¹²⁵ cip.epi.rs



consumer policy and e-commerce, online financial service: enabling consumers and retail investors to access online financial services across the EU, e-invoicing rules.

Working programme for ICT – PSP are endorsed every year again but with different objectives that require distinctive implementation measures:

1. Pilot projects type A - support ICT projects, in the EU and associate countries, with results of general importance. Duration is typically 36 months with a pilot service 12 months. It needs to be implemented in at least 6 member countries. Financial support is up to 50% of total costs, while Community contribution available is 5-10 million EUR per pilot.
2. Pilot projects type B - support implementation and uptake of the novel ICT-based solution. Duration is typically 24-36 months, with pilot service operating 12 months, it need to be implemented in at least 4 member countries. Its' participants are relevant public authorities, service providers, industrial stakeholders and user.(2-2,5 million EUR)
3. Thematic network – providing a forum for stakeholders for experience exchange and consensus building. Duration is typically 18-36 months and need to be proposed by at least 7 key stakeholders.

5.3. THE INTELLIGENT ENERGY EUROPE PROGRAMME

Has the budget that consist of €730 million of funds available between 2007 and 2013 and its aim will be to help deliver on the ambitious climate change and energy targets that the EU has set for itself. The programme supports concrete projects, initiatives and best practices via annual calls for proposals. Some of the supported projects are training of new construction techniques that can lead to 50 percent or more energy savings compared with traditional buildings, helping Europe's cities to develop more energy-efficient and cleaner transport etc. IEE focuses on the implementation of measures, which improve energy efficiency and wider use of new and renewable energy sources in Europe. It does not finance technical researches and development projects. The programs support projects in the following areas: renewable energy, energy efficiency, transport, developing countries and horizontal projects.¹²⁶

¹²⁶ cip.epi.rs



6. CONCLUSION

From the early beginnings, people have been oriented on creating things, which were necessary for their survival. Over time, great changes have been happening in social systems and value chains, but people's primary needs for existence remained the same. As we can conclude from the definition of entrepreneurs, made by Jean Batiste Say in 1803, 'The function of the entrepreneurs is to combine the production factors into production organism'¹²⁷ that people were entrepreneurs from their beginning but their aim and objectives were different through time. At first, people's motive was bare survival, but today in time of capitalism is profit. Entrepreneurship became one of the strongest pillars and the main driven force for the creation of the jobs and economic growth of the EU, as well of the WBC.

Over the last years, the countries of the Western Balkans have made significant progress in field of entrepreneurship. Taking steps in the implementation of European policies for the development of entrepreneurship, the WB countries show full commitment and desire to enhance development of enterprises and improve their economies, thus create a favorable business environment. Therefore, this would have for result, increasing number of self-employed people as one of the main solutions, necessary for economic development. All states have to show a good will and to increase their capacity. In the WBC can be seen duplication of the jobs, agencies for the development and ministries, but unfortunately with the lack of the expertise, ideas and money in them, represents one of the major problems for further development of favorable environment for enterprises.

Taking a clear attitude towards the EU integration, the WB governments require to endorse *acquis communautaire* and to adopt its laws and good practices into their legislation. Due to the more certain future, in the term of the EU membership, improvement of regional, political and economic cooperation between countries in the WB, should become one of the most important objectives. The WB Countries ought to be oriented on a mutual respect for differences and complete interregional cooperation so that they can fully take advantage of the signed economic agreements on free trade. Key issues that affect Western Balkans' economies are high unemployment, political instability, excessive administration and unregulated property rights that are slowing down the opportunity for better life of ordinary citizens. This is a reason why the government should adopt its actions, policies and take special care in order to contribute with changing of people's minds and encouraging them to take a risk and start their own business. Solving their own problems by taking matters into their own hands, they will enhance their national economy and contribute with changing many opinions about the possibilities of success in regard of entrepreneurship.

In the term of reforms, strategies, policies and actions, policy makers need to create a systematic decision-making approach and to enhance constant consultation with SMEs in order to contribute

¹²⁷PPT presentation, Introduction to entrepreneurship, Fuada Stanković Ph.D., Novi Sad 2010



to the positive results of their implementation. Only in this way, WB economies can boost their own development, better allocation of resources and strengthening overall position of the countries. The hypothesis of this research is confirmed, by the theoretical analysis of the material in the researched areas, which are contained in the sources, mentioned in the literature, and by comparison of the results of different researches. It has been proven that, EU policies represent one of the major factors that determine position of micro, small and medium enterprises in the WBC, EU policies have big influence on the improvement and development of entrepreneurship in the WBC, determination of strategies for SME development and action plans are based on the European experience, the governments bodies use, some of the EU funds, for financing its projects, all WB Countries have accepted and adopted the EU policy framework and their decisions are made according to this framework.

The results of the theoretical research, which it has been set before this research, as operational tasks, could be summarized in the general conclusion that reached the main goal. The main objective was to determine the impact of EU policies on a development of micro, small and medium entrepreneurship in the WB and in this regard, to show and to create proposals for promotion and development of entrepreneurship in the area of the Western Balkans.

Further explanation of above mentioned statements (as the confirmation of the hypothesis), achievement of the main goal and the realization of the tasks, will be present in the following, through arguments that proved the realization of specific goals as well as achievement of the basic aim of the research. The specific objectives of this work are: the application of appropriate scientific research methods for testing and conformation of these hypothesis, presentation of an influence of the EU policies on SMEs in the WBC, analysis of the SME position in the WBC in term of direct and indirect factors, evaluation of the quality requirements in terms of legislation, infrastructure in which SME operate, creation of comparative analysis, based on the research made by various number of international organizations and their combination with the local and foreign professional literature in order to define the starting point for the advancement of SMEs position, creation of recommendations and proposals for activities, oriented on the improvement of entrepreneurial environment.

“Definition and structure of SME in the EU and in the WB” is name of the second chapter where is given the conceptual explanation of the official definition of SMEs made by the European Commission, combined with further explanation of the SME role and the market share which SMEs take in specific industries. Research shows that the great number of them are micro enterprises, which have the dominating role in the WBC’s SME sector (for instance 82,6% in Bosnia and Herzegovina, 98,3% in Kosovo under UNSCR 1244/99). This is why, the decision makers, must pay special attention on micro enterprises and to try to improve public-private dialog with them. In this regard, implementation of the official definition has large influence in defining the thresholds (staff headcount, annual turnover or annual balance sheet), which is necessary in aspects of the improvement of SME access to a capital and taking into account different relationship between enterprises. Special treatment of SMEs can be achieved in complete adoption of the EU official definition. Mostly, the WBC definitions are very similar to the EU one. The complete implementation of the official definition should start from the area such as thresholds. They would help, to decision makers, to make better categorization of all



enterprises and to provide help and support for those, that is needed it the most. What is same, decision makers would make differences between autonomous, partner and linked enterprises and improve its treatment in the areas of administration fees, taxation and defining of the VAT thresholds.

There is one geographical fact common for all Western Balkans' SMEs that one out of three SME have placed in the capital. This is a signal for policy makers to encourage potential entrepreneurs to start their own business in smaller towns and villages. In the policy of regional development should be considered this fact and establish local network of offices for SME support. These offices could provide all necessary help including advocacy, financial support, and providing them useful information about starting business, completion of documents in regard of construction and other types of permits.

Structure of specific industries in the WBC show, that SMEs in the WBC take the biggest share in retail and repair service, manufacturing, transport, communication, tourism industry. The government should try to increase SMEs percentage ratio aspects in financial sector. This action could provide the dividing of a risk taking, with establishment of new types of financial institutions. These financial institutions could be small banks that should fill the gap in the financial market and provide more financial and advisory support to SMEs. They would better discover SME needs, trough communication with them and take bigger concern for their success. The governments have to find its own interest, to provide financial support for these small banks and to encourage entrepreneurs to take part in this project. When it is considered the percentage ratio which SMEs have in relation to the national GDP or total employment, it could be noticed some deviations. The decision makers need to introduce measures that would better balance the uneven relationship and increase the SME share in the fields of total employment and output. These measures could be combined with the increase in the VAT threshold, tax discount for SMEs, better network of financing projects of SMEs etc.

The third part named “The European Charter for Small Enterprises in the Western Balkans“ present analysis of the results of empirical research consisted in the Index of SME Policy. It was made in order to determine the status and progress or regression of some parts of the Chapter. The purpose was, in comparison with the Global Entrepreneurship Monitor research, OECD Investment Reform Index, World Bank-Doing Business report and other accompanying documents, to show the point of development of entrepreneurship in the Western Balkans and to suggest in which direction, actions should be placed. The Charter made estimation for 10 key areas such as: education and training for entrepreneurship, cheaper and faster start-up, better legislation and regulation, availability of skills, improving online access, getting more out of the Single Market, taxation and financial matters, strengthening the technological capacity of small enterprises, successful e-business models and top-class business support, developing stronger, more effective representation of small enterprises' interests. Results shows that most people in the Western Balkans region, still have a relatively high fear of taking risk, which prevents many entrepreneurs from taking over the venture. Also, perceived opportunities and capabilities are on a relatively low level. In the aspects of human capital existing misalignment, which occurs between needs and skills, which market is demanding. In this regard, it would be needed to train people to obtain necessary knowledge and entrepreneurial skills. The WB governments should



actively develop private-public dialog and give employers chance to participate in planning the educational process especially in vocational schools. Entrepreneurial education should start from primary schools and to be present, as a obligatory subject, as well in secondary schools and universities. Other problem is pretty low media campaign, which is relatively not engaged enough in encouraging people to take a risk. Therefore, government should consider media campaigns as a possible tool for their further plans in order to inform the people about wide range of opportunities that entrepreneurship offers. The fact that inefficient bureaucracy makes big problems to the WB SMEs, decision makers should developed solutions such as, one-stop-shop for registration (for instance establishment of National Registration Centers). The major suggestion to the WB government, would be to enhance their legislatives and enable on-line registration as soon as possible, with reduction of unnecessary procedures, such as cumbersome administrative burdens, pending numbers, permits and other accompanying papers. They should be aware that very big obstacle in this process remain launching of on-line registration system, primarily in reason of non-existing operational electronic signature system. The implementation of this system would effectively cut SME cost and encourage, trough easier, cheaper and faster start-up, many potential entrepreneurs to start its own businesses. In the area of adoption of the SME-related legislation, all the WBC have started to use the Regulatory Impact Assessment (RIA), which should help in achieving cost-effectiveness of regulatory decisions. The WB governments establish SME agencies that should provide to SMEs, day-to-day communication with the authorities, counseling and advices for better resolving of financial and legislative issues. Some of the problems of these agencies, are that they do not have good communication with their governments, very limited budget and in some cases they are responsible also for some other issues apart from entrepreneurship. What is same, these agencies should develop network of local offices for closer cooperation with SMEs. Special concern should be taken in aspects of development of training centers. Analysis of training needs and entrepreneurial training should be create in the way to ensure right identification of all weakness and gaps in existing workplaces and to suggest new approaches for fulfilling them. The WBC should make effort in improvement of e-government system that would provide possible solution for on-line filing the taxes, applying for public procurement, cadastre, on-line registration of a company, downloading necessary documents, on-line trainings, communication with authorities from government, for collecting statistical data etc. In the area of foreign trade The European Union is trade partner number 1, accounting for more than 84% of the total WBC trade. This is result that all WBC has signed the Stabilization and Association Agreement- a free trade agreement with the EU. When it is trade structure considered, it could be noticed that biggest export from the WB to the EU is consist of manufactured goods such as textile (16%), base metal and products from the base metal (15%) and machinery and electric equipment (13%) while exports from the EU to WB is consist of machinery and electronic equipment (22%), vehicles (11%) chemicals (10%) and base metals (9%). The greatest weak point for all WBC is a big trade deficit and this is one of the major reasons, why their economy should give more efforts in encouraging and promotion of their export. Some actions that could be done is made by establishing of promotion agencies, that provide information and advices, maintain database of exporters, organize a participation of domestic companies on a trade fair abroad, offer training, financial support, provide trade profile of other markets, to help in finding foreign partner. Cluster development can also be useful, because organized approach to the market, consistently improves the position of the associated businesses and allows them to easier struggle for better market conditions. In the field of taxation



and financial support the WB SMEs faced with problems such as double taxation, especially in case of dividends and capital gains, different type of income taxes, increasingly growth of 20% of year-to-year interest rate and collateral and provision requirements, that are very big (from 150% to 200% of credit demand). The projects of reducing tax compliance costs, lowering overall tax burden to SMEs, simplifying provision, tax payer education, should be combined with regular meetings with taxpayers, aiming to discover how to improve their assistance in tax systems, achieving more neutral tax treatment of firms of varying size etc. Other projects that can be take, are establishment of the micro stimulation models that give to the policy makers, information, how they can strike on a desirable way to make balance between tax affection of small business. Interesting solution is METR (marginal effective tax rate), which facilitate policy analysis and assessment of tax reforms. What is a same good solution is the software, which helps taxpayers to electronically transfer data to tax authorities without meeting them in person. In the aspect of innovation development policy makers established Voucher Counseling Scheme that allows to users to use vouchers for manager advice and assistance with covering of 50% costs. Good examples is as well, establishment of the network that consulting advisors and could increase successful commercialization of research outputs and the transfer of knowledge and enabled contact and managing of the cooperation with wide range of universities, R&D centers across all WBC. Wider development of all types of business incubators would provide IT support, appropriate facilities, strategic assistance and skill development for innovative SMEs at low prices. All countries should work very hard on developing their capacity for private-public dialog (PPD). In this matter, they should develop agencies for SME support that is consisted of large number of local offices. In work of this, offices should be included business representatives, governmental or non-governmental officers, local authorities and experts from this field (university professors, SME managers etc

The fourth chapter named “Small Business Act” represents a new policy framework, which integrates the existing enterprise policy instruments. This new framework for SME policy should help in the better understanding of new needs of entrepreneurs and to try, in direct communication with SMEs, to improve overall environment and conditions for doing business. It has installed a set of 10 principles as a guide the conception and implementation of policies. The creation an entrepreneurial friendly environment is extremely important in the WBC where many of its citizens see self-employment as a good opportunity (Bosnia and Herzegovina 73%, Croatia 68% and Serbia 69%). But, situation can be seen differently, when it is presented how many people consider entrepreneurship as a necessity rather than an opportunity (BIH-39%, CRO-37%, SRB-41%). Some of the actions, which could be done in this regard, is to try to set educational system in that way, to ensure full capacity of development of entrepreneurial culture among scholars. Other actions could to offer to entrepreneurs a possibility to work with other entrepreneur in order to improve a know-how transfer across border and to foster networking between SMEs in the WBC. Other problem is that female entrepreneurship rate is smaller than male one. In Bosnia and Herzegovina is two times, while in Croatia and Serbia is almost three. Possible direction for solving problems in this regard could be establishment of female network in the WB region, which would provide advice, support, information, contact and useful links to all networks, events, projects and organization that promote female entrepreneurship. In terms of the second principle, major actions should be completion all legal procedures, to wind up the business in the case of non-fraudulent bankruptcy within a year. The fact that only 4-6% of all



bankruptcies are fraudulent supports the need for the implementation of this principle. In 2010 Kosovo under UNSCR 1244/99 has the best result in the WB region, where all legal procedures can be finished within 2 years. Yet, many of the countries like Bosnia and Herzegovina, Croatia, FYROM and Serbia are closer to upper limit of the EU average (which contain 4 year) Montenegro has also, good required time for finishing bankruptcy procedures, which takes 2 year. In this matter, all Western Balkans Countries should enforce their bankruptcy laws and to reduce, both time and cost, in order to enhance opportunity for second chance and possibility to regain the market share, hire new workers and thus contribute to strengthening of their own economy. The facts shows that the WB SMEs see inefficient government bureaucracy as one of the major problematic factors that SME are face with (Croatia 20%, Montenegro 16,1%, FYROM-14,7% etc.). Some of good examples are actions in the areas such as assessing the impact of forthcoming legislative and policy proposals on SMEs (“SME test”). Some of the EU countries integrated “SME Test” in their decision-making approach. It is very important to reduce administrative and regulatory burdens that concerning SMEs. The decision makers should enable communication with them trough the websites, by e-mail in order to improve public private dialog and discover what represent the highest burdens to SMEs. Public administrations should be more responsive to SMEs’ needs and in this regard implementation of e-government and one-stop-shop solution could improve service and reduce costs. Albania and FYROM have diminished required time for starting a business to 5 and 4 days, as well as start-up number of procedures to 5 and 4. Kosovo under UNSCR 1244/99 (9 days required for starting a business and 52 necessary start-up procedures), Serbia (13 days and 7 start-up procedures) and Montenegro (13 days and 12 start-up procedures) have made progress as well. For instance, in the EU the average time and cost to start-up private limited company is now 8 days (compared to 9 days in 2008) and the cost is €417 (compared to €463 in 2008). The governments should facilitate SMEs’ participation in public procurement trough reducing costs, administrative burdens, making procurement system more transparent and to encourage use of the IT system (e-procurement) in order to simplify system. Many of the WB SMEs’ present finance and timely payments, as one of the major reasons for closing business. This is reason why the WBC should encourage their credit institution and banks to reduce restrictions on availability of credits for SMEs. Good examples have been made by Bosnia and Herzegovina, Croatia and Serbia in usage of movable assets as collateral. Decision makers should take into concern, offering of the technical assistance to micro-finance institutions in order to help them to be credible financial intermediaries and to obtain capital more easily. Also, financing of the activities of non-bank financial institutions in order to enable them to make a higher number of loans is of big importance. In reason of weak position of SMEs in equity laws, the WB governments should make better regulations in this area, especially in security interest on movable property. The WB SMEs do not fully benefit from the opportunities provided by the Single Market (which is now consisted of 27 the EU Member State with over 500 million people), largely because of the lack of information on business opportunities, as well as insufficient language skills. One of the projects launched in order to overlap this gap is the European Enterprise Network, with has the intention to stimulate cross-border operations on the Single Market. All WBC participate in this project and they need to increase their efforts in providing information about the EU legislation, possibilities for export, calls for tenders and establishment of SME network in order to find business partners across borders. These countries should concern more the Intellectual Property Rights (IPR) for SMEs, which could have for result, an efficient, cost-effective, high-quality and



legally secure patent system at the European level. The facts shows that roughly one-third (32%) of business reported that they have a new or significantly improved product or service, quarter of them reported a new way of selling and improved production process, while only one in five (18%) reported a new type of organization of management. This is reason why decision makers should promote the upgrading of skills of SMEs and all forms of innovation. As one of good solutions for improving management skills is Leonardo de Vinci project for long life learning, which provide up-to-date skills and supports mobility and training. This is good examples in which direction the WBC should enforce their skills and strengthening the innovative capacity of low, medium, high - tech SMEs in order to increase their contribution to the development of new technology based products and markets. Participation of the WB SMEs in international projects like EUREKA, INNO EUROPE will enable SMEs to turn innovation cooperation in term of know-how exchange as one of their major advantage for improvement of their position in the market. The WB SMEs in regard to benefit from the growth of markets need assistance in getting information on potential partners and legislations in these markets. They also need help to overcome cultural barriers to business and differences in regulatory or legal environments. The WB Countries in aspects of external trade have different types of regulations, costs and necessary time to obtain all required documents for export or import. All countries have big trade deficit, which has bad influence on strength of their economies and currencies. One disproportion that can be seen is that in almost every WBC export is more expensive than it is import. This is why they need to reduced costs of export, especially in term of necessary days, documents. Some of the solution could be founded in establishment of electronic custom, where many of documents can be delivered trough this type of portal. Also, custom authorities could provide better treatment of SMEs trough certificate system which will give opportunities for those who regularly pay all their obligations, posses certified for export to speed up the acceleration of procedures for exports and a significantly reduce time required for export.

The last chapter present a special programme for SME named “*Competitiveness and Innovation programe*” which provide to SME better access to finance, support to innovation activities and overall business support. The reason for displaying this programme is its importance and possibilities that provide access to SMEs from the Western Balkans. The explanation of each part of the program accompanied with other useful information for participation in it should encourage decision makers to enforce their efforts for improvement of greater access to finance to the EU Funds for SMEs and to be capable of sustainable development. The CIP is divided into three operational programmes: the Entrepreneurship and Innovation Programme (EIP), the Information and Communication Technologies Policy Support Programme (ICT-PSP) and the Intelligent Energy Europe Programme (IEE). All WBC, should find their interest in participation in this three programs and to try trough them to reduce equity and risk capital market gap, provide risk capital for innovative SMEs, loan guarantees, microcredit, equity and quasi-equity guarantees, securitization, to establish a specialized venture capital funds, support the creation of favorable environment for cooperation between SMEs and to enhance economic and administrative reforms in the field of entrepreneurship and innovation. These program consist measures that support regulating the market, stimulating the information society etc. These measures could significantly reduced costs and time for SMEs. Some of possible actions are e-health action plan, e-learning, electronic customs - for creation a more efficient and modern customs environment, e-commerce, online financial service: enabling consumers and retail

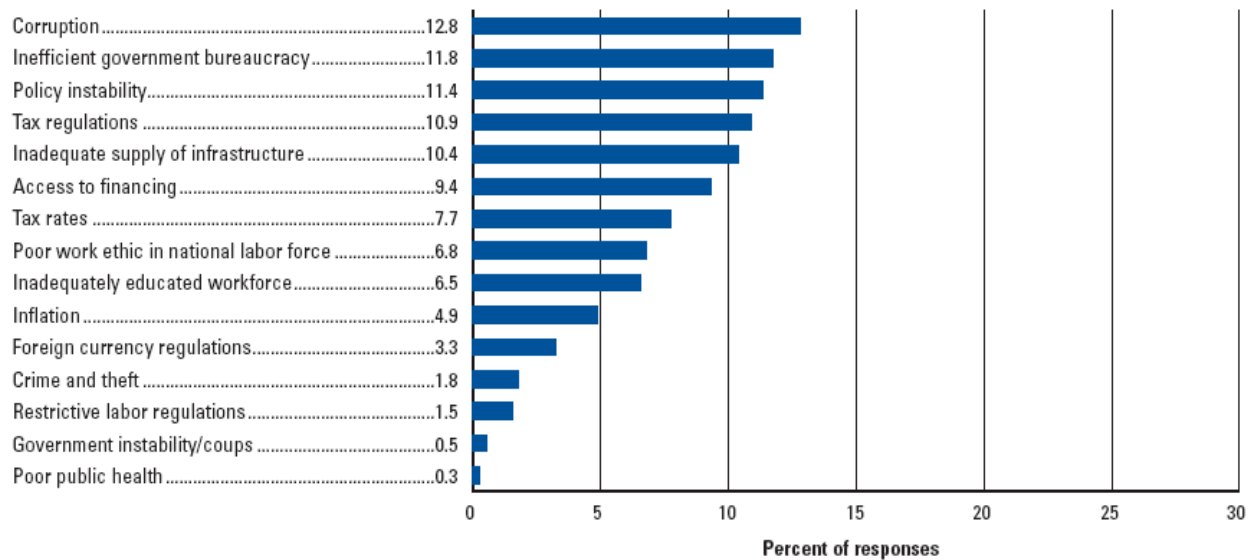


investors to access online financial services across the EU, e-invoicing rules. The implementation of measures, which improve energy efficiency and wider use of new and renewable energy sources in Europe could further decrease all unnecessary costs and inevitably, contribute to a better position for SMEs. This chapter has one more objective and that is, to try to emphasize importance of international cooperation and usage of advantages of networking and establishment of a new cooperation among SMEs.

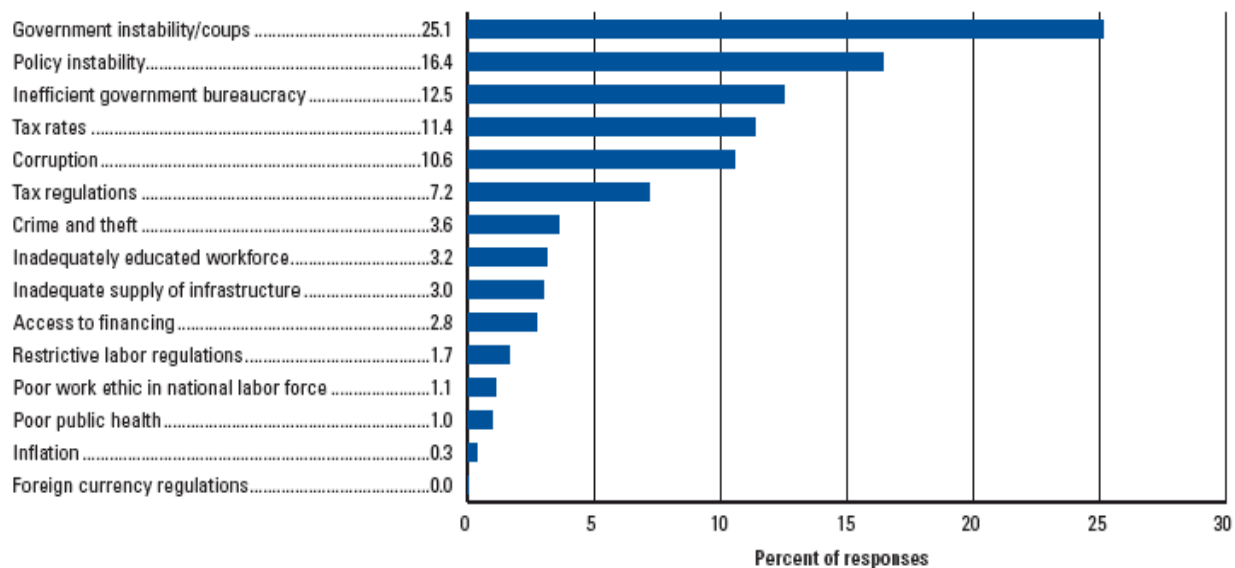
Finally, it should be emphasized that the objectives of research is based on the hypothesis set at the beginning of this paper, which are the indicators that have measured the results of research. The degree of success in proving the hypothesis set is directly proportional to the degree of achievement of the objectives of research. The study confirmed the hypothesis and stressed the impact of the EU policies for entrepreneurial development on entrepreneurship in the Western Balkans.



Appendix 1.



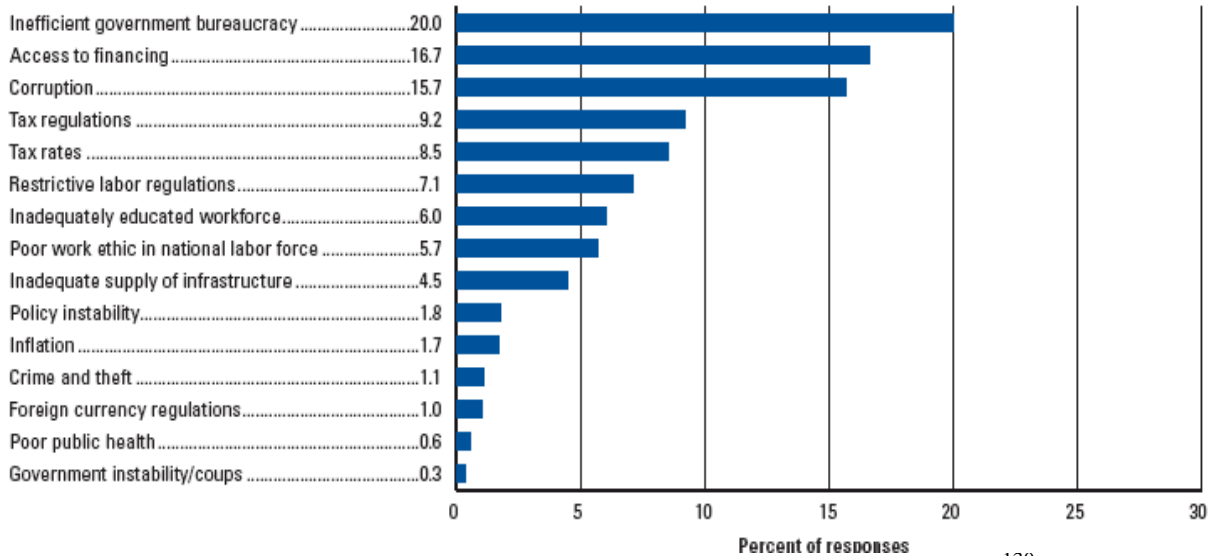
Picture 38 - The most problematic factors for SMEs in Albania ¹²⁸



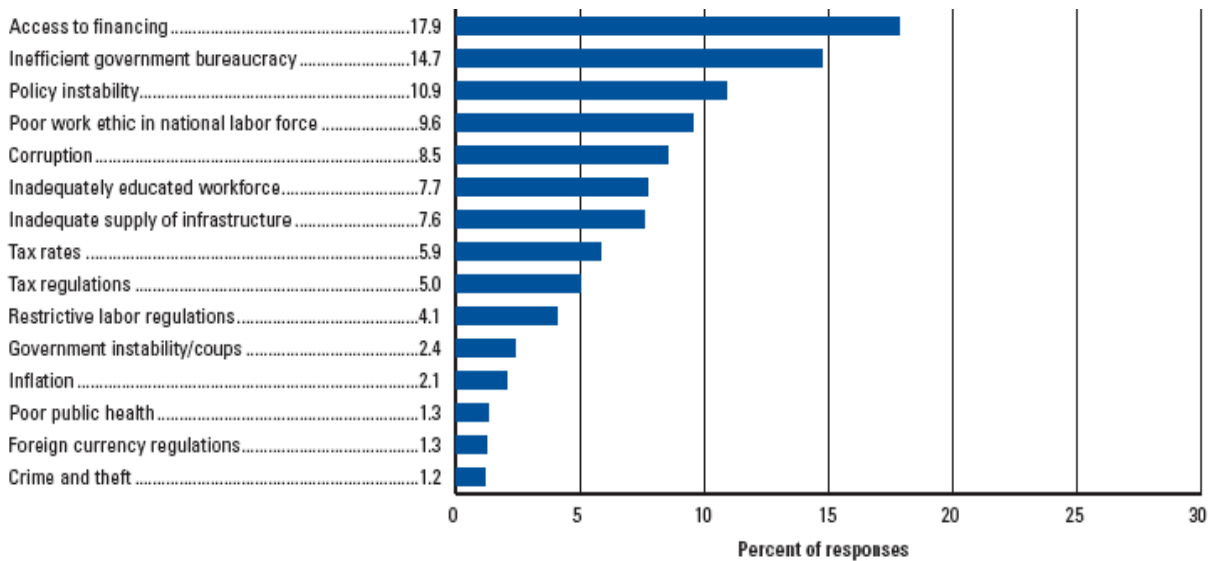
Picture 39 - The most problematic factors for SME in Bosnia and Herzegovina ¹²⁹

¹²⁸ Global Competitive Report 2009-2010 Klaus Scwab Ph.D. World Economic Forum Geneve 2009

¹²⁹ Global Competitive Report 2009-2010 Klaus Scwab Ph.D. World Economic Forum Geneve 2009



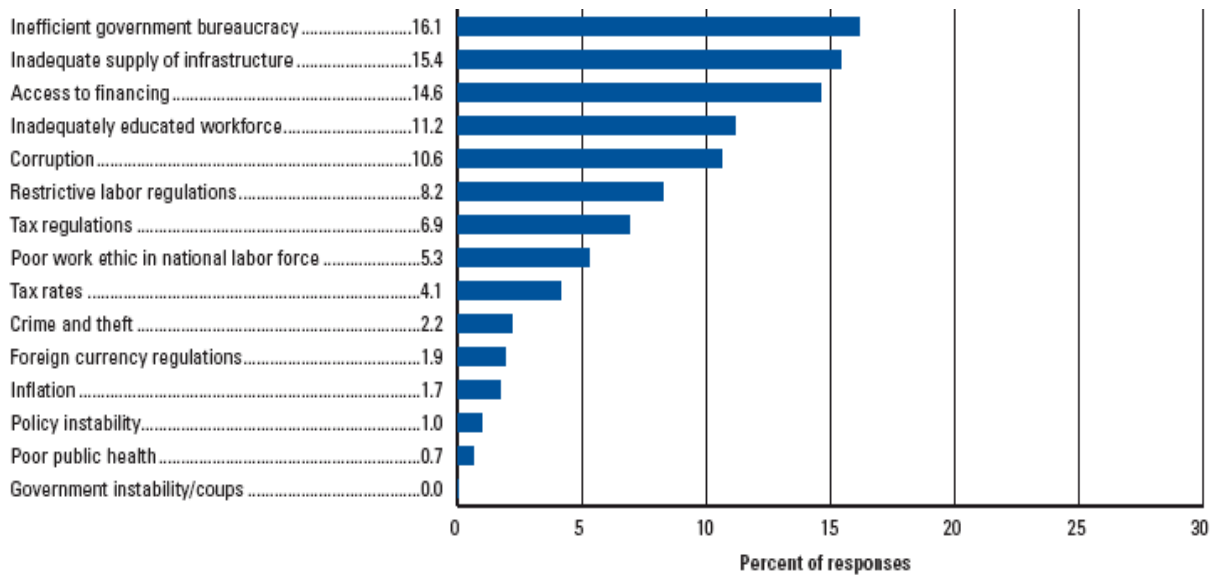
Picture 40 - The most problematic factors for SMEs in Croatia ¹³⁰



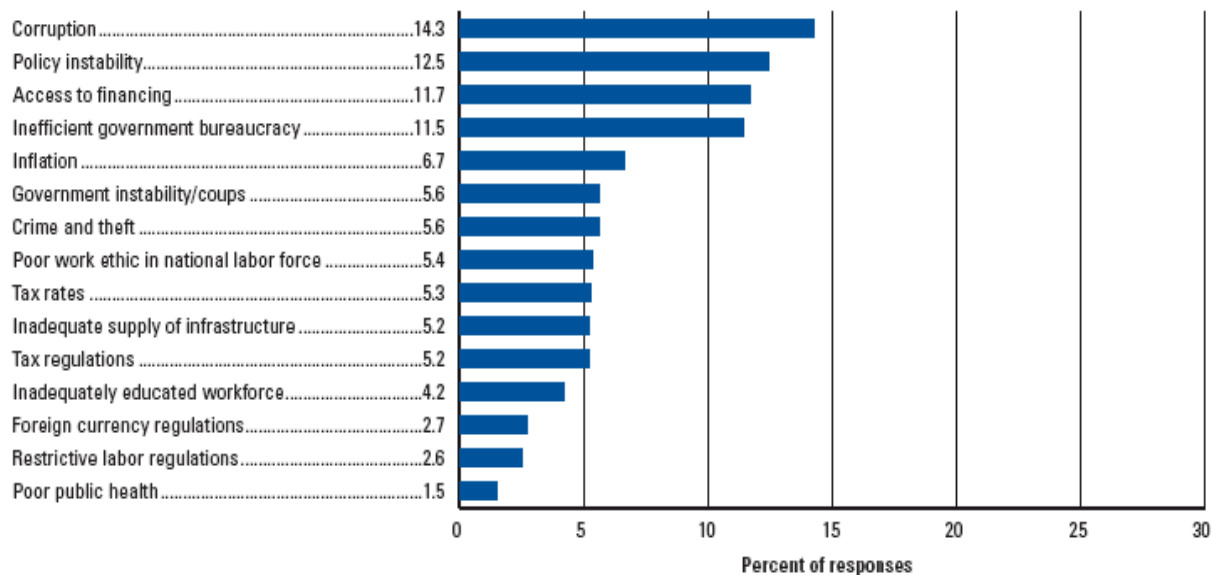
Picture 41 - The most problematic factors for SMEs in FYROM ¹³¹

¹³⁰ Global Competetive Report 2009-2010 Klaus Scwab Ph.D. World Economic Forum Geneve 2009

¹³¹ Global Competetive Report 2009-2010 Klaus Scwab Ph.D. World Economic Forum Geneve 2009



Picture 42 - The most problematic factors for SMEs in Montenegro¹³²



Picture 43 - The most problematic factors for SMEs in Serbia¹³³

¹³² Global Competitive Report 2009-2010 Klaus Scwab Ph.D. World Economic Forum Geneve 2009

¹³³ Global Competitive Report 2009-2010 Klaus Scwab Ph.D. World Economic Forum Geneve 2009



Appendix 2.¹³⁴

In this appendix 2, are presented 6 different credit lines, in which National bank of Serbia emerges as a administrator. European loans that are disposal to Serbian SME are 45 million EUR. Fund for development provide 90 billion of subsidized loans for investment liquidity.

Fond for development

Investment subsidized loan

Amount: for micro enterprises up to 30000€ (for mainly exporters up to 60000€) small enterprise up to 200000€ (for mainly export oriented small enterprises up to 400000€) for medium enterprise up to 1500000€ (for mainly export oriented medium enterprises up to 3000000€)

Repayment period: from 3 to 5 years, with grace period from 6 to 12 months

Investment liquidity loan

Amount: for micro enterprises up to 20000€, for small enterprise up to 50000€ (for mainly export oriented small enterprises up to 100000€) for medium enterprise up to 500000€ (for mainly export oriented medium enterprises up to 2000000€)

Repayment period: 12 months

Loans with currency clause: market interest rate of commercial banks are subsidizing with 4%

Investment loans for fixed assets and long-term working capital

Amount: from 20000€ to 200000€

Interest rate: 4,5 percent

Repayment period: 6 six years with grace period of 1 year

¹³⁴ all content of appendix 2 is made according to Fund for development data



European agency for reconstruction

Funds intended for small and medium businesses, commercial enterprises for procurement of fixed assets.

Amount: from 20000€ to 200000€

Interest rate: Euribor for three months + 3,25%

Repayment period: 5 six years with grace period of 1 year

Kingdom of Denmark – Fund for Niš region

Financing of procurement in fixed and current assets

Amount: short-term from 3000€ to 30000€

Amount: long-term from 10000€ to 50000€

Interest rate: NBS referent rate increased by 4%

Repayment period: for short-term loans from 6 to 12 months; for long-term loans from 1 to 5 years with grace period of 1 year

Government of Republic of Italy

At least 70% of loan can be use for procurement of technology, industrial license from Italy, equipment and spare parts. Rest of individual credit can be use to cover the cost of goods, current assets and goods necessary for realization of the work

Amount: from 30000€ to 1000000€

Interest rate: fixed-rate of 4,5%

Repayment period: up to 8 years with grace period of 2 year



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8. BIOGRAPHY

Nikola Vranić was born on January 30th, 1985 in Sombor, Republic of Serbia. After finishing the Grammar School, Natural Sciences Dept. - he entered and graduated at the Faculty of Economics, University of Novi Sad on Marketing Management Department with Diploma thesis “Differences and similarities between tariff and non-tariff barriers”. During studies, he took part as Research student during Summer Semester 2010, at Economic Institute of Charles University, Prague.

In addition to his studies in Economics, he was interested in public speaking and debating. He is the winner of the regional 2009 NATO Debating Competition, Kosovo. As a student, he was one of the founders of Non-Governmental Organization ODA dedicated to improvement of quality of life, career objectives and employment prospects. He is MENSA member and SPARK scholar.

He has a wide ranging experience, from internships in the industry through the work on social programs, and international organizations: Serbian Red Cross, International Agricultural Fair, AISEC.