

THE IMPACT OF ECONOMIC CRISIS ON THE EASE OF DOING BUSINESS IN THE WESTERN BALKANS COUNTRIES

Dimitar NIKOLOSKI¹
Tanja MICALJEVSKA²

Abstract

The region of Western Balkans is often considered as lagging reformer compared with the more developed transition countries. The private sector that mainly consists of small and medium sized enterprises is still not strong enough to bear the development in the region and to absorb the huge mass of unemployed workers. Some of them were transformed as a result of privatisation of the previous state owned companies while others were established as new start-ups. The governments in the Western Balkans countries by recognizing the importance of the private sector for the economic growth, committed themselves to take actions in order to improve the business climate and institutional infrastructure. The recent economic crisis has affected all economies in the world and is manifested by decline in their GDP growth rates and industrial production indices, increased unemployment and unfavourable tendencies in their balances of payments. The Western Balkan countries which are characterised by low industrialisation and small capital base are supposed to suffer the most. In this context we pose several research questions: What are the factors that influence the business climate? How can be identified the comparative business advantages and disadvantages? Which policies can be implemented to achieve greater development?

The aim of this paper is to compare the ease of doing business in Western Balkan economies from different aspects such as starting up business, registering property, getting credit, paying taxes, closing business, getting electricity, employing workers etc. before the economic crisis and afterwards. Furthermore, we intend to identify the effectiveness of reforms taken in these countries and their policy implications. The analysis of the relevant factors that lead to best performances will be carried out by using various quantitative techniques such as econometric modelling of panel data. Accordingly, we will formulate policy measures that Western Balkans countries can apply in order to improve their business environment which is conducive to higher levels of economic growth. With respect to this, we will take into account the possible limitations in this research, such as the availability of data, their quality and validity, as well as the different starting positions of different countries.

Key words: *Small and medium sized enterprises, economic crisis, business environment*

¹ Faculty of economics-Prilep, “Gorche Petrov”, bb 7500 Prilep, Republic of Macedonia

² Faculty of economics-Prilep “Gorche Petrov”, bb 7500 Prilep, Republic of Macedonia

1. Introduction

The term “Western Balkans” refers a wide region that includes the following states: Macedonia, Serbia, Croatia, Bosnia and Herzegovina, Montenegro, Kosovo and Albania. For many years these societies had social values and practices different from those that can be found in market oriented economies. The transition road of Western Balkans was tiled with good purposes, not so good policies and very bad if any means for implementation of the policies. Although each country has chosen its own path in transforming the society, they all experienced difficulties, made some good but much more, bad decisions which led them lagging behind advanced transition countries. The most significant reasons for the slowdown were the political conflicts and the passion for fulfillment of their national interest.

Nowadays, the region is still characterized with diversity of interests and conflicts delivered from the past. On the other hand, there exists a common interest among different nations to reach greater economic growth, political stability and better living standard for their people through better collaboration. Governments in Western Balkans are aware that they can achieve greater development by supporting businesses, improving the business climate and becoming more attractive to foreign and domestic investors.

The global recession posed a real threat for these already fragile economies. The lack of demand globally reduced the exports. Foreign investments also decreased. To avoid the negative impact of the crisis on the Western Balkans, most of the governments approached to the problems by introducing strategic development model based on promoting entrepreneurship, stimulating the start ups and supporting the established business. In order to make an attractive ground for running business in Western Balkan economies, they implemented various strategies and instruments such as: working on reforms in institutions, building society infrastructure, supporting the policies that improve security, strengthening the financial sector, promoting privatization and entrepreneurship, encouraging the establishment of small and medium enterprises (SMEs).

The aim of this research is to present the reforms undertaken to improve the business climate in the Western Balkans, focusing on the main factors that affect SMEs as dominant form of business in these economies. The basic topics refer to the following broad areas: (i) Reforms in the legislation; (ii) Access to finance; and (iii) Taxation system. For this purpose we use data collected from Doing business reports and apply appropriate statistical analyses in order to detect casual relationships between regulatory reforms, access to credit and taxation system with the ease of doing business. Moreover, by repeatedly measuring the changes in the business environment of the same countries through years, their improvement can be noted and recorded. Having information about each Western Balkan country access in addressing the needs of the private sector, the benefits from reforms and the eventual mistakes is useful for understanding the current state of countries and making recommendations for policymakers in their decisions for the future. In this context we will use the Doing business simulator which will help us in designing appropriate policy recommendations conducive to improvement in the business climate and higher economic growth.

2. Background analysis

The general business environment in Western Balkan countries, regarding social economic and political situation, represent a challenging task. The development problems and negative past experiences can be attributed to two main groups of factors i.e. political and economic that we will further elaborate.

Political factors

The political factors encompass national instabilities and wars which happened after the brake-up of the former Yugoslavia. These wars proved to be fatal for the lives of many people, damaged the infrastructure and destroyed the industry of all involved countries (Minchev, Lessenski, Stojkovski, & Ralchev, 2010).

The most serious consequences were felt in Bosnia and Herzegovina where the war lasted longer than in other countries and the hate and violence were unseen ever before. The end of the bloodshed came with the USA mediation and the signing of the Dayton Peace Agreement. According the agreement Bosnia and Herzegovina consist of two parts, Republika Srpska and Federation of Bosnia and Herzegovina. Another severely affected country from the wars was Croatia where the war lasted till 1995. The Federal Republic of Yugoslavia consisting of Serbia and Montenegro was also affected from the war, especially because its army took part in the wars in Bosnia and Herzegovina and in Croatia. Eventually, this federation ceased to exist in 2006 when both republics proclaimed their independence. Macedonia was the only country which managed to gain its independence in a peace way, without any conflicts and wars. On the other hand, Albania was not involved in war, even though it felt the negative consequences of the extreme communist regime, characterized by isolation from the outside world, prohibition of private property, dictatorship and violated basic human rights.

After the collapse of communism and the end of the separation wars Western Balkans gradually started to recover. However, Balkan was still uncertain region with possibility of new political escalations. The next war happened in 1999 engendered by an armed conflict for independence of Kosovo. In order to calm the situation, NATO forces intervened and assisted the restoration of the peace. Soon after, in 2001 Macedonia experienced an interethnic conflict between Macedonian army and Albanian armed groups that claimed increased rights for the Albanian minority. Fortunately, due to the involvement of international factor, the included parties reached an agreement signed in Ohrid on August 13, 2001. Since than the Western Balkan countries make efforts to overcome interethnic disagreements and orient their activities towards improving both the internal affairs and relations with neighbors. Nowadays, almost all countries in the region are focused on overtaking the barriers and disputes and improving the political stability in the region.

Economic factors

The main economic factor affecting the economic development in Western Balkans is the inadequacy of the policies and instruments necessary for transition from public to private ownership. During the socialist regime, the Western Balkan economies consisted of large public companies. During the transition to market economy, all countries implemented various strategies in order to ease the privatization process. In what follows we address some of the problems faced during the process of transition.

In Macedonia the process of privatization was long lasting and had dubious epilog. Although the initial concept was to transform the public capital into private by introducing the employee shareholding, latter another model was applied. Instead of being more effective and more market oriented, that model led partly to criminal behavior. As a consequence most of the big firms went bankrupt. The ones that manage to survive rarely remained to exist as a whole. Most of them were fragmented into new small and medium enterprises. In the same time individuals used the opportunity to become their bosses and provide themselves economic security. However their number was small and insufficient to absorb the unemployment created with the failure of entire industries (Nikoloski, D. (2009), (Gveroski, M. and Nikoloski, D. 2006).

In Croatia, similarly as in Macedonia, there privatization occurred after the proclamation of independence, but it was mainly criminal. For instance, capital was accumulated by mechanisms

of corruption and many employees lost their jobs. The real transition process and liberalization of the economy, started after 2000. Since then a number reforms were designed and implemented which contributed Croatia to become one of the most economically advanced country in the Western Balkans. The macroeconomic conditions improved, private sector was established and new jobs were created. Most of the new registered companies were small and medium enterprises.

Serbia and Montenegro started the privatization process late compared to other countries in the region. Previously the privatization was partial with majority of companies being nationalized. Afterwards, when privatization became obligatory, the process developed successfully and the results were satisfactory. As a result, nowadays in the structure of Serbian economy dominate private small and medium business.

In Albania, transformation of the economy into an open one dominated by market principles was accompanied with many difficulties. Although small the progress in Albania was significant given its unfavorable starting point as a country where private ownership for a long time was forbidden. The privatization process started with privatization of small service businesses, than followed by the state companies, land, flats, and utility sectors as electricity and telecommunications.

The transition process in Bosnia and Herzegovina was long lasting and in many respects complicated. To support privatization, international donor institutions offered Bosnia and Herzegovina financial and non financial help. Measures were undertaken, but decision making was conducted on two levels regional and central. The coordination among the two levels was relatively poor which produced unbalances. The need for common strategies and policies was more than evident. It was what international institutions were asking too, in order to keep donor financial help and technical assistance for the private sector development.

At outset of transition to market economy in the Western Balkan countries, it was evident that the key role in the development and job creation would have small and medium enterprises. Gveroski M., Risteska A., Dimeski S.(2010). However, the number of SMEs was very small. The reason for this was not only the lack of initiative, but also the barriers for functioning and development of enterprises. Among the most common obstacles we can state the following: complex, time consuming and expensive procedures needed for registration and obtaining a license, absence of possibilities for funding, restrictive access to foreign loans, poor financial discipline and insolvency of debtors, frequent changes of the regulative, obsolete production equipment, inefficient organization and small production series, distrust between managers and employs, lack of market information, no adequate promotion of goods and services on the foreign markets. As a consequence, the improvement of a business climate was difficult and required implementation of multidimensional measures.

In these circumstances the Western Balkans pro-European orientation played one of the most important roles in the recovery. The aspirations for integration into the European Union influenced the governments to work permanently on the improvement of the institutional system, regulatory environment and the competitiveness of their economies. The crucial point was the European Summit in Thessalonica in 2003 where the Western Balkan countries endorsed the European Charter for Small enterprises at the European Union (EC, OECD, ETF, EBRD, 2009). Since then process of reforming and creating a favorable business climate was intensified. Nowadays, the aim of each government is to create an open and competitive economy with developed private sector.

The last decade was marked with many projects focused on modernization of the regulation environment, fiscal and monetary systems by making them suitable to the new market and more risk taking ambient. The changes were sizable especially in terms of time and cost for opening, operating and closing businesses. The private sector was established gradually, which resulted in creation of new jobs. Most of the new registered companies were small and medium enterprises and they became respective participants in countries' GDP.

3. Reforms of legislation

Laws and regulations have a considerable economic impact. They can be supportive for the businesses or can be considered as a barrier. Most of the Western Balkan countries had inherited legislation from the previous socialistic system that was not suitable for building market oriented economy. In order to reduce the bureaucratic and administrative procedures for enterprises and to promote their growth, governments intervened with various reforms, especially in the field of registration business, registration property, obtaining permits and licenses. First they identified the burdensome regulations, improved the existing legislative and introduced new laws. Then, they made efforts to evaluate the institutional framework in order to review the impact of regulations in terms of its costs and benefits. The progress with respect to reforms of legislation differs from country to country. For instance, Croatia, Macedonia and Serbia implemented systemic improvements of the existing regulations and institutions. On the other hand, Albania, Montenegro, Bosnia and Herzegovina and Kosovo advanced some elements for legislative and administrative simplification but further corrections are needed (Penev & Marusic, 2009).

Croatia was one step ahead the others because except adapting new legislative, also improved the institutional infrastructure and enabled appropriate implementation of the laws. Croatia started the legislative rebuilding process with launching of the Regulatory guillotine program which assumed reviewing the laws, simplifying them and removing the redundant ones. The renewed legislation made it easier to launch an enterprise and cut the time for registering it, first by implementing one stop shop and then by introducing on-line registration. In addition, obtaining construction permits became faster and more efficient with application of the new building code. Also, the property registration system, cadastre and movable register is fully functional and can be accessed on-line.

Macedonia is right behind Croatia because it has adopted strategic approach for better regulation. In Macedonia the Regulatory Guillotine Project was applied to clean the legislation and to create a single national registers for permits and approvals. In 2006 with the introduction of the one stop shop system, starting business in Macedonia became simpler and cheaper. Today the Central register office can process a company registration application for less than a day, unlike before when the same procedure took a couple of days. Another issue is the recognition of the principle “silence is consent” which decreased the degree of delayed or no response from public administration. Land and real estate property registration was eased too.

In Serbia regulative reforms started in 2004 but were intensified after 2008. Aiming to create favorable regulative environment, to reduce the costs and the administrative procedures for enterprises the company registration process from the commercial courts was delivered to the Business regulatory agency and the one stop shop system was implemented. Regarding the registering of property, Serbia has improved its serviceable system for registration of movable assets and has completed the real estate cadastre. Also, the time needed for transferring property, was shorten.

In Albania the procedures for starting a business were renewed, registration was made electronic, the capital requirement was reduced. Also, tax, health insurance and labor registration were consolidated into a single application. Post registration processes and licensing were moderated too. The property registration was improved by setting time limits, property rights were strengthened and the informal constructions legalized. However the administrative barriers are still present and affect enterprises.

In Montenegro segments of regulatory environment were relatively improved and business start up was eased. For illustration, the registration procedures were simplified by introducing one single registration form for tax administration and by implementing a one stop shop system. Also administrative barriers for obtaining permits for start-ups were eliminated by providing new mechanism for permit approval.

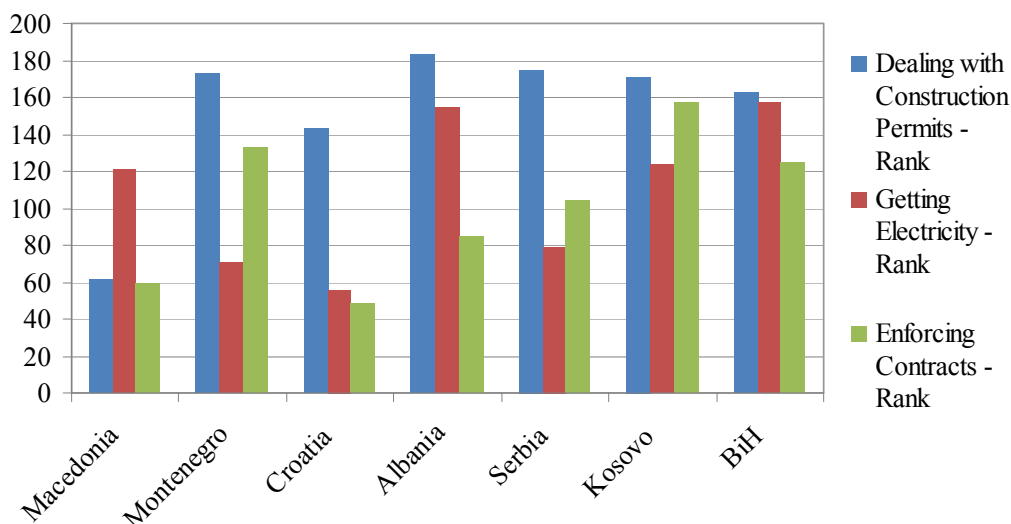
Major problem in Kosovo has been the lack of laws, inefficient public services, unfair competition and centralization of institutions in the capital Prishtina. To solve these problems, the

old legislative was replaced with new modern one, based on European standards. Centralization problem was removed by establishing municipal business centers for registration businesses. In addition, the process for obtaining construction permits was improved, but the delivery of public services, electricity and water supply, is not yet reliable. The cadastral system is operational, but corrupted, which affects the process of registering and transferring property.

In Bosnia and Herzegovina measures were undertaken in order improve the regulatory environment, but only on regional rather than state level. Therefore the success is estimated to be unbalanced, greater in Republika Srpska than in Federation of Bosnia and Herzegovina. The need for common strategies and policies is more than evident. Starting a business in Bosnia and Herzegovina today is a complex process. Registering new businesses takes place in registering courts and procedures are durable, expensive and different in various regions. In the past the number of procedures for obtaining permits was enormous. Now the process is rendered slightly easier as a result to the improvements of the land registry and cadastre. Property register offices are unreliable because transfers must be registered with municipal authorities and transactions have often been not recorded or delayed. In recent time with the computerization of the Land registry in Sarajevo the delays are reduced. Apart from the land register, a register for movable assets has also been established.

To illustrate the position of each country and make comparisons between them, we used data from Doing Business report 2012. The report offers quantitative indicators on business regulations across 183 countries. Indicators are used to calculate countries' ranks in 10 areas. In this research given ranks for different areas are combined and divided into three groups. The first group presents in one figure together the ranks for all Western Balkan countries regarding the following criteria: dealing with construction permits, getting electricity and enforcing contracts (Figure 1).

Figure 1. Ranks of the Western Balkan countries with respect to reforms of legislation (Source: Doing business, 2012)



As we can see from Figure 1, dealing with construction permits is easier in Macedonia while in Croatia, Serbia, Montenegro and Kosovo the process is more durable and expensive. Albania is lagging behind them all, and improvements such as cutting the number of procedures, time and cost for obtaining the necessary permits. Another major problem for Albania but also for Bosnia and Herzegovina is getting electricity. Macedonian access to electricity is limited, despite the fact that the country has achieved satisfactory rankings in other fields. In other hands, Croatia, Montenegro and Serbia stand better with this regard.

Enforcing contracts is less complex in Croatia, Macedonia and Albania, while in Kosovo and Montenegro procedures are durable and inefficient.

4. Access to finance

The access to finance is one of the basic conditions for a successful business. It depends from the credit information system, the level of transparency, the legal rights of lenders and borrowers, use of small loans, venture capital and financial instruments (EC. OECD. ETF.EBRD, 2009). In the Western Balkans SMEs finance facilities are constrained, despite the fact that governments continually attempt to remove the barriers. Even though a number of programs have been adopted in order to encourage access to credit the high interest rates, guarantee requirements are still unfavorable for small and medium enterprises (EC. OECD. ETF.EBRD, 2009).

Credit system in Croatia is transparent. The government has provided loan schemes and guarantee funds for small and medium enterprises. These businesses can contact the Bank for reconstruction and development to SMEs, and get loans under favorable conditions. Apart from credits SMEs can finance themselves by leasing agreements or by issuing stocks on the stock exchange. These forms for financing are rarely used by enterprises, but compared to the previous period, the interest for using them has increased.

In the Republic of Macedonia there are 18 banks, three of them Komercijalna banka, Stopanska banka and NLB Tutunska banka are larger and provide most of the services for the companies. Macedonian Bank for development support is a state owned bank which has a role intermediation between SMEs and commercial banks in order to ease the process of getting loans. However, procedures for getting most of these credits are lengthy. Leasing agreements are present in Macedonia, but companies use them mostly for purchasing of vehicles and less for equipment. The Macedonian stock exchange is operative and transactions are growing, but the equity market is still not developed. The credit information services function properly, the public credit bureau has improved the database and a private bureau was established. Also, guarantee schemes are privately managed. In order to strengthen the rights of borrowers, the law for personal data allows them to check their information in the credit registry OECD. (2010).

In Serbia, banks have special departments for SMEs. In direction of facilitating the access to credit the collateral requirements were reduced, the credit information services began to offer borrowers access to their credit data. Serbian guarantee fund Vojvodina Guarantee fund and other municipal funds issue guarantees for small and medium enterprises. The leasing and private equity funds are alternative sources for financing.

Considering the access to credit in Montenegro, banks offered short term and expensive credits, but enterprises could get credit from micro financing institutions and public institutions like Directorate for development of SMEs, Development fund of Montenegro, etc. Also in Montenegro there are two stock markets. The credit information system was improved in 2010, when public credit registry was established. The registry enabled lenders to inform themselves about the potential borrowers.

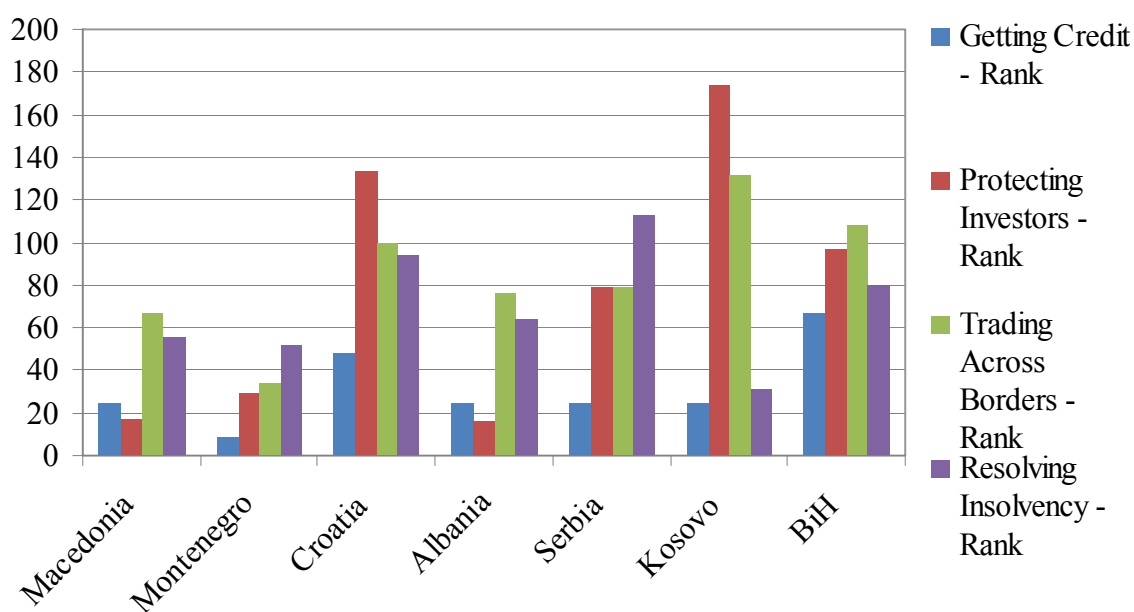
Financial sector in Albania is stable with dominant participation of foreign banks such as Raiffeisen International and Intesa Sanpaolo. Some banks, for example Procredit bank, have specialized products for small and medium enterprises. The non-bank sector is still not developed. To improve the information and transparency in the banking sector a credit bureau was established. However, the absence of other means for financing remains a problem.

In Kosovo the availability of finance has been and still is one of the major limitations for small and medium enterprises. The causes are high interest rates, large collateral requirements and ineffective credit information system. There are three main banks with dominant foreign capital. Non-bank institutions, equity markets and venture capital, as means for financing, still are absent. The constraints have been recognized, but, so far little is done to eliminate them.

In Bosnia and Herzegovina access to credit is limited. Most of the loans are short-term and accompanied with high interest rates. Apart from banks, alternative for financing are microcredit institutions, but enterprises are not always satisfied with their services and conditions. There are two capital markets one in each entity but trading is limited. Consequently, small and medium businesses in Bosnia and Herzegovina have financial problems, and often find themselves into insolvency.

According to the Doing business report 2012 below we present the ranks for Western Balkan countries regarding the following criteria: getting credit, protecting investors, resolving insolvency and trading across borders (Figure 2).

Figure 2. Ranks of the Western Balkan countries with regarding access to finance (Source: Doing business, 2012)



The conditions for getting credit are relatively good in all Western Balkan countries. In the most favorable position for receiving credit are SMEs in Montenegro. In Macedonia, Kosovo, Serbia and Albania there are still issues that need to be improved, but they are in advanced position comparing to Croatia and Bosnia and Herzegovina. The situation with the insolvency in the observed countries is similar. Insolvency remains a major problem in Croatia, Bosnia and Herzegovina and Serbia, while Macedonia, Montenegro and Kosovo show considerable improvements. Considering the strength of investor protections Albania and Macedonia are ahead, followed by Serbia and Bosnia and Herzegovina, and finally by Croatia and Kosovo. The flow of money, goods and services across borders is easiest in Montenegro and Macedonia, whereas Kosovo, Serbia and Bosnia and Herzegovina are lagging far behind.

5. Taxation system

To attract investments and to foster small and medium enterprises growth is a strategic goal of policymakers. It can be achieved only with proper taxation policy, taxation rates and taxation base rules. Although every Western Balkan country has developed its own taxation system based on its own macroeconomic conditions and needs there are some common features such as facilitating

tax compliance, simplification of the fiscal schemes and improving the tax administration (EC. OECD. ETF.EBRD, 2009).

Tax treatment of small and medium enterprises in Republic of Macedonia, it is beneficial in a number of aspects. First there is an attractive package of taxes for investors such as flat corporate income tax and personal income tax of 10%. VAT is 18% and 5%. Second, reinvested profits are fully exempt from taxation. Third, the social security contribution rates are reduced. Moreover, the tax policy has been used by the government as an advantage in order to promote the country as an attractive investment destination. Therefore, the taxes remained unchanged even when all other Western Balkan countries increased them during the recent economic crisis.

In Serbia all companies regardless their size pay corporate income tax of 10%. Dividends were exempt from the corporate tax. The social security contributions for employers are 11% for the pension insurance, 6.15% for the health insurance. Tax credit of 40% was granted for SMEs for fixed assets investments. VAT rates are 18% and 8% (TaxRates.cc).

In Montenegro the corporate income tax was 9% and the obligation for advance payment of corporate tax was abolished. Capital gains were taxed as normal income and tax losses could be carried 5 years. Social security contributions were 9.8%. The standard VAT tax rate was 17% and the reduced is 7%.

In Kosovo improvements have been made in the taxation system. Therefore, the corporate income tax rate was cut from 20% to 10% and the collection process was reorganized.

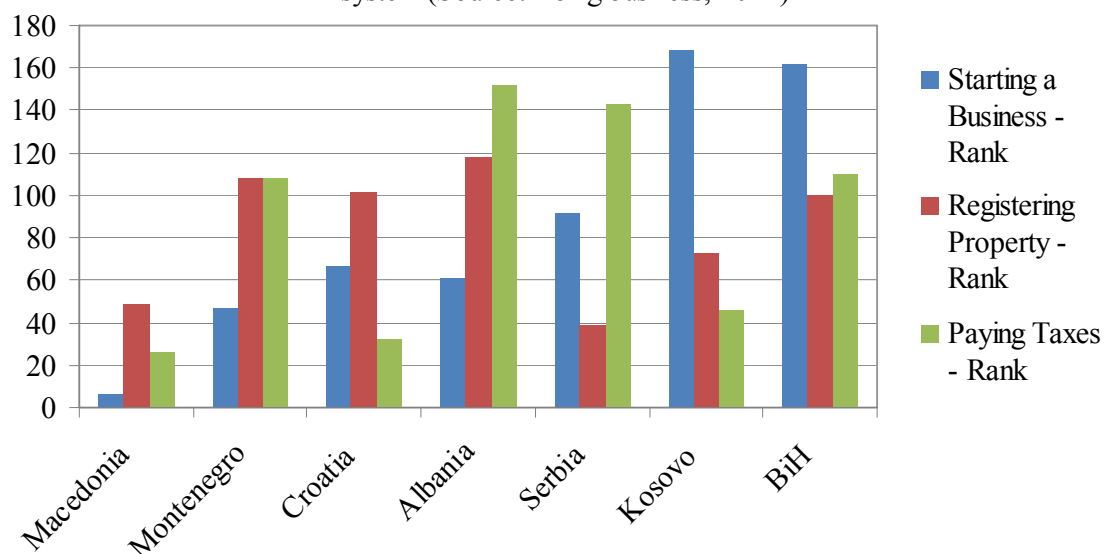
In Bosnia and Herzegovina the corporate income tax was reduced from 30% to 10%, the distributed profit was exempt from taxing and the employer contribution rates for social security were decreased. VAT standard tax rate was 17% and some goods and services were exempt.

Regarding the taxation system in Croatia, tax burden has been relatively high, which discourages investors. For instance the income tax rate was progressive between 12% and 40%. Croatia corporate tax rate was flat 20%. Dividends were not subject of tax, capital gains tax is also 20%. Deductions of corporate tax rate were available for new investments and for investing in research and development. The standard VAT rate was 23% and additional reduced rates of 10% and 0%.

In Albania important improvements were made in the fiscal system. The corporate tax was reduced from 20% to 10%, the dividend was exempt from tax payment, VAT general rate was 20%, social security contributions were cut from 20% to 15% and it was introduced electronic system of filing and payment of taxes.

In order to compare economies and explore if they have made paying taxes easier or not, we present in one figure together the following ranks for the Western Balkan countries: starting a business, registering property and paying taxes (Figure 3).

Figure 3. Ranks of the Western Balkan countries with respect to taxation system (Source: Doing business, 2012)



As shown on the Figure 3 most advanced country in the taxation related areas is Republic of Macedonia, while Croatia and Kosovo has also encouraging tax policy. On the other side, in Montenegro, Bosnia and Herzegovina, Serbia and Albania taxation system should be improved. Starting a business there is fast and cheaper comparing with other Western Balkans. With this regard, in a particularly unfavorable position are entrepreneurs in Bosnia and Herzegovina, and especially in Kosovo. Registering property is simpler in Serbia and Macedonia. Albania, Bosnia and Herzegovina and Kosovo are slipping behind. Than provide appropriate interpretation and comparisons

6. The implications of the economic recession

The global economic crisis started as a credit crunch in USA, then continued as a debt crisis in Europe and affected almost all countries in the world. Western Balkan countries did not remain apart from the global recession. Their close relations with European Union led to slipping over the crisis in this region. The main factors that contributed for spreading the crisis were weak global demand, decreased international trade and reduced sources for financing, whether it is for donations, loans or direct investments (European Commission, 2009).

At the very beginning of the crisis, the Western Balkan region didn't feel much of the negative effects. The economic growth recorded in the years before continued in the first half of 2008. Consequences started to feel in the second half of 2008 when the growth rates declined, but they were still positive. As the crisis developed and affected European countries, the production, employment and investments in Western Balkans decreased. Growth rates drastically felt and some countries even registered negative growth. The macroeconomic stability in the region was jeopardized, stability of currencies and overall monetary systems were endangered as a result of the vulnerability of the euro. In fact, Western Balkans bank system stayed stable, due to its rigor and lack of innovative financial instruments. However, the recession hit the real economy and caused slowdown of economic activity. The decrease in the global demand and reduced international trade affected Western Balkan countries exports and changed their trade balances. Deficits were frequent and countries public debt increased. They were obligated to ask for

external finance assistance. International Monetary fund offered the needed help and most of the countries get loans to alleviate the implications of the crisis.

The governments in the region took measures such as reconstruction of budgets, tax reforms and launching infrastructure projects. Every country had its own approach in overcoming the crisis, but not all succeeded to escape the negative implications and improve their economic stability. The reforms to certain extent reduced the deficits and levels of debt, but on the other side worsen the business environment and affected the SME sector development. The most common problems that businesses faced were increased taxes, reduced donations from external sources, limited access to finance as a consequence of the strengthened credit requirements. The longstanding efforts of countries to improve the business environment seemed to be in vain. Many small enterprises went bankrupt while others barely managed to sustain. To support them governments reacted with financial facilities, institutional support and providing consulting services. Furthermore, the European Commission approved crisis package for small and medium enterprises and financial aid from European investment bank.

According to World Bank the crisis influence in Balkans is yet to be felt (SETimes.com). The bank predicts hard times for the region. Governments must react accordingly and on time in order to save the established business from destruction, but also to enrich economic structure of their countries with new business. Overcoming the recession and accelerating the post crisis recovery strongly depends of the preparedness of policymaker for protection and stimulating of SME's in their development.

7. Conclusions and policy recommendations

This paper has we have examined the business climate in Western Balkans and the suitability of various government measures for its improvement. Generally, we can conclude that Western Balkans do not represent a monolithic group with respect to the ease of doing business. According to the results from the analysis, doing business is easiest in Macedonia whose rank is 22. Majority of the countries such as Montenegro, Croatia, Albania and Serbia belong to the middle range with ranks 56, 80, 82 and 92 respectively. On the other side, Kosovo and Bosnia and Herzegovina are still facing a lot of problems and their ranks are 117 and 125 respectively.

Despite this general observation, each Western Balkan country has its own strengths and weak points. For example, Macedonia is leading in starting a business, obtaining permits and paying taxes, but it needs improvements in getting electricity, getting credit and resolving insolvency. Montenegro leads in getting credit, resolving insolvency and trading across borders, but faces problems in other fields such as: enforcing contracts, registering property and obtaining construction permits. Croatia leads in enforcing contracts and getting electricity and is relatively good in dealing with permits, but weak in getting credit protecting investors and resolving insolvency. Serbia is also struggling with resolving insolvency, dealing with permits and paying taxes but is ahead of all Western Balkans in registering property. Albania stands high with respect to protection of investors, but access to electricity, taxation system and registration of properties are its weak points. Finally, Kosovo and Bosnia and Herzegovina are the two countries with biggest limitations for businesses and need substantial government reforms in order to make further improvements.

In sum, the current circumstances in the sphere of regulation, access to finance and taxation system in Western Balkans provide a room for further reforms. This has been recognized by the policymakers in the region who repeatedly have undertaken measures for improving the business climate. According to our analysis we identify the areas where appropriate policy measures are necessary. By using the Doing Business simulator we next examine the potential implications of the potential policy reforms.

In the case of Macedonia, access to electricity can be noted as the main gap whose filling may improve the rank of the country. For illustration, diminution of the procedures for getting

electricity from 5 to 3 and decreasing the time from 150 to 60 days would improve the overall rank for doing business from 22 to 18. In the case of Montenegro, the weak point is enforcing contracts and by undertaking appropriate reforms the procedures can be reduced from 49 to about 30, which will result with movements in the general rank from 56 to 45. Also dealing with construction permits can be simplified by lowering the number of procedures from 17 to about 12 that will improve the overall ranking for 5 positions. Croatia target reforms could be resolving insolvency by means for increasing the recovery rate. Slight enlargement in the recovery rate from 29.7 to 44 will improve the rank from 80 to the 63 position. In Serbia we have identified that paying taxes is time consuming and for instance cutting the hours needed, from 279 to about 200 hours will result with change in the overall rank for 5 positions. Having in mind that Albania's greatest problem is getting electricity we simulate fewer procedures for accessing electricity. Namely, by shortening the number of procedures from 6 to 4, the rank moves from 82 to 77. Unlike the above mentioned Western Balkans, Kosovo and Bosnia and Herzegovina business situation require more substantial reforms in several fields. For example, in Kosovo trading across borders is crucial, because most of the products in the country are imported. Lowering the number of documents for import and export from 8 to 4, could improve the general rank from 117 to 109. Similarly, the number of procedures for enforcing contracts in Kosovo is very big standing at 53 in 2012. If we assume minimizing them to about 30, the rank for doing business will improve to 113. Bosnia and Herzegovina, similarly to Kosovo needs improvements in more areas. If the procedures for registering property decrease from 7 to 5, the rank will improve for 6 positions. The same can be achieved with cutting the procedures for enforcing contract from 37 to 30.

Scenarios and simulations used above intend to help policy creators to introduce the right measures, as essential tools for advancing the business climate in Western Balkan countries. In this context we recommend applying them simultaneously and in coordination in order to achieve a synergy effect. In this manner the Western Balkan countries would improve the overall business climate and will gradually approach to more advanced transition countries. Finally, we would like to stress that there exists possibilities for researchers to further investigate the most appropriate combination of reforms, which will result with enrichment of state economic structures with SMEs, increasing productivity and employment.

Reference list

1. Gveroski, M. and Nikoloski, D. (2006) “Some Aspects of the Income Inequality-Case study for Macedonia”, Proceedings from the international conference “Structural Changes and Demographic Trends in South European Countries”, Niš, Serbia, June, 2006;
2. Gveroski M., Risteska A., Dimeski S. (2010) *Small and medium enterprises- drivers of economy development*. Belgrade: Faculty of Organizational Sciences.
3. EC, OECD, ETF, EBRD (2009). *Progress in the Implementatio nof the European Charter for Small Enterprises in theWestern Balkans*. OECD.
4. European Commission (2009) *The Western Balkans in Transition*. Brusles: Directorate-General for Economic and Financial Affairs European comission.
5. Minchev, O., Lessenski, M., Stojkovski, G., & Ralchev, S. (2010). *The Westen Balkans: Between the Economic Crisis and the European Perspective*. Sofia: Institute for Regional and International Studies.
6. Nikoloski, D. (2009) “*The sustainable rate of unemployment in transition countries – A case study for Macedonia*”, VDM Verlag;
7. OECD (2010) Improving new investment finance options in Western Balkans. *Summary record, Skopje, 8 June, 2010*
8. Penev, S., & Marusic, A. (2009, July – September). Regulatory reform in five Western Balkan countries: Evidence and perspectives. *ECONOMIC ANNALS*, p. 182.
9. SETimes.com.
http://setimes.com/cocoon/setimes/xhtml/en_GB/features/setimes/features/2011/11/29/feature-02. (accessed September 01, 2012).
10. TaxRates.cc. <http://www.taxrates.cc/index.html>. (accessed September 01, 2012).