

Chapter 4. Operational environment for SMEs (Dimension 4) in the Western Balkans and Turkey

This chapter assesses the availability, quality and responsiveness of the public services available for small and medium-sized enterprises (SMEs) in the Western Balkans and Turkey. It starts by outlining the assessment framework, then presents the analysis of Dimension 4's four sub-dimensions: 1) digital government services for enterprises, which measures the extent to which SMEs can interact with public institutions through the use of digital technologies; 2) company registration, which focuses on the procedures necessary to register a company; 3) business licensing, which considers the complexities of the process of obtaining a licence; and 4) tax compliance procedures for SMEs, which examines whether tax systems are adapted to SMEs' unique needs. Each sub-dimension section makes specific recommendations for increasing the capacity and efficiency of the operational environment for SMEs in the Western Balkans and Turkey.

Key findings

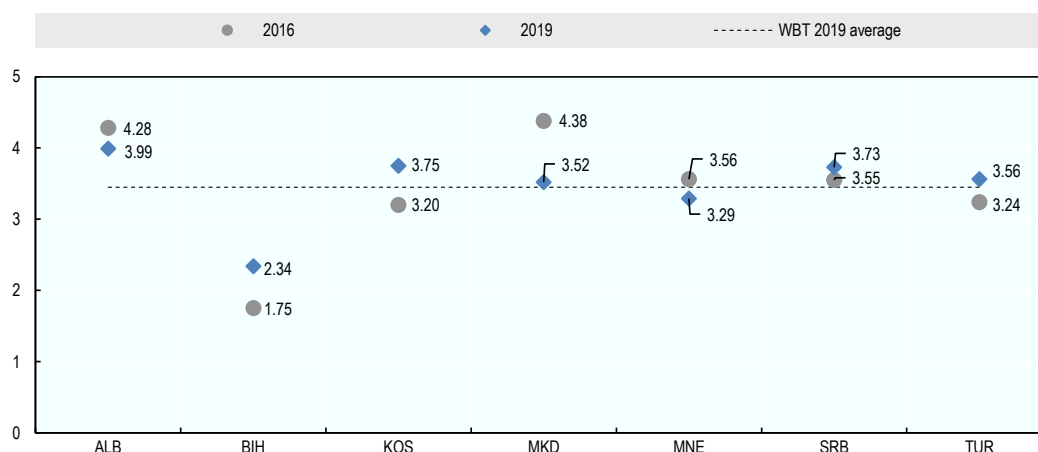
- **All governments in the Western Balkans and Turkey (WBT) have established electronic portals allowing businesses to complete various services on line.** These services include filing social security returns, pensions services, services related to the cadastre (property titles) and reporting enterprise statistics. Nevertheless, the range of services available on line varies across the economies and not all processes can be fully completed on line.
- **One-stop shops have been established in all seven assessed economies,** allowing businesses and administrations to save time and cost during the registration process.
- **The assessed economies have made a start in improving data exchanges among state institutions.** However, their systems connect only a handful of institutions. As a result, various public institutions need to repeatedly ask enterprises for the same information, increasing the administrative burden on SMEs.
- **Progress has stagnated in reducing the barriers to starting a business.** Overall, no significant reductions were recorded during the assessment period to the time and cost of starting a business.
- **All WBT economies apply clear procedures when granting a licence.** Yet most lack a centralised approach, with SMEs having to navigate a fragmented system involving different authorities in order to complete the necessary procedures.
- **All WBT economies have tax simplifications targeting SMEs.** Most notably, they have all established a threshold below which SMEs are not obliged to register for and remit value-added tax.

Comparison with the 2016 assessment scores

Progress in the operational environment for SMEs dimension varies across the WBT region (Figure 4.1). The region achieved an average score of 3.44 in 2019, comparable to its performance of 3.45 in 2016 (OECD, 2016). Albania has become the best performer of the seven assessed economies followed by Kosovo* and Serbia.

Overall, the WBT economies perform best in company registration, followed by business licensing. In contrast, the scores achieved in digital government services for enterprises show that there is still room for improvement particularly on the monitoring and evaluation of their policy frameworks.

* This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

Figure 4.1. Overall scores for Dimension 4 (2016 and 2019)

Note: Scores for 2019 are not directly comparable to the 2016 scores due to a methodological change increasing the focus of implementation. Therefore, changes in the scores may reflect the change in methodology more than actual changes to policy. The reader should focus on the narrative parts of the report to compare performance over time. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index 2016 recommendations

The 2016 assessment (OECD/ETF/EU/EBRD/SEECEL, 2016) made recommendations for providing better advice and guidance to governments, as well as tools that would make the public administration more responsive to SME needs. The advances made by some economies are reflected in the degree to which they have implemented these recommendations.

The region's progress on the 2016 recommendations is summarised in Table 4.1.

Table 4.1. Implementation of the SME Policy Index 2016 recommendations for Dimension 4

Overall 2016 recommendations	SME Policy Index 2019	
	Main developments during the assessment period	Regional progress status
Continue to streamline the company registration process	<ul style="list-style-type: none"> - In Bosnia and Herzegovina, the Republika Srpska (RS) has established a one-stop shop where businesses can complete all the necessary registration procedures. The Federation of Bosnia and Herzegovina (FBiH) has started to establish a one-stop shop, which is expected to be fully up and running by the end of 2019.¹ - Albania and Kosovo have now launched an online company registration portal. - Reductions in the overall time, number of procedures as well as costs have stagnated since 2016. - Turkey has removed the paid-in minimum capital required to start a business. - Kosovo has reduced the company registration time by almost half in the last two years by simplifying the process of registering employees. 	Advanced
Expand e-government beyond basic services	<ul style="list-style-type: none"> - All economies have expanded the number of e-government services offered. - In Kosovo the government has updated the electronic signature framework to align it with the EU 910/2014 Electronic Identification, Authentication and Trust Services Regulation² (eIDAS) on electronic signature. - In Bosnia and Herzegovina e-signatures have been used in the RS since 2017 for the electronic filing of tax returns. 	Moderate

<p>Deepen efforts to review and streamline licence procedures and system</p>	<ul style="list-style-type: none"> - The Republic of North Macedonia, Turkey and Serbia have started pilot projects to centralise the licensing procedures; however, these projects are still being implemented. - In Bosnia and Herzegovina, the RS established the Registry of Authorizations/Approval in 2018, which is the single contact point for licensing procedures. - In Albania, the government has simplified licensing procedures following the Council of Ministers' decision adopted in mid-2017. 	<p>Limited</p>
<p>Introduce or extend online reporting of enterprise statistics</p>	<ul style="list-style-type: none"> - All economies have established an interoperability system among different public institutions; however, there has been no progress on the scope of data exchange, which remains limited to only a handful of institutions. 	<p>Limited</p>
<p>Promote e-government services to SMEs</p>	<ul style="list-style-type: none"> - All governments systematically promote e-services to all business when new services are available. 	<p>Advanced</p>

Introduction

SMEs interact with public institutions at the local, regional or national levels at all stages of their life cycle – from registering a company and obtaining a business licence to filing and paying taxes. The ease or difficulty of these interactions determines the operational environment which SMEs have to navigate. Public institutions that impose lengthy or costly procedures and complex or opaque requirements on businesses have adverse impacts on SMEs’ abilities to operate, to take advantage of market opportunities efficiently and to grow.

Where SMEs and aspiring entrepreneurs encounter an overly burdensome operational environment, they may become discouraged and choose to abandon their business endeavours, find a more favourable economy to do business in, or decide to operate in the informal economy. It is vital for governments to understand the specific challenges that SMEs might encounter when interacting with public institutions, in order to develop appropriate solutions to ensure a smoother and healthier business experience. Due to their size and limited human and financial resources, SMEs are in a far more tenuous position than larger companies, which have greater resources and access to public institutions and political decision makers (Centre for European Economic Research, 2017; EC, 2007).

Economies that adopt policies which establish a favourable operational environment for SMEs help reduce their time and cost burdens. The results of these policies are tangible when executing routine procedures or when searching for information for their businesses. Such policies can also boost efficiency and help save public money, by decreasing the time government employees spend on handling non-automated repetitive tasks as well as general business queries.

In recent years, governments in general have increasingly tapped into the opportunities offered by information and communication technologies (ICT) to improve the operational environment for SMEs. ICT enables government institutions to digitalise their public services to SMEs using e-government portals. Establishing these portals while also simplifying procedures for routine services for SMEs create considerable benefits for both SMEs and public institutions alike. Online one-stop shops and open government data-publishing initiatives are examples of productive digital government policies for SMEs. In addition to providing efficiency gains for both SMEs and public authorities, such ICT solutions also promote transparency, accountability and inclusiveness, and discourage corruption.

Assessment framework

Structure

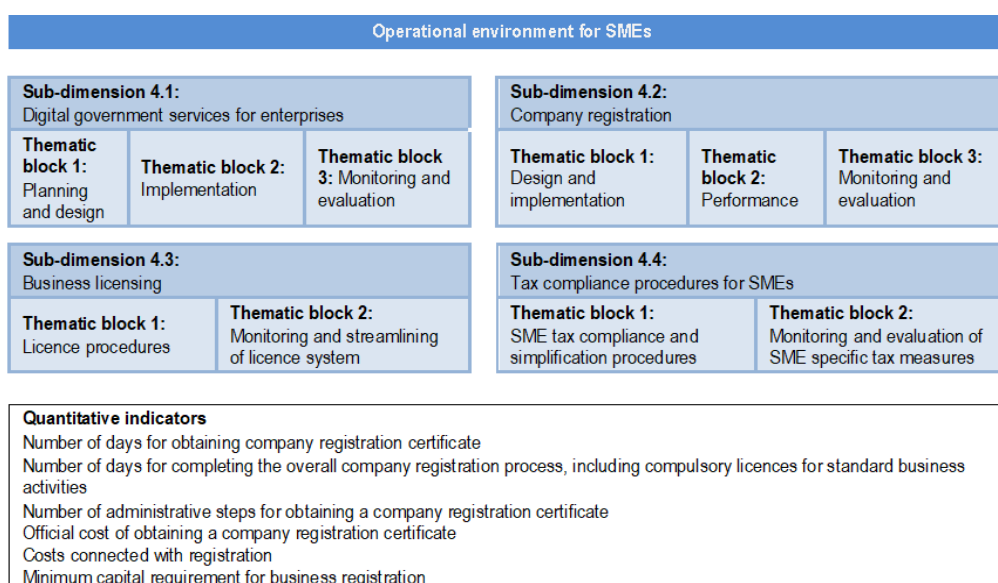
While Dimension 3 (institutional and regulatory framework for SME policy making) looks at the importance of a policy framework that considers the needs and best interests of SMEs, Dimension 4 focuses on the operational environment in which SMEs operate. This dimension is designed around four sub-dimensions:

- **Sub-dimension 4.1: Digital government services for enterprises** captures the extent to which interactions between entrepreneurs and public institutions are carried out through electronic or digital means, e.g. electronic filing for taxes, electronic reporting of enterprise statistics or adopting the “once-only” principle for information provided by enterprises.

- **Sub-dimension 4.2: Company registration** focuses on the procedures necessary to register a company, while **Sub-dimension 4.3: Business licensing** evaluates the process of obtaining a licence or permit. Both sub-dimensions analyse the complexity and length of the procedures involved, and assess whether systems have been simplified through various policy tools and instruments, such as one-stop shops, information portals, digital platforms, written guides or centralised co-ordination bodies.
- **Sub-dimension 4.4: Tax compliance procedures for SMEs** assesses whether governments have introduced policies to make it easy for SMEs to comply with taxes, and gauges whether tax systems are adapted to SMEs' vulnerabilities and capacities.

Each sub-dimension evaluates the design, implementation, and monitoring and evaluation of the legislative framework, as well as the procedures rolled out by governments to further enhance existing systems. Figure 4.2 shows how the sub-dimensions and their constituent indicators make up the assessment framework for this dimension.

Figure 4.2. Assessment framework for Dimension 4: Operational environment for SMEs



Note: Quantitative indicators are a proxy for the implementation of policies and form part of the assessment framework, affecting the overall score.

The assessment was carried out by collecting qualitative data with the help of questionnaires filled out by governments, as well as face-to-face interviews with SME owners and managers.³ During the interviews, entrepreneurs were asked to describe their experience and satisfaction with public services, particularly focusing on the availability of relevant information and its usefulness. The insights gathered from these interviews have shed light on the degree of effectiveness of public services, as well as the challenges experienced by SMEs in this area. For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

Key methodological changes to the assessment framework

Since the publication of the *SME Policy Index 2016* (OECD/ETF/EU/EBRD/SEECEL, 2016), some changes have been introduced to the assessment framework. Sub-dimension 4.1 (digital government services for enterprises) has been revised according to the *OECD Recommendation of the Council on Digital Government Strategies* (OECD, 2014), and certain services (e-pensions, e-procurement, e-cadastre) have been added to the assessment scope. New questions focusing on monitoring and evaluation mechanisms have been included in Sub-dimension 4.2 (company registration). Finally, a new sub-dimension (4.4 – tax compliance procedures for SMEs) has been added, which focuses on the availability of SME-specific tax compliance schemes. This was added at the request of the assessed economies, to better reflect the complexity of the overall operational environment for SMEs; however, as it is a pilot analysis, this sub-dimension has not been included in the scoring. For a summary of the changes introduced in the current assessment, see Table 4.2.

Table 4.2. Key changes in the composition of Dimension 4

Sub-dimension	Key changes since 2016 assessment
Sub-dimension 4.1: Digital government services for enterprises	Expansion and revision of the assessment framework based on the <i>OECD Recommendation on Digital Government Strategies</i> .
Sub-dimension 4.2: Company registration	Introduction of an assessment of monitoring and evaluation mechanisms for company registration procedures.
Sub-dimension 4.4: Tax compliance procedures for SMEs	New sub-dimension added to the assessment.

Other sources of information

Data from the World Bank’s 2019 *Doing Business* report were used to measure and compare performance, including the complexity and cost of procedures involved in starting a business in the seven assessed economies (World Bank, 2018). The World Bank indicators related to the costs of registering a business, the number of days to obtain a company registration certificate and minimum capital requirements were used to compare the company registration processes across economies and also over time.

The analysis was also complemented by data collected by the Regional Cooperation Council: the statistical information included in the *Balkan Barometer 2017* (GfK, 2017) substantiated the understanding of the situation in the region and perceptions of the environment for SMEs in the assessed economies.

Analysis

Digital government services for enterprises (Sub-dimension 4.1)

Providing digital services can significantly reduce transaction costs for SMEs, liberating human and financial resources to enhance competitiveness. Efficient digital services allow for a greater use of communication and feedback channels, and create a more participatory approach to service provision. Their use can help to develop better-tailored public services which correspond to both users’ and entrepreneurs’ needs. To ensure that they reduce the administrative burden on businesses and to make the administration more effective, governments need to base e-government services on the “once-only” principle: authorities should not ask businesses for information that is already in the possession of another public authority. Digital services also reduce the scope for informal activities, by

automating processes and providing open information, thus increasing transparency and accountability (EC, 2017) (OECD, 2014).

This section assesses the extent to which SMEs can interact with public institutions through the use of digital technologies. It does so based on three thematic blocks (Table 4.3): the first – planning and design – analyses whether or not governments have adopted a digital strategy or an action plan to enhance their digital government services. The second – implementation – explores the extent to which digital government services, open government measures and data exchange platforms have been introduced. The third – monitoring and evaluation – reviews whether monitoring and evaluation of e-government services are established within the WBT.

Overall, the WBT economies have performed much better in the planning and design than in monitoring and evaluation, achieving a solid legal framework and concrete indications of effective policy implementation. Turkey receives the highest score followed by Albania and Serbia.

Table 4.3. Scores for Sub-dimension 4.1: Digital government services for enterprises

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	4.39	2.25	4.20	4.39	4.29	4.25	4.72	4.07
Implementation	3.40	1.97	3.57	3.63	3.80	3.69	4.20	3.47
Monitoring and evaluation	3.67	1.00	2.47	1.00	1.40	2.33	2.47	2.05
Weighted average	3.76	1.81	3.48	3.20	3.35	3.52	3.92	3.29

Note: For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

Most WBT economies have made progress in planning and designing digital government tools

Since the 2016 assessment, all economies have adopted a digital strategy or an action plan in order to enhance their digital government services. These changes are in line with the objectives for developing a digital agenda laid out in the chapter on digital society in the Regional Strategy for Southeastern Europe 2020 (Regional Cooperation Council, 2013). Overall, it appears that the seven assessed economies have chosen between two different approaches for design and planning: either a cross-cutting horizontal digital strategy (e.g. Albania); or a thematic strategy, where each separate ministry introduces an e-services platform as one of the aims of their action plans (e.g. Bosnia and Herzegovina). In both cases, evidence shows that WBT governments are continuing to work towards digitalising and reforming their processes to ensure public institutions are more inclusive, effective, accountable and transparent.

Since the 2016 assessment most WBT economies have made progress in planning and designing digital government tools, with the exception of Bosnia and Herzegovina where progress has stagnated. The most significant improvement has been in Turkey, thanks to the introduction of the National e-Government Strategy and Action Plan 2016-2019 (Republic of Turkey, 2016). The Information Society Strategy and Action Plan 2015-2018 (Republic of Turkey, 2015), which falls under this strategy, includes the

development of a cloud programme for SMEs as one of its objectives. In Kosovo, the positive trend is mainly due to the implementation of the Strategy for Electronic Governance 2009-2015 (Republic of Kosovo, 2009) and the Public Administration Reform Strategy 2015-2020 (Republic of Kosovo, 2015), which cover some parts of e-government; however, Kosovo's approach is mostly focused on the administration in general rather than SMEs in particular.

The implementation of e-signature is extending digital government services for SMEs

In terms of implementing government e-services, the assessment shows that all economies have significantly improved their range of digital government services for filing tax returns, social security returns and pensions; for reporting statistics; and for cadastre services. With the exception of Bosnia and Herzegovina, most of these services have been digitalised in the assessed economies. However, users cannot always fully complete the required steps on line, having to finish parts of the procedures off line (e.g. buying a stamp or obtaining an official's original signature).

Fully implemented e-signatures or digital authentication frameworks are crucial in communication with government, allowing SMEs to complete all e-services on line, saving them time and money. All WBT economies have adopted an e-signature framework, and these are currently being updated to align them with the EU 910/2014 eIDAS Regulation on electronic signature. However, the extent of their implementation varies (OECD, 2018). In Montenegro, Serbia and Turkey, e-signatures or digital authentications are only available for a limited number of services, while in Albania and North Macedonia they are available for all services. In Kosovo, the government is still working on the implementation of digital authentication services. In Bosnia and Herzegovina, e-signatures are not yet generally available to SMEs, although since 2017 e-signatures have been used for filing tax returns on line in the Republika Srpska.

Open government data initiatives are emerging

Open government initiatives benefit a multiplicity of stakeholders in both the public and private sectors. Open government data (OGD) increases transparency, provides support in tackling corruption, and enhances the quality of public services for SMEs (Open Government Partnership, 2018). SMEs can also add substantial economic value to government data. By capitalising on and reusing public data, SMEs can design new products and services as well as drive innovation within their business models. Nevertheless, limited human and resource capacity can undermine SMEs' access to data or sophisticated analytical tools to process and analyse large proprietary datasets. As a result, SMEs are likely to benefit most from open data initiatives that require fewer resources to use.

Of all the assessed economies, Turkey and Serbia have made the most concrete steps towards OGD during the assessment period. In Turkey, OGD has been included for the first time in a national strategy: the 2016-19 National E-Government Strategy and Action Plan. The strategy mentions developing actions to promote the reuse of OGD for economic value creation.

In October 2017, Serbia launched the National Open Data portal as a part of the Open Data – Open Opportunities project, co-ordinated by the United Nations Development Programme Serbia (Box 4.1). Since its launch, 22 public institutions have made

85 datasets publicly available through the portal, comprising 245 individual files. However, there is no evidence of how many SMEs have used this information.

Box 4.1. Serbia's Open Data – Open Opportunities project (2017-19)

The Open Data – Open Opportunities project aims to support the development of an open data ecosystem in Serbia that will catalyse better government services to citizens and generate economic growth. The project, initiated in 2017, is implemented by the United Nations Development Programme (UNDP) in partnership with the Office for Information Technologies and E-Government, with financial support from the World Bank and the United Kingdom's Good Governance Fund.

The project follows the recommendations set out in the Open Data Readiness Assessment conducted by UNDP and the World Bank, and is in line with the Serbian Strategy for e-Governance Development 2015-18 and its action plan.

The goal is to establish the National Open Data Portal (www.data.gov.rs), a central place where data from state authorities will be aggregated and made available to citizens, companies and NGOs. Its expected benefits are:

- **To increase accountability and transparency in government administration** by creating an adequate legal framework, and by enabling services such as anti-corruption apps and websites to use open data to make officials' work and decisions more visible, leading to greater accountability.
- **To improve the business climate by spurring entrepreneurship and encouraging private-sector development:** as more small companies emerge, more useful information can be extracted from the business ecosystem, creating new and knowledge-intensive business services.

As part of the project, the Office of Information Technology and E-Government organised the first ever Open Data Week in March 2018 in various cities across the country, including Belgrade, Novi Sad, Indija, Šabac, Vršac, Valjevo and Subotica. The workshops gathered representatives from start-ups, SMEs, researchers and other relevant stakeholders. They informed participants about the information available through the National Open Data Portal and taught them how to use it.

Future key activities envisaged under this project include developing the knowledge and skills of government employees in data processing; stimulating co-operation among the public, private and civil sector; and supporting the use of open data and data literacy

Note: The Open Data Readiness Assessment for Serbia can be found at [www.rs.undp.org/content/dam/serbia/Publications and reports/English/UNDP_SRB_ODRA_ENG_web.pdf](http://www.rs.undp.org/content/dam/serbia/Publications%20and%20reports/English/UNDP_SRB_ODRA_ENG_web.pdf).

Source: UNDP (Open Data - Open Opportunities, 2018), *Open Data – Open Opportunities*, www.rs.undp.org/content/serbia/en/home/projects/opendata.html.

Not much progress on expanding open government data has been observed in the remaining economies of the Western Balkans. Albania, Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia participate in the Open Government Partnership, which is a multilateral initiative ensuring concrete OGD commitments from governments. However, the economies are still in the early stages of implementing the required legal frameworks, and do not collect any data on the use of OGD by SMEs.

Although Kosovo does not participate in the Open Government Partnership, it has committed itself to improving open data by adopting the Open Data Charter in 2016.

Platforms exist for data exchange among public institutions, but are incomplete

Interoperability systems that allow data sharing among government agencies help the public administration deliver services in a more efficient, transparent and less costly manner. A co-ordinated e-government system supports a more SME-friendly environment by allowing companies to share information with several institutions at the same time, thus reducing the administrative burden of repetitive work (see Box 2.2).

The importance of interoperability is also underlined in the European Interoperability Framework (EIF) network, which was adopted by the European Commission in 2017. The EIF makes 47 concrete recommendations for how public administrations can improve their interoperability activities, establish cross-organisational relationships, streamline processes supporting end-to-end digital services, and ensure that both existing and new legislation do not compromise interoperability efforts (EC, 2017). Currently, North Macedonia, Serbia and Turkey belong to the EU EIF, which helps economies establish the proper legal framework for fully operational interoperability networks.

All the WBT economies have platforms which allow data exchange among public institutions. However, none of them cover all public institutions: in each economy fewer than half of the public institutions share information with other institutions. The information is usually shared only among a few institutions and tax authorities. For instance, in Montenegro, an electronic data exchange information system that started off with the Government Service Bus initiative is yet to integrate the Central Register of Population, Central Register of Business Entities, Register of Children in Educational Institutions, pension and disability fund registers, Tax Administration registers and Employment Agency records. This integration process is expected to be finished by the end of 2018.

Monitoring of digital government services remains weak or non-existent

Ineffective monitoring presents risks and challenges to the use and implementation of digital services which can lead to inefficient spending, duplicated effort and lack of interoperability.

Monitoring and evaluating e-government services is not yet well established within the WBT, and progress made since the 2016 assessment has not been substantial. Surveys such as the 2017 Balkan Barometer, intending to capture business satisfaction with available services, demonstrate that only two-fifths of respondents are satisfied with the digital services provided by public institutions (GfK, 2017).

Currently, Albania, Serbia and Turkey are the only WBT economies collecting information about the use of digital services by SMEs, however, the information they collect is limited. Only Albania evaluates SMEs' satisfaction with digital services. In Albania, responsibility for monitoring the use of digital services by SMEs lies with the Albanian National Agency on Information Society. Its task is to collect feedback from businesses and citizens benefiting from online government platforms. SMEs can write, file complaints and suggest changes to e-government portals. Thanks to the information collected over the years, the Albanian Government's e-services have evolved so as to better respond to SME needs and expectations.

Serbia provides central assistance for digital government but there is no central authority to review or monitor information technology projects, creating a high risk of overlapping or duplicated digital investments (OECD, 2018). Turkey collects data on satisfaction with public services in the scope of the Satisfaction in Life Survey⁴ (Turkstat, 2017). However, there is no evidence that the administration makes adjustments based on the survey results or that there are any follow-up measures. By contrast, Bosnia and Herzegovina, Montenegro and North Macedonia have not developed any tools to monitor or evaluate the digital services available to SMEs.

The way forward for digital government services for enterprises

The Western Balkan economies and Turkey have a well-established institutional framework for digital government services. In order to further widen and strengthen their digital services to SMEs, the governments should take the following steps:

- **Allow SMEs to complete all processes on line.** The assessed WBT economies should continue to expand the e-government services for SMEs by including options for tax filing, payroll, procurement, pensions, cadastre, customs, incentives applications and other administrative procedures. Despite the progress achieved since the 2016 assessment, governments need to fully digitalise these services by expanding the use of electronic signatures or digital authentication. This is essential for a fully web-based operational system and will reduce the number of required procedures, save time and lower costs. Digital authentication also helps SMEs to grow by allowing them to access foreign markets easily through e-commerce (for more information, see Chapter 7 on access to finance for SMEs).
- **Improve and promote the use of open government data.** The assessed economies need to expand their online reporting of enterprise statistics and continue their efforts in implementing open government data. Following these steps would help the economies enforce the recommendation made in the previous assessment to introduce or extend the online reporting of enterprise statistics. Open government data not only increases transparency and helps reduce corruption – it also carves out new channels for citizen involvement, as is the case with the Spanish APORTA Initiative (Box 4.2). SMEs’ use of OGD remains at low levels, mostly due to their lack of sophisticated analytical tools to analyse large datasets. To increase SMEs’ use of OGD, the assessed economies should increase the number of published machine-readable datasets relevant to SMEs. This could be achieved by strengthening a data-driven culture in the public sector, such as through the increased digitalisation of services.

Box 4.2. Aporta: Adding value to open government data in Spain

In 2009, the Aporta Initiative was launched by the Spanish Ministry of Industry, Energy and Tourism together with the Ministry of Finance and Public Administration. The aim of the initiative was to create an ecosystem which stimulates the availability and use of OGD among private, academic and public entities, and encourages them to add further value. Aporta manages the portal, <http://datos.gob.es>, launched in 2011, and which allows users to freely access data on the state administration and other regional and local administrations in Spain.

As well as maintaining and updating the portal, Aporta focuses on promoting the use of OGD among private sector companies and citizens for positive economic and social impact. For instance, it provides training materials (guides and good practice examples) that offer additional information about open data and their potential reuse. Through organising competitions (the Aporta Challenge) and payments for private sector companies which suggest innovative ideas for the commercial use of OGD, Aporta creates incentives for them to integrate OGD into their businesses. It also organises countrywide meetings to promote a culture of reusing public information. These promotional activities seek to encourage the use of OGD. In parallel, Aporta also helps public institutions to openly publish information according to existing EU directives (EC, 2018). It helps them to identify strategies and methods for integrating OGD into their operations, and monitors and publishes use figures for the OGD portal. It has established a forum on its website which allows users to request the data they need. Through this interactive forum, Aporta seeks to create a demand-driven OGD environment in which the data provided are valuable in economic and social terms.

According to the OECD's *OURdata Index*, Spain ranked fourth for government support for data reuse in 2017 (OECD, 2017). The most recent report by the Spanish Multisectorial Information Association recorded 662 companies operating in the Spanish infomediary sector in 2017, i.e. companies whose activity is based on the reuse of public and/or private data. They employ more than 19 000 employees and generate annual returns of over EUR 1.7 billion. The infomediary sector has been expanding since 2015 in both revenues and numbers of employees (ASEDIE, 2018).

Aporta's key success factor is its concentration on creating value that is relevant for its users. Throughout its activities, Aporta seeks to connect potential beneficiaries of OGD to enhance communication and ensure the provision of data.

Source: Datos.gob.es (About the APORTA Initiative, 2018), *About the APORTA Initiative*, <http://datos.gob.es/es/acerca-de-la-iniciativa-aporta>.

- **Expand the interoperability system** to improve connections between various public administration databases, to avoid businesses being asked for the same information several times. As Estonia's experience shows (Box 4.3), this will help the public administration save time and money by ensuring that data are only collected once, sparing SMEs from providing information which is already in another public administration's database.
- **Increase the monitoring and evaluation of digital services targeting SMEs.** Governments need to incorporate monitoring and evaluation as an integral part of policy making to inform any mid-implementation corrections and future iterations of digital services. In doing so, governments can increase the take-up of these services by SMEs, helping substantially to lower their administrative burden.

Box 4.3. X-Road: Estonia's system for interoperable government service delivery and data exchange

The introduction of X-Road in Estonia in 2001 transformed its public service delivery. The system links up various public and private sector information systems, making secure data exchanges possible among public and private institutions. X-tee (as X-road based

solution is called in Estonia) became the official data exchange layer for the state information system and the backbone of e-Estonia. Information that is stored in a server can be shared with institutions that request it for their service provision.

X-Road connects relevant bodies including the tax and customs board, population and company registers, several commercial banks and many more. X-Road increases the transparency of the public service delivery, as data exchanged through X-Road are authenticated using Estonia's e-ID system and can be traced to their origin or even used as evidence in courts of law (Cybernetica, 2018). It also offers better opportunities to monitor existing services and reduces the risks associated with data storage because no single server holds all the information. It is, instead, held across several servers.

The Estonian Government passed the Public Information Act in 2000, and the use of X Road was made mandatory in 2003. Today, X Road connects more than 600 institutions and enterprises, and approximately 52 000 organisations are indirect users of the more than 2 700 services that can be used via X-Road. Based on its usage figures, it is estimated that every year, X-Road saves more than 800 years of working time.

Many factors have made X-Road particularly successful. It was developed in the early 1990s in a post-Soviet Union context, so there was almost no legacy framework in place. At that time Estonia was one of the first countries to adopt an e-government strategy. Political will and citizens' desire to break with the Soviet era and establish a new government system created a unique opportunity. However, Estonia quickly realised that legislation had to be adjusted to ensure integrity. Estonia's Public Information Act prohibits the establishment of separate databases for the collection of the same data. In practice, it means that state institutions cannot repetitively ask for the same personal information if it is already stored in any of the data repositories connected to X-Road.

Source: (Vassil, 2015); X-Road (Factsheet, 2018), *Factsheet*, www.ria.ee/x-tec/fact/#eng.

Company registration (Sub-dimension 4.2)

Lengthy, costly or complex company registration procedures increase transaction costs for entrepreneurs and may have an adverse effect on the rate of business creation. Therefore, it is essential to analyse whether and how governments tailor their company registration laws and regulations to SMEs' needs, and provide support through systems such as one-stop shops, written guides or advisory services.

This section analyses and compares company registration procedures across the seven assessed economies, in order to understand how they influence entrepreneurs' endeavours to start a business (Table 4.4). The analysis is based on three thematic blocks. The first – design and implementation – looks at whether economies provide one-stop shops and to what extent registration can be done on line. The second – performance – assesses each economy's performance in the World Bank *Doing Business* index for ease of starting a business. The third – monitoring and evaluation – examines monitoring and evaluation of company registration processes and the adjustment made to simplify the registration process.

Table 4.4. Scores for Sub-dimension 4.2: Company registration

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Design and implementation	5.00	3.90	4.73	4.67	4.40	4.67	4.00	4.48
Performance	3.93	2.28	4.90	3.83	3.87	4.03	3.17	3.72
Monitoring and evaluation	4.31	1.91	5.00	5.00	1.00	4.54	3.40	3.59
Weighted average	4.51	2.78	4.87	4.63	2.93	4.49	3.59	3.97

Note: See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

The scores achieved by the assessed economies demonstrate that the region is performing well in designing and implementing company registration, with concrete indications of effective policy implementation. However, the individual scores underline that there are still significant differences among the economies.

All economies have one-stop shops to simplify the registration process

Complicated registration processes for entrepreneurs who wish to start businesses are associated with greater informality, corruption and a smaller tax base (OECD, 2014; Audretsch, Keilbach, & Lehmann, 2006). Simplifying the registration process encourages companies to enter the formal register. One-stop shops allow entrepreneurs to register at a single location, making the process faster and reducing the number of steps, which helps remove barriers to entrepreneurship and stimulate business registrations (OECD, 2010).

All the assessed economies have one-stop shops, although in Bosnia and Herzegovina the only one-stop shop is in the Republika Srpska. However, only Albania, Kosovo and North Macedonia allow all the registration steps to be completed on line.

In Albania, the National Business Centre is responsible for company registration and uses the one-stop shop concept. It assigns a unique entity number to each newly created entity; companies then use their assigned number in their interactions with the public administration and the private sector. The system in Albania also allows for online company registration and the National Business Centre provides information on the relevant processes in English and Albanian. Albania's competences and administrative processes make it a good practice example in the region of how to co-ordinate the different services related to SMEs' operational environment.

In Kosovo, entrepreneurs who wish to register a company can complete all the necessary registration steps on line or through one of Kosovo Business Registration Agency's 28 municipal one-stop shops. Companies are also assigned a single number for all standard transactions with the public administration.

In North Macedonia, the Central Register of the Republic of Macedonia is the single institution where companies are registered; online registration is also available if entrepreneurs have a digital certificate.⁵ Companies can also be registered on line in Montenegro through the eUprava portal (Box 4.4), but not the whole process; while requests can be submitted via the online platform, payment has to be in person.

In Bosnia and Herzegovina, each entity is responsible for its own registration process. In the Republika Srpska, the entire procedure is conducted by the Agency for Intermediary, IT and Financial Services, which acts as a one-stop shop and provides one portal for all the necessary registration and notification procedures. The Federation of Bosnia and Herzegovina is planning a one-stop shop, expected to be fully operational by the end of 2019, to cover all 54 municipalities and offer each process through one portal.

Entrepreneurs in Serbia can register their companies through the Serbian Business Registration Agency, which operates as a one-stop shop. However, entrepreneurs cannot complete all the processes on line. In 2016, Serbia reformed its business registration process and made it easier by reducing the signature certification fee and making the registry more efficient (World Bank, 2017). In Turkey, online company registration is available through the Central Commercial Registration System (MERSIS), which acts as a one-stop shop. However, the process is not fully digital, as entrepreneurs are still required to follow up in person at the notary, bank, trade registry office and tax office in order to finalise registration. In February 2018 however, the Turkish Government approved a new reform package to fully digitalise and reduce the number of steps and procedures for licensing and company registration.

The process of simplifying company registration is stagnating in the economies

The World Bank *Doing Business* index measures business regulations and their effect on businesses, especially SMEs. It assesses the complexity of regulations for starting a business by analysing four indicators: the number of procedures required, the time and cost involved in receiving a registration number, and the minimum capital needed.

The general trend over the last ten years in the WBT economies has been a decrease in the number of procedures, time and cost required to start a business (Figure 4.3), showing that economies have made great efforts to adjust their registration process following effective monitoring and evaluation.

As one common point, all the economies have removed the minimum paid-in capital requirement to start a business, with the exception of Bosnia and Herzegovina. However, in 2018 the government managed to reduce the paid-in minimum capital requirement to 11.1% of income per capita from 13.4% in 2016.

Albania, Kosovo, and Serbia are the frontrunners in the region and perform better than the OECD average when it comes to the number of procedures and time required to start a business. Between 2016 and 2018, the number of procedures required to start a business increased in Bosnia and Herzegovina by 1 to a total of 13; and in Montenegro by 2, reaching a total of 8 procedures (Figure 4.3).

Figure 4.3. Number of procedures required to start a business (2008-18)

Note: EU-13 Member States – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.

** Footnote by Turkey: The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the “Cyprus” issue.

Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: World Bank (Doing Business 2019: Training for Reform, 2018), Doing Business 2019: Training for Reform, <https://openknowledge.worldbank.org/handle/10986/30438>.

StatLink  <http://dx.doi.org/10.1787/888933937470>

For the number of days needed to start a business, most of the WBT economies fluctuate around the OECD average of 9 days (Table 4.5). Since the 2016 assessment, Kosovo has reduced the number of days needed to register a business from 10 to 5.5 by simplifying the employee registration procedure. Serbia has also managed to bring down the time by 1 day. In North Macedonia, the time to register a company has doubled since 2017 from 7 to 14 days. Bosnia and Herzegovina remains the regional outlier, with 81 days required to register a company.

Table 4.5. Number of days to start a business (2008-18)

Year	ALB	BIH	KOS	MKD	MNE	SRB	TUR	OECD average	EU-13 average
2008	kk	99	n/a	15	21	23	7	17	23
2009	6	99	52	10	12	13	7	16	19
2010	6	94	58	9	10	13	7	15	18
2011	6	70	58	9	10	13	7	13	20
2012	5	67	51	8	10	12	7	13	20
2013	5	67	29	8	10	12	7	12	19
2014	5	67	10	8	10	11.5	7.5	11	17
2015	5	67	10	7	10	11.5	7.5	10	16
2016	5	65	6	7	10	6.5	6.5	9	16
2017	5	65	5.5	7	10	5.5	6.5	9	15
2018	5	81	5.5	14	12	5.5	7	9	17

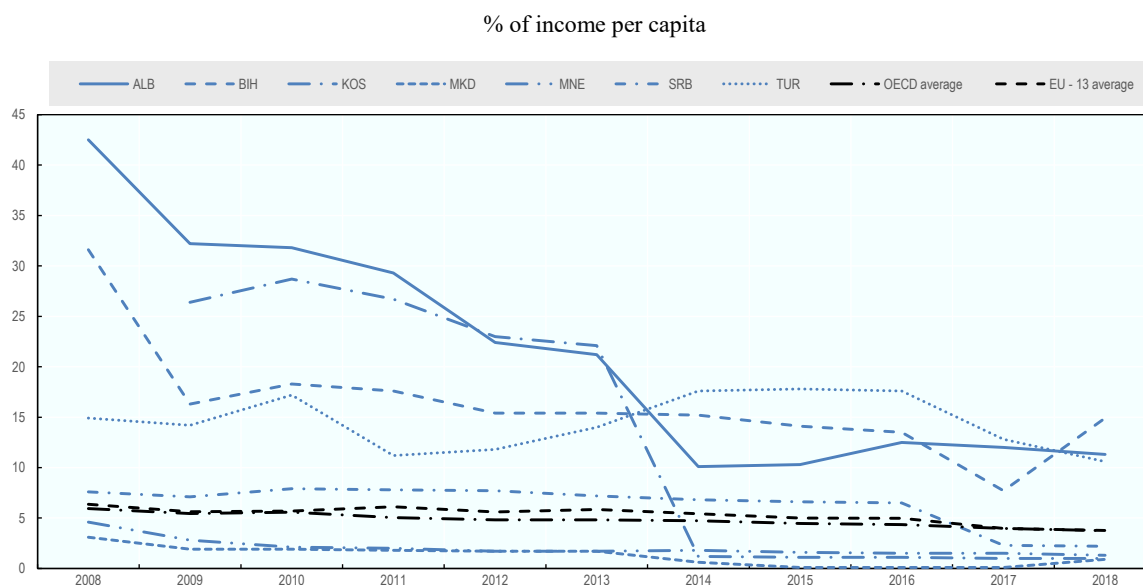
Note: EU-13 Member States – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.

** Footnote by Turkey: The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the “Cyprus” issue. Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: World Bank (Doing Business 2019: Training for Reform, 2018), *Doing Business 2019: Training for Reform*, <https://openknowledge.worldbank.org/handle/10986/30438>.

The cost of starting a business has mostly been on a downward trend since the previous assessment, the exceptions being Bosnia and Herzegovina and North Macedonia. Since 2016, Serbia and Turkey have achieved the most significant decrease in the cost of starting a business (Figure 4.4). In Serbia, costs have decreased from 6.5% to 2.2% of income per capita; one reason for this decrease is the reduction of the signature certification fee (World Bank, 2018). In Turkey, despite a decrease from 17.6% to 10.6% of income per capita, the cost of starting a business remains far above the EU-13 average (3.8%).

Figure 4.4. Cost of starting a business (2008-18)



Note: EU-13 – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.

** Footnote by Turkey: The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the “Cyprus” issue. Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: World Bank (Doing Business 2019: Training for Reform, 2018), *Doing Business 2019: Training for Reform*, <https://openknowledge.worldbank.org/handle/10986/30438>.

StatLink  <http://dx.doi.org/10.1787/888933937489>

The way forward for company registration

In order to facilitate the company registration process, governments should continue to reduce the time, cost and number of procedures required to help the assessed WBT economies reach their full entrepreneurial potential. The registration process could also be improved as follows:

- **Adopt the rule of one identification number for each company** to use in dealing with all standard public administration functions.
- **Fully implement the “silence-is-consent” principle** within the administration: if the appropriate public authority does not reply to a registration request by a business within a timeframe defined by law, consent is automatically given to the business to proceed.

Business licensing (Sub-dimension 4.3)

Licensing businesses is important for consumers, as it regulates companies’ entry into the market and can track their conduct within it. However, in order to operate and function legally, SMEs need a timely and simple process for obtaining the necessary licences.

These procedures can be lengthy and complicated, delaying companies' market entry and adding to the administrative burden of starting a business. Evaluating these processes is critical to understanding the degree to which they may pose a burden on entrepreneurs and the economy in general. Simple procedures and clear guidance on complying with regulations help SMEs accelerate the licence process and reduce transaction costs, allowing them to become operational promptly.

This section analyses the various business licensing systems based on two thematic blocks (Table 4.6). The first – licence procedures – looks at the level of complexity of obtaining a licence, such as whether a centralised approach exists. The second – monitoring and streamlining the licence system – examines economies' efforts to regularly review and simplify legislation, and asks whether there are centralised co-ordination bodies that could assist SMEs and entrepreneurs in their business ventures. This section also assesses the availability of support mechanism such as guidance materials and the cost of licensing fees.

Table 4.6. Scores for Sub-dimension 4.3: Business licensing

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Licence procedures	4.64	3.70	3.76	3.25	3.93	3.25	3.16	3.67
Monitoring and streamlining of licence system	3.72	3.32	3.13	3.51	2.97	3.93	1.69	3.18
Weighted average	4.18	3.51	3.44	3.38	3.45	3.59	2.43	3.43

Note: See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

The WBT economies have achieved a solid framework for business licensing. With the exception of Albania as the regional leader and Turkey as the worst performer, all the economies fluctuate around the regional average of 3.43.

Licence procedures are clearer, but lack a centralised approach

Licensing regulates businesses' entry into markets and imposes certain conditions on them, which may result in sanctions if businesses do not comply. Therefore licence regulations need to be clear and efficient. At a minimum, they should include clearly written requirements, specific fees complying with the principles of cost recovery, and an understanding that “silence is consent”. In most economies, different institutions are responsible for issuing licences according to their competences. Therefore, clear regulations are crucial in order to help SMEs access scattered information.

While all WBT economies apply clear procedures when granting a licence, only Albania, Kosovo and Montenegro have centralised the licensing process through web portals, even though licences and permits are granted by different institutions. However, North Macedonia, Serbia and Turkey have started pilot projects on centralising their licensing portals.

In Albania, the National Business Centre (which operates as a one-stop shop) is in charge of receiving applications for licences, permits and administrative authorisations, and submitting them to the relevant authorities as needed. The process follows the “silence-is-consent” principle – as described above, if the relevant public body fails to answer a request within a prescribed timeframe as detailed in law, consent to the request is automatically given.

In Kosovo, the Central Registry of Permits and Licences is responsible for issuing permits and licences. However, the Legal Department of the Prime Minister's Office co-ordinates the licensing legislation. Therefore, in practice, the Central Registry is not a central co-ordination body with full responsibility for licences.

Montenegro has established a central e-register for licences that deals with 530 licences issued by 37 institutions at different levels – however, only a limited number of licences and permits can be obtained through the eUprava portal (Box 4.4). Serbia is currently planning to establish a registry of permits and licences to be co-ordinated by the Public Policy Secretariat and the Ministry of Economy.

Box 4.4. Montenegro's eUprava portal

In accordance with the EU Digital Agenda for Europe 2020, in 2012 Montenegro introduced the Information Society Development Strategy 2012-2016. The document became a road map for developing Montenegro's information society, in order to reap the potential of ICT services for societal and economic progress. One of the main goals of the strategy was to create an e-government portal for delivering public services to citizens and entrepreneurs.

Accordingly, the eUprava portal was launched in April 2011 and initially provided 12 services, all in the Montenegrin language. In 2018, seven years after its creation, the portal operates under the Ministry for Public Administration and offers 527 services. eUprava provides key electronic registers such as the central population register, business entities register and register of immovable property titleholders. Moreover, the portal brings substantial benefits to SMEs by serving as a one-stop shop for entrepreneurs. Implementing e-services at each administrative level initially met with some resistance to change. To enable e-services to be developed further, the Montenegrin Government made them mandatory through the Law on Electronic Administration.

The introduction of eUprava was combined with technology upgrades, training for civil servants and clear instruction manuals. Despite still being in the process of development and adding new services, such as the Electronic Document Management System, and improving systems' interoperability, Montenegro's e-government ranked 58th out of 199 assessed economies in the world in the UN E-Government Survey 2018 (UN, 2018).

Sources: Lazovic et al. (Analysis of e-Government Portal in Montenegro, 2015), *Analysis of e-Government Portal in Montenegro*, <https://ieeexplore.ieee.org/document/7160504>; Milonjić (Rhetoric or Reality? E-Government and the Reconceptualization of Service Delivery in Montenegro, 2016), *Rhetoric or Reality? E-Government and the Reconceptualization of Service Delivery in Montenegro*, https://dgap.org/sites/default/files/article_downloads/institut_alternativa_egovernment.pdf; Government of Montenegro (Public Administration Reform Strategy in Montenegro 2016-2020, 2016), *Public Administration Reform Strategy in Montenegro 2016-2020*, [www.mna.gov.me/ResourceManager/FileDownload.aspx?rid=268749&rType=2&file=PUBLIC ADMINISTRATION REFORM STRATEGY IN MONTENEGRO 2016-2020.pdf](http://www.mna.gov.me/ResourceManager/FileDownload.aspx?rid=268749&rType=2&file=PUBLIC_ADMINISTRATION_REFORM_STRATEGY_IN_MONTENEGRO_2016-2020.pdf).

In terms of monitoring and streamlining the licence system, the Serbian Government is simplifying licensing processes under an ongoing project, the Implementation of the Action Plan for Improving the Business Environment, funded by the Instrument for Pre-Accession Assistance 2013. In Turkey, the government is planning on reviewing and simplifying some licensing procedures following the development of the *Perakende Bilgi Sistemi* (Retail Information System; PERBIS), which is foreseen as a single entry point for different applications, including licences, for the retail sector. North Macedonia is

currently working on an e-licence portal with the aim of having all information and applications for entrepreneurs on line, as well as creating a single entry point for licences and permits. These portals might be the first step towards introducing a digital distribution system for appointing officials responsible for assigning licences – hence making the process more transparent (for more information see the following section).

Bosnia and Herzegovina does not have plans to centralise the licensing system. However, in the Republika Srpska applicants can find information on all licences and permits on a new web portal,⁶ established in 2018. It is the single point of contact for businesses, co-ordinated by the Ministry of Economic Relations and Regional Cooperation of the Republika Srpska.

The digital assignment of licensing officials is hardly practised in the region

A digital system that randomly selects officials responsible for granting licences to businesses enhances the transparency of the business licence procedure. It helps to monitor and evaluate officials' compliance with their mandate, as well as distribute the workload equally among licence officers, allowing the administration to respond faster to requests.

Of the WBT economies, only Albania has established digital distribution of licensing officials. All permit and licence requests in Albania can be submitted on line through the National Business Centre, and once the request is registered, the electronic system checks the documents and assigns it randomly to an officer. There are three categories of licences for businesses in Albania. The first category uses the applicant's self-declaration alone to evaluate whether the criteria are fulfilled. In the second category, the decision is based on self-declaration and documentary proof provided by the applicant. The third category of licences, in addition to the requirements of the first and second category, evaluates the fulfilment of the criteria using either an inspection, test, contest, interview, hearing or any other evaluation method.⁷

The way forward for business licensing

In order to streamline business licences and permits, policy makers in the WBT region should:

- **Create a central co-ordination body responsible for business licences, in order to have a systematic overview of licensing.** Individual WBT governments should create a central co-ordination body that deals with assigning licences in order to increase transparency, conduct effective monitoring and streamlining, avoid conflicts of interest and lower administrative burdens and costs for SMEs. As the Businessinfo portal example in the Czech Republic (Box 4.5) show, this could be achieved by upgrading existing one-stop shops to play the role of a central co-ordination body, centralising procedures into one administrative system to enhance interoperability.
- **Introduce electronic distribution and nomination of licensing officers.** Greater reliance on electronic services could help WBT governments increase transparency, avoid conflicts of interest and distribute the workload equally among licensing officers to deal with requests faster. Introducing services based on information and communication technology for SMEs could also enhance their trust in government.

Box 4.5. Businessinfo.cz: A one-stop shop for businesses

EU Member States are each encouraged to have a point of single contact (PSC) or one-stop shop to comply with European Commission Directive 2006/123/EC. The intent of this directive is to provide a user-friendly e-government portal where businesses and investors – whether they are EU members or not – can access the information, procedures and forms they need to start, run, grow or close a business. Those participating EU members become part of the EUGO network⁸ of EU PSC e-government business portals.

A good example of an e-government business portal is the Czech Republic's BusinessInfo (www.businessinfo.cz). This is a one-stop shop for active and potential businesses and investors, and provides the following key services:

- A single or unified registration form for entrepreneurs which consolidates and simplifies previously separate procedures (business initiation and updates, Trade Licensing Office registration, social security and health insurance declarations) into one document that can then be filled out for electronic submission directly on the BusinessInfo website.
- Consolidated and user-friendly information on the formalities of the business life cycle, accounting and taxation, funding opportunities, foreign trade, business law and environment. For instance, it provides information on how long it takes to register a business (on average five days) and the number of business registration numbers each business requires (only one). It also provides guidance in multiple languages on cross-border and foreign entity-related commerce.
- Contact information for centralised co-ordinating support bodies at all levels from the municipality to EU Member States, to provide an overview of all licence procedures.
- Additional support services for SMEs, including a responsive helpdesk and interactive discussion forum. The portal also displays links to other websites that focus on assisting start-ups and SMEs.

Businessinfo.cz could serve as a potential template for the economies of the Western Balkans and Turkey that want to consolidate business life cycle information, as well as streamline and simplify their administrative procedures for businesses through electronic filing. Like their EU counterparts, e-government business portals can be used as vehicles to attract foreign direct investment and foreign businesses. Additionally, the voluntary adoption by EU accession-oriented economies of directives from the European Commission demonstrates initiative and willingness to conform to EU standards.

Source: BusinessInfo (BusinessInfo website, 2018) *BusinessInfo website*, www.businessinfo.cz.

Tax compliance procedures for SMEs (Sub-dimension 4.4)

Overly complex tax payment procedures can lead to high compliance costs, affecting enterprises' operations or even discouraging entrepreneurs from formalising a business in the first place. Tax compliance costs typically have a significant fixed cost component; this tends to impose a higher burden on SMEs than on larger enterprises, which can benefit from returns to scale in complying (OECD, 2015).

To ensure that SMEs can unlock their full potential, the disproportionate compliance burden posed by the tax system needs to be reduced. To achieve this, most OECD and EU countries have introduced various tax provisions designed to reduce SMEs' compliance costs.

This section assesses whether WBT governments have introduced measures to adjust their taxation to accommodate SMEs' unique needs. It looks particularly at income tax, such as a single tax replacement regime, or simplified income tax; and value-added tax (VAT), such as collection thresholds below which enterprises are exempt.

Table 4.7 maps the different tax policy tools for SMEs used in the Western Balkans and Turkey.

Table 4.7. Sub-dimension 4.4: Tax compliance procedures for SMEs – overview

Tax regimes for SMEs		AL B	BIH	KOS	MKD	MNE	SRB	TUR
Income tax	Presumptive tax regime						X	X
	Simplified accounting rules			X				X
	Other simplification measures	X	X**		X			
VAT	Registration/collection threshold below which small businesses are not obliged to register for and remit VAT	X	X	X	X	X	X	X
Other simplified measures	Tax incentive scheme for SMEs*			X	X	X	X	X

Note: As a pilot analysis, this new sub-dimension was not included in the scoring

*These include tax incentives other than those related to income tax and VAT;

** the regime applies in the Republika Srpska.

Only Turkey has a single replacement tax regime for SMEs

A number of OECD countries have single replacement tax regimes that assist very small taxpayers (Box 4.6). They typically include three main elements: 1) a simplified method of tax calculation (often on a presumptive or cash flow basis); 2) simplified reporting and filing requirements; and 3) exemption from all or several other taxes (OECD, 2015).

Among the assessed economies only Turkey has a single replacement tax regime for SMEs. Unincorporated businesses which have an annual revenue of less than TRY 148 000 (Turkish lira; around EUR 26 600) and rental fee below TRY 7 400 (EUR 1 300) in 2018 are subject to a single replacement tax regime, *basit usul vergi* (simple procedural tax). This regime, aimed at micro businesses, was first introduced in 1998 to encourage businesses to formalise by simplifying tax compliance requirements. A number of simplifications in income tax, VAT and other taxes are offered under this regime (please see the following sections for more details).

In order to foster the uptake of this regime among SMEs, Turkey's Revenue Administration published a guide for businesses⁹ in 2018, providing extensive information on the eligibility criteria needed to qualify for the simplified regime, as well as its various advantages.

Box 4.6. The *Régimen de Incorporación Fiscal* in Mexico

In January 2014, the Mexican government introduced a new tax regime for small taxpayers, i.e. individuals carrying out business activities selling goods or services whose incomes do not exceed MXN 2 million (Mexican peso).

This tax scheme, the *Régimen de Incorporación Fiscal* (RIF; tax incorporation regime), was introduced as a part of a comprehensive strategy that aims to reduce informality among small enterprises, a pervasive problem in the Mexican economy. The change significantly lowered their personal, social security, VAT and excise tax obligations in the first ten years of operation, creating incentives for informal enterprises to switch to the formal sector.

Income tax is calculated on a cash-flow basis, with similar tax rates to those in the general tax regime. For VAT and excise tax purposes, there is an optional regime based on a simplified schedule of tax rates. This varies by economic activity and type of product, and is applied according to the enterprise's turnover level. This reduces the administrative burden of calculating VAT and excise tax liabilities.

In addition, taxpayers with an income of less than MXN 100 000 can apply for 100% VAT and excise tax reductions for the first ten years of participating in the regime. The RIF regime gradually eliminates tax reductions over a ten-year period.

RIF taxpayers fill out tax returns every two months and their payments are considered final. This contrasts with the general regime, which requires taxpayers to calculate their tax every month and make provisional payments. To be beneficiaries, entities must enrol in the Federal Taxpayer Registry, record revenues and expenses, invoice clients on request or deliver sales notes and submit statements every two months. This scheme is complemented by a range of services to help small, often informal, businesses expand and professionalise as further encouragement to join the formal economy. These services include access to government-backed credit lines and training programmes, as well as a special internet tool that facilitates tax compliance. This tool is provided by the tax administration, *Mis cuentas* (My Accounts), further reducing SME compliance costs. The tool allows SMEs in the RIF regime to issue electronic invoices, simplify their tax accounting, keep registers of income and expenditure and use that information to present their simplified tax returns. RIF taxpayers are also able to buy a tablet at a reduced price to give them access to this tool and to receive payments by bank card.

Source: OECD (Taxation of SMEs in OECD and G20 Countries, 2015), *Taxation of SMEs in OECD and G20 Countries*, <https://doi.org/10.1787/19900538>.

Income tax simplification is available for SMEs in most assessed economies

In OECD countries, income tax for SMEs depends on the form its business takes. Typically, unincorporated SMEs are taxed only at the personal level, whereas incorporated SMEs are taxed first at the corporate level and then again when profits are distributed at the personal level. Even in the absence of single replacement tax regimes,

OECD countries apply various measures aimed at simplifying income tax obligations and reducing compliance costs for SMEs. These measures include the use of presumptive taxes, simplified accounting procedures, the option to use cash accounting, or less frequent filing requirements.

Most of the assessed WBT economies have simplified income tax for SMEs, either at the personal or corporate level (see Chapter 3 on institutional and regulatory framework for more information on SME definitions in the WBT economies). Most use a presumptive tax scheme to simplify income tax calculations and reduce compliance costs for businesses and enforcement costs for the tax administration. In this scheme, income tax is calculated on a different basis to income, providing SMEs with greater certainty about tax liabilities, and in some cases exempting small businesses from traditional book keeping. The rules for presumptive tax regimes specify the conditions for eligibility, as well as the conditions defining when an SME can opt in or out.

In Serbia, unincorporated SMEs can sign up to a “lump-sum” presumptive income tax scheme. Almost 110 000 entrepreneurs benefit from this scheme, constituting more than 30% of businesses. The collected data show that this type of taxation is most frequently used by taxi drivers, legal professions, hairdressers and programmers (USAID/NALED/URP, 2018). SMEs operating in wholesale and retail, hospitality, financial mediation and real estate are not eligible. Those who want to benefit from the scheme are first required to file a form;¹⁰ the tax inspector then determines a monthly lump-sum income based on the information provided, on which tax and contributions are paid at a rate of 10% (Lazarević, 2008). This allows entrepreneurs approved by the tax administration to pay the same amount of income tax each month, regardless of their turnover.

However, recent research points out that Serbia’s system of lump-sum taxation has a number of shortcomings, such as being unnecessarily administratively demanding and making costs for businesses unpredictable for entrepreneurs. For instance, when starting a business, entrepreneurs do not know if the “lump-sum” status will be granted to them, since the decision is only taken after registration. They cannot therefore estimate whether starting a business would pay off. Moreover, tax decisions on the liabilities to be paid are delayed by several months (Lazarević, 2008). Based on these findings, the National Alliance for Local Economic Development started a project in 2018, with the support of the US Agency for International Development, to reform the lump-sum taxation system. The project aimed to improve the regulations on granting lump-sum status to businesses and make the scheme more efficient by introducing economic data exchange between public institutions (USAID/NALED/URP, 2018).

Turkey has a presumptive tax scheme for income taxation of unincorporated businesses,¹¹ calculated on the basis of annual revenue and costs of renting (or imputed rental value if the entrepreneur owns the business property). Those eligible for the *basit usul vergisi* (simple replacement tax) regime are neither required to prepare withholding tax returns nor to pay advanced tax. Moreover, their sales of goods and services are exempt from VAT, and they can deduct TRY 8 000 (around EUR 1 400) from their annual revenue. Additionally, these businesses are exempt from book keeping; they are only required to complete a special tax return and submit it to the tax administration.

In Kosovo all businesses are subject to corporate income tax. The cash accounting regime for corporate income tax was introduced in 2015, which businesses with annual gross incomes of up to EUR 50 000 are eligible to use. Under cash accounting, income tax is only paid on revenues when cash is received and input costs are deducted only when

expenses are paid. Many SMEs opt for this method since it simplifies the book-keeping process by eliminating the need to record receivables and payables – only a cash payment record of sales and purchases is needed. In addition, Kosovar businesses with an annual gross income of up to EUR 50 000 are eligible to pay 3% tax on gross income if derived from trade, transport and agricultural activities, and 9% if from service-related activities. If enterprises' annual gross income exceeds EUR 50 000, they are obliged to pay the standard corporate income tax rate, fixed at 10%.

Albania, Bosnia and Herzegovina, Montenegro and North Macedonia have no simplified methods of income tax calculation. Nonetheless, enterprises are either exempt altogether from paying income tax or offered lower tax rates on their annual income.

In Albania, both incorporated and unincorporated SMEs with an annual turnover below ALL 5 million (Albanian lek; around EUR 40 150) are exempt from paying corporate income tax (Eurofast, 2016). For those with an annual turnover of ALL 5-8 million, a 5% income tax rate applies instead of the standard 15%. From January 2019, the ALL 8 million (EUR 64 200) threshold will be increased to ALL 14 million (EUR 116 000).

In Bosnia and Herzegovina, only businesses operating in the Republika Srpska can profit from lower income tax rates. In accordance with the Law on Income Tax in the Republika Srpska, unincorporated businesses with an annual income less than BAM 50 000 (Bosnia and Herzegovina convertible mark; EUR 25 000)¹² are granted a rate of 2% with a minimum payment of BAM 600 (EUR 300) instead of the standard rate of 10%.

In North Macedonia, an incorporated business¹³ with an annual income of between MKD 3 million (Macedonian denar; EUR 48 800) and MKD 6 million (EUR 97 600), will pay 1% corporate income tax instead of the standard rate of 10%. Companies with an annual corporate income of below MKD 3 million are exempt from corporate income tax.

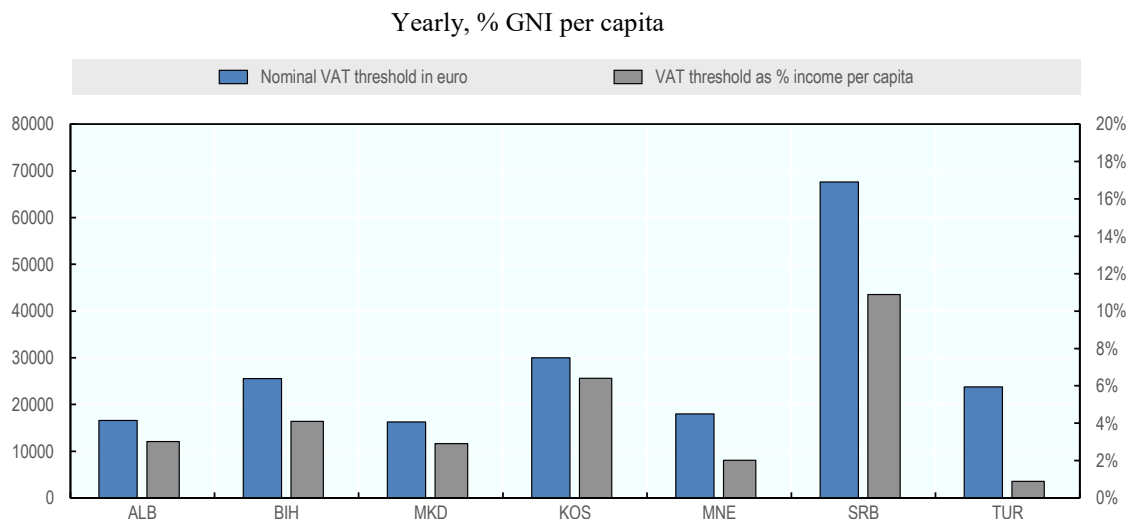
In economically underdeveloped municipalities in Montenegro, newly established legal entities are exempt from paying corporate income tax for the first eight years of operation. Unincorporated businesses that start operations in these municipalities also have their personal income tax for the first eight years reduced by 100%.¹⁴ However, the total tax holiday in both cases cannot exceed EUR 200 000 in the first eight years of operation.

VAT registration and collection thresholds exist throughout the regions

Although designed to be a tax on consumers and neutral for businesses, VAT has proven to be particularly burdensome for SMEs (OECD, 2018). VAT imposes, on the one hand, compliance costs on businesses that have to collect the tax and remit it; and on the other hand, administrative costs for tax administrations. Therefore, reforms that simplify existing VAT regulations for SMEs can help reduce tax compliance and administrative costs, as well as encourage greater tax compliance in the business community.

All the assessed WBT economies have VAT registration and collection thresholds that relieve domestic suppliers under a certain level of turnover from the requirement to register for and/or collect VAT. The threshold levels vary between economies. In order to shed some light on the relative magnitudes, the VAT thresholds are also shown as a percentage of gross national income (GNI) per capita in Figure 4.5.

Figure 4.5. VAT registration thresholds compared



Note: GNI – gross national income. In Turkey, micro businesses are exempt from VAT when they meet two conditions: 1) annual revenue is less than around EUR 26 600; and 2) rental costs are less than around EUR 1 400.

Source: OECD calculation based on World Bank (Economy & Growth (database), 2018), *Economy & Growth (database)*, <https://data.worldbank.org/topic/economy-and-growth?view=chart>. 1 November 2018's currency exchange rates were used for the conversion of local currencies into USD and EUR based on the UN Operational Rates of Exchange database.

StatLink  <http://dx.doi.org/10.1787/888933937508>

Across the Western Balkans, thresholds are higher than OECD countries, indicating that the governments have chosen to concentrate their VAT administration capacities on larger businesses (OECD, 2018). Turkey's threshold for VAT exemption, when expressed in yearly GNI per capita, is the lowest in the region at 0.89%. This may hint at a smaller share of SMEs benefitting from the VAT threshold; further analysis is warranted on whether the threshold really benefits the targeted group of SMEs.

Additional tax incentives are available for SMEs across the region

Tax compliance can not only be aided by tax simplification schemes, but also by tax incentives targeted at SMEs; especially if there are strict eligibility criteria for benefiting from the tax incentives. Broad tax bases and low tax rates are often the best solution for keeping compliance costs low for both larger and smaller firms. Many WBT economies provide enterprises with additional incentives for taxes other than income and VAT.

For instance, Montenegro has different tax incentives depending on the jurisdiction level. At the local level, there are tax incentives such as facilitating payments for utilities and other fees, reductions in local surtaxes on personal income tax paid by employees, and real estate tax reductions.

In North Macedonia, if an enterprise is registered in a technological industrial development zone, it is exempt from corporate income tax, irrespective of its income, for the first ten years in which it operates in the zone. The employees of these enterprises are also exempt from paying personal income tax for ten years.

Serbia amended the mandatory social security contributions law in 2017, providing tax exemptions for newly established companies and registered entrepreneurs. From October 2018, up to nine newly employed people can be exempt from paying social security contributions on behalf of employer and employee.

Incentives for SMEs may also be offered depending on the legal status of the enterprise. For example, in Turkey an SME established as a joint-stock company, limited partnership or a limited liability corporation is exempt from stamp taxes and fees on its business formation documents.

The way forward for tax compliance procedures for SMEs

The Western Balkan economies and Turkey have implemented a range of tax simplification schemes, especially for income tax and/or VAT. Before introducing additional schemes, the WBT governments should review the tax simplification schemes that are in place, evaluate whether they achieve their intended objectives and ask whether their design can be improved. A number of areas require further attention from WBT policy makers:

- **Regularly monitor and evaluate tax simplification measures.** Complying with the eligibility criteria of simplified tax schemes in the region does not always remove complexity as intended. Excessive documentation requirements coupled with the limited availability of online options to complete the procedures may deter entrepreneurs and SMEs from making use of these schemes. WBT governments should therefore evaluate how to facilitate compliance for SMEs under the tax simplification schemes, while maintaining sufficient safeguards that prevent abuse and result in low tax compliance.

While tax simplification schemes should reduce the tax and compliance burden for small firms, they should not create tax-induced disincentives for firms to grow. In many countries, presumptive or simplified tax regimes create a lock-in effect since the change from the simplified to the regular regime results in a too high increase in the tax burden.

Across the region, simplified tax schemes are not regularly evaluated with a view to analysing SMEs' compliance, economic effects or tax revenue collection. Simplified tax schemes should be regularly monitored and evaluated to gauge whether they are reaching the targeted group of businesses and are effective in reducing income and VAT compliance costs, while at the same time stimulating economic growth.

- **Strengthen the way administrations provide tax-related information to SMEs.** Information should be made available using modern communication platforms so that SMEs can access the information they need. To that end, provision of online support should be stepped up, for example through organising webinars, better use of social media and establishing help desks. Modern ICT tools should also be used effectively in order to make tax reporting and compliance by SMEs as easy as possible. SMEs should find it easy to contact the tax administration for information and guidance on how to comply with tax regulations.

Conclusions

All governments in the Western Balkans and Turkey have established electronic portals informing users about e-services and allowing them to complete basic services on line. For company registration, one-stop shops to start a business are currently operating everywhere in the region. Clear procedures for issuing different types of licences have been established throughout the region. Most economies have income tax simplifications to ease tax calculation procedures for small businesses.

Nevertheless, the assessment reveals still some room for improvement. Looking at digital government for SMEs, not all services can be fully completed on line – despite the existence of online portals, governments still require entrepreneurs’ physical presence to finalise various administrative processes. Therefore, the legal framework on e-authentication systems needs to be adapted to allow the full use of electronic signatures in administrative procedures.

The WBT economies could also further centralise their licensing procedures to provide clearer information to SMEs on dealing with the administration. Governments need to evaluate and monitor their tax compliance procedures to assess the real burden on SMEs. Addressing the recommendations put forward in this chapter will help governments increase their institutional capacities in operational environment policies in general.

Notes

¹ For a description of the complex administrative set-up in Bosnia and Herzegovina and how this was handled in the scoring process, please refer to Annex B.

² See https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_.2014.257.01.0073.01.ENG

³ In this SBA assessment cycle, in order to better understand how effective SME policy implementation is and what its outcomes are, the assessment was also complemented with private sector insights gathered through a set of interviews with the owners and managers of SMEs and representatives from chambers of commerce in the Western Balkans and Turkey – see Annex C for more details.

⁴ The entire survey is only available upon request and acceptance. The metadata are not provided in machine-readable format nor via a centralised web portal – they can be only acquired through a CD-ROM (Turkstat, 2017).

⁵ For more information on the digital certificate see <https://e-submit.crm.com.mk/eFiling/en/useful-information/submit-registration-in-3-steps/obtain-a-certificate/obtain-a-digital-certificate.aspx>.

⁶ See <https://pccsrpska.vladars.net/sr>.

⁷ See Albania’s Law No. 10 081, dated 23 February 2009: www.qkr.gov.al/media/1255/1-law-no-10-081-dated-2322009.pdf.

⁸ The EUGO network is set up for businesses who want to expand or move their business into another EU country. Each EU country offers via the EUGO network a “point of single contact”, a website where information, procedures and forms can be found for all aspects of doing business in

that country. See https://ec.europa.eu/growth/single-market/services/services-directive/in-practice/contact_en.

⁹ See www.gib.gov.tr/sites/default/files/fileadmin/beyannamerehberi/2018_basitusulrehber.pdf.

¹⁰ The form asks for 1) the reasons why the entrepreneur is not able to keep business books; 2) planned turnover when starting the activity; and 3) the facts and circumstances relevant for determining the lump sum income: location and equipment in the store; number of workers and engaged members of the family; market conditions in which the activity is performed; surface area of the premises; entrepreneur's age, his/her capacity for work, and other circumstances affecting profit generation.

¹¹ Except companies that provide banking, financial, and insurance services, as well as services in the field of games of chance and entertainment games

¹² The term "small entrepreneur" is defined in Article 21 of the Law on Income Tax (*Official Gazette of the Republic of Srpska*, No. 60/15). Three conditions should be met by businesses: 1) no more than three employees (including the owner); 2) no partnerships; and 3) annual income less than BAM 50 000 (EUR 250 000).

¹³ Except companies that provide banking, financial, and insurance services, as well as services in the field of games of chance and entertainment games.

¹⁴ Tax exemption does not apply to taxpayers operating in the sector of primary production of agricultural products, transport or shipyards, fisheries and steel.

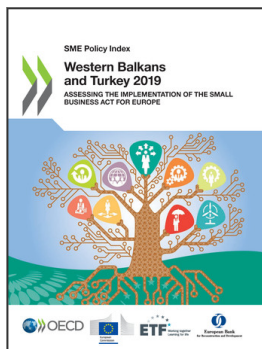
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