1 BASIC INFORMATION

1.1 CRIS Number: HR2005/5/5
1.2 Title: Capacity building for the SME support structure and alignment of policy and actions to the SME charter and acquis communautaire
1.3 Sector: 43010
1.4 Location: Croatia
1.5 Duration: 36 months

2 OBJECTIVES

2.1 Overall Objective(s)
The overall objective of the project is to fulfill the requirements of the SME Chapter of the acquis and the European Charter for Small Enterprises.

2.2 Project purpose
The purpose of the project is to ensure that the SME Department (Ministry of Economy, Labour and Entrepreneurship) / SME Agency (HAMAG) is able to develop policies and provide support to SMEs to EU standards as required by the SME Chapter of the *acquis* and the EU Charter for Small Enterprise. This institution capacity building is expected to impact significantly on Croatia’s ability to successfully negotiate the SME chapter and implement SME best practice.

2.3 European Partnership (EP) and NPIEU priority
The European Partnership with Croatia (2004, Ability to Assume the Obligations of Membership, Sectoral Policies: SMEs, p.14) stresses the need to continue implementing the EU Charter for Small Enterprises, as well as further simplify company registration procedures.

Moreover, the SME Chapter of the Opinion on Croatia’s Application for Membership of the European Union concludes that (2004, p.93):

“Croatia should further adjust its legislation and rules affecting business, improve the administrative and judicial environment and continue implementation of the European Charter for Small Enterprises. Alignment with the new Commission recommendation on the SME definition should be carried out. Overall, Croatia should be able to participate fully in EU SME Policy.”

2.4 Contribution to National Development Plan
The Croatian National Development Plan (NDP) is currently under preparation. Namely, in June this year the CARDS 2003 project “Support to National Development Planning” is starting with implementation. This project is of key importance to help Croatia prepare for the effective use of both EU pre-accession and Structural Funds. The overall objective of this project is to enhance Croatia’s development planning and implementation capacity through the elaboration of the National Strategic Development Framework (NSRF) and the corresponding Operational Programmes (OP) based on a wide consensus and in line with EU best practices and regulations. Furthermore, one of
the specific objectives of the project is to prepare NSRF according to EU best practices and regulations - including priorities; measures and indicative budgets. As such, the NSRF should include relevant sectoral and regional operational programmes and should incorporate relevant existing strategies.

In accordance the future NDP/NSDF should be closely linked to the National Strategy of Regional Development, which is in the final stage of preparation under the CARDS 2002 project “Strategy and Capacity Building for Regional Development”. There is an expectation that the NSRD will be incorporated as a key component alongside a number of sectoral priorities within the NDP. The National Strategy for Regional Development is intending to provide the means to introduce and implement a more “joined-up” (coordinated) approach to the sustainable socio-economic development of all of the parts of the country. As such, it will represent a significant cross-sectoral, area-focussed strand of the National Development Plan, linking a range of central government ministries and institutions with socio-economic actors and institutions across the country in a concerted long-term “top-down – bottom-up” effort to achieve a more balanced development of the country and to reduce socio-economic disparities.

There are two strategic objectives of the NSRD: 1) All counties and “wider regions” enabled to contribute to sustainable national development and competitiveness – and reduced social and economic disparities across the country. 2) Effective management system for regional development established.

In the mean time, MELE has produced an “Operational Plan for SME Promotion (2004-2008)”, which begins to pay some attention to certain elements of the EU Charter for Small Enterprises. Its goals include the following:
- Increasing the number of SMEs.
- Removing the existing administrative barriers.
- Upgrading competitiveness through R&D, education, new technologies.
- Strengthening the export oriented SMEs.
- Developing a culture of entrepreneurship.
- Lowering taxes, etc.

The “Operational Plan for SME Promotion” is expected to become an integrated part of the future NPD

2.5 Cross Border Impact
Not applicable.

3 DESCRIPTION

3.1 Background and justification

3.1.1 Involvement of Stakeholders and Civil Society in the programming process

SME stakeholders involved in project preparation:
- Ministry of Economy, Labour and Entrepreneurship.
- Various other relevant Ministries (e.g. Foreign Affairs and European Integration, Sea, Transport, Tourism and Development, Ministry of Justice, etc.).
- Croatian Agency for Small Business (HAMAG).
- Business Associations (Chamber of Commerce, Chamber of Trades and Crafts, Employers’ Association, Chamber of Cooperatives, etc).

Topics discussed during the project preparation:
- General SME issues and concerns (business associations, MELE, HAMG).
- Institutional requirements for MELE to meet its obligations under the SME Charter.
- Simplification of the regulatory environment to meet the requirements of the Charter for Small Enterprises.

The project focuses on preparing the Ministry and SME Agency to prepare for accession by ensuring that they are able to implement the SME Chapter of the Acquis Communautaire and the EU Charter for Small Enterprises. As such, NGOs were not an important stakeholder in the programming process.

3.1.2 Justification
EU policy prioritises the development of the SME sector. By signing the European Charter for Small Enterprises (the Charter) at the Thessaloniki summit in June 2003, Croatia joined the EU member countries, Candidate and Western Balkan countries in recognising the importance of the SME sector and agreed to work towards implementing a very demanding reform agenda. The Charter effectively amounts to a best practice SME policy framework whose implementation can be regularly assessed (annual progress reports have already been prepared in 2003 and 2004) by the Government of Croatia as well as the EU. All activities funded under Economic and Social Cohesion relating to the SME sector should, therefore, conform to the broad agenda established by the Charter. However, although Croatia has been stressing the importance of SME development from a policy perspective, this needs to be prioritised.

The proposed project aims to ensure that the SME institutional, policy and implementation structures are in place to enable Croatia to successfully negotiate membership of the EU.

More specifically, recent studies such as the OECD-EBRD (2003), the EC (2004) and OECD-EBRD-DG Enterprise (2005) that have analysed the SME sector have highlighted a number of weaknesses (see below) which this project seeks to tackle.

The Ministry of Economy, Labour and Entrepreneurship’s (MELE) SME Directorate has responsibility for developing and implementing SME policy. The SME Directorate’s Development Programme for Small Entrepreneurship (2003-2006) was the main blueprint for SME development. In 2004 the SME Division revised the programme in the form of an Operational Plan for SME Promotion (2004-2008), which is more attuned to the EU Charter’s agenda. Its main goals are as follows:
- Balanced development of all Croatian counties.
- Increasing the number of SMEs.
- Creating additional SME zones.
- Removing the existing administrative barriers.
- Upgrading competitiveness through R&D, education, new technologies.
- Stimulating the creation of production related SMEs.
- Strengthening the export oriented SMEs.
- Developing a culture of entrepreneurship, training and promoting entrepreneurship for target groups such as youth, women and war veterans.
- Promoting cooperation between SMEs and large companies (cooperatives, clusters).
- Increasing the average number of employed in crafts units from 1.4 to 2.0.
- Lowering taxes.
The Directorate for SMEs at MELE has a very demanding policy role to perform in supporting SMEs and there is a need to ensure that it has the capacity to perform its new role, given the much greater emphasis that is being placed on SME development, now that Croatia has obtained Candidate Country status.

The SME Division’s activities are currently focused on project delivery, rather than policy development and creation of mechanisms to implement SME policy. There is also a need to review national SME policy objectives with respect to business development services and the creation of an enterprise culture. The Government places a strong emphasis on the development of business support centres, regional development agencies, business incubators and enterprise / business zones. There is a need to assess the extent to which the MELE’s policy focus now needs to shift from numerical targets to consolidation, so as to secure financial sustainability, in line with international practice and as required by the Charter.

Moreover, the institutional link to the SME Agency (HAMAG) also needs to be explored to ensure that the policy making and implementation structures are closely aligned. There appears to be a bias for HAMAG’s focus on the management of guarantee schemes, rather than acting as an executive agency for the implementation of SME policy set by MELE.

There is an urgent need to further improve the business environment in Croatia (business entry and exit, on-line registration, land registration, one-stop-shop, etc.); enhance SME definitions and statistics so as to sharpen policy formulation; improve the licensing, permit and certificate regime; and generally streamline the regulatory environment (covering issues such as the introduction of Regulatory Impact Assessment and silent consent), something which is increasingly pursued in neighbouring countries.

This, together with the necessity to develop appropriate SME policy coordination and consultation mechanisms are in place as required by the SME Charter, amounts to a significant agenda for this project.

3.2 Sectoral rationale
Not applicable.

3.3 Results
Six main results will be achieved by the end of the technical assistance project:
Result 1: The SME institutional framework will be reviewed and enhanced.
Result 2: The SME policies, programmes and strategies will be reviewed and enhanced.
Result 3: The Business Advisory Service policies and support mechanisms will be reviewed and enhanced for sustainability.
Result 4: The SME definitions, statistics and analyses will be reviewed and enhanced.
Result 5: The Regulatory regime for SMEs will be reviewed and enhanced.
Result 6: Training and capacity building to national SME institutions will be delivered.

The logframe presented in Annex 1 below sets out the indicators of achievement, which are quantified, verifiable and time-bound.
3.4 Activities (including Means)

There are six interrelated activities proposed in this project:

3.4.1 Improvement in the institutional framework

The first activity focuses on improvement of the institutional framework. The intention is to raise awareness and deliver capacity building (training) to the SME Directorate to ensure that they are fully aware of the requirements of the SME Chapter of the acquis as well as the EU Charter. Having undertaken this exercise, the plan is to review the current institutional arrangements for SME development, focusing on the SME Department and the relationship with the SME Agency, with a view to obtaining recommendations and a roadmap for reform. Technical assistance will be provided to ensure that MELE has the capacity to implement the required institutional reforms. Two important developments will be the preparation of mechanisms for SME Directorate coordination with governmental institutions, as well as SME stakeholders on SME policy / legislation / regulations. Finally, another institutional gap will be filled, namely the need to develop mechanisms for regular consultation with SME stakeholders. This activity will be achieved by means of technical assistance and training.

3.4.2 Improvement in policies and strategies

Technical assistance will be provided to review the SME Directorate’s policies, strategies and programmes for SMEs, as well the current organisational structure with the aim of presenting recommendations specifically focused on how best to restructure the current activities so as to most effectively implement the requirements of the EU Charter and the SME Chapter of the acquis. It is expected that the policy review will link with the previous component (institutional review), resulting in recommendations for more effective allocation of tasks and responsibilities between the SME Directorate and SME Agency for the implementation of the EU Charter and the SME Chapter of the acquis. The recommendations will include a stronger focus on the development of a culture of entrepreneurship in Croatia.

A key element of this activity will be the delivery of technical assistance to MELE with the necessary organisational and staff changes to implement the proposed new institutional structure. It is assumed that policy advice given by the project team will translate into actual organisational and staffing changes. Allied to this, a customised training programme will be developed and delivered, together with adequate support, coaching and mentoring to ensure that the staffs in the SME Directorate / Agency are able to implement their proposed new responsibilities. The final part of this activity will be the preparation, jointly with the SME Directorate / Agency, of a new SME programme/strategy, assistance with obtaining Government / Parliamentary approval for it and a wide-ranging consultation with SME stakeholders and dissemination of the government approved SME programme/strategy. Assistance will also be provided to the SME Directorate and SME Agency with its implementation, following approval by Minister, Government and/or Parliament. Such developments need to be linked to the Operational Programmes (Sectoral & Regional) and this will be achieved through MELE’s regular collaboration with the Ministry of Sea, Transport, Tourism and Development.

3.4.3 Improvement in business advisory services

The project will pay particular attention to Croatia’s efforts to improve business development services, using international best practice to guide future activities. This
activity will include a review of the current policies in relation to business advisory services (covering business centres, incubators, industrial centres, clusters, etc.), with its focus on the establishment of a large number of such institutions. In terms of the enterprise zones, the project will link up with the activities of the CARDS 2003 project Strategic Plan for the Long Term Development of Existing Free Zones in Croatia, so as to avoid possible overlapping of activities and results. Linked to the process of creating a new SME programme/strategy, assistance will be provided to make recommendations for the future focus on business advisory service, which prioritise effectiveness and sustainability, rather than the current narrow focus on numerical targets. Finally, the new approach to business advisory services will be integrated into the SME programme/strategy. The SME Directorate / Agency staff will be trained (the training will include a study tour component) and procedures will be developed for continuing targeted government support to a smaller number of BAS institutions with potential. This support will focus on the “public good” nature of such business services, so as to avoid market distortion. The project will not provide any business advisory services directly.

3.4.4 Improvement in SME definitions, statistics and analysis

This activity involves a review of the current SME definition, which currently differs from the EC’s standard definition of SMEs (only the number of employees is currently compatible) as well as the statistical system in Croatia (e.g. SME Law and Accounting Law) as far as the SMEs are concerned. The review, which will include EU best practice, will lead to recommendations for a harmonised SME definition and the development of coherent SME statistics (various databases and registers), including an action plan for implementation. Technical assistance will be delivered to ensure that the action plan is completed in the lifetime of this project, including the preparation of regulatory and legislative changes / amendments as required, in consultation with SME stakeholders. A key element of this component will be the development of recommendations for, and the creation of, an SME Observatory (international links, SME best practice, benchmarks, statistics, analysis, evaluations, etc.). The SME Department / SME Agency staff will be trained to operate the SME Observatory on its own by project completion. In addition to collecting information on SMEs and Croatian SME statistics, the SME Observatory will produce two detailed annual SME Analysis and Trends reports in 2006 and 2007.

3.4.5 Improvement in the regulatory regime for SMEs

All available evidence suggests that company registration is slow, complicated and costly. This activity involves a review the current regulatory regimes (for companies, cooperatives and crafts) and the preparation of recommendations for streamlining registers/databases, on-line registration, etc., linked to the EU funded project for the creation of a one-stop-shop system (see section 3.5 below). Although the inefficient registration system is hindered by the speed and effectiveness of the court system, other factors such as the role of local government, for example in issuing permits and licenses could be streamlined. The review will result in an action plan to undertake process of business simplification, focusing on the activities of the SME Directorate and courts. Two pilot schemes will be implemented with municipalities / government agencies to simplify the process of company registration, especially in relation to licenses and permits using the principle of “silence is consent.” In addition, this activity will involve undertaking a review of Regulatory Impact Assessment (RIA) regulations, legislation, models and their applicability in relation to SME development, bearing in mind the issue that the problems may be as much due to poor and/or absent laws as to poor
implementation of existing laws. As part of the process, the SME Department and SME Agency staff will be trained on the nature, costs and benefits of RIA, within the context of the EU and Croatia. Technical assistance will also be deployed to prepare an Action Plan (including steps, regulations/legislation, responsibilities, costs, etc.) for more effective implementation of the silence is consent regulation and RIA in relation to the SME sector. Phare 2006 resources will be used to implement the Action Plan.

3.4.6 Improvement in SME training, capacity building and networking

A key activity in the project will be the delivery of detailed capacity building and support to the SME Directorate and Agency. Annual capacity building programmes for SME Department will be developed covering activities 3.4.1-3.4.5 above. Annual capacity building programmes for SME Agency will also be developed covering activities 3.4.1-3.4.5 above. Linked to the above, a study tour for the SME Department and SME Agency will be prepared and undertaken, covering such issues as negotiation of the *acquis communautaire*, implementation of the EU Charter process, developing effective Business Advisory Services and ensuring their sustainability. The SME Directorate current operates in relative isolation from the international SME policy community, therefore, this activity will also involve the development of a programme enabling the SME Department / Agency to network with international bodies and networks with a view to enabling EU/international good practice to be understood and applied to Croatia. Finally, and related to the previous point, resources will be made available and a programme will be created enabling the SME Department / Agency to attend relevant international conferences/workshops, to network internationally and incorporate EU SME best practice in the Croatian environment.

This project will be tendered as one service contract: €2,475,000 technical assistance and €25,000 for the audit.

The PHARE 2005 project focuses on the MELE and HAMAG, and will impact indirectly on the Croatian business community. It is anticipated that the PHARE 2006 projects will be more focused on the SMEs themselves.

3.5 Linked Activities

PHARE 2005 project:
- A Business-Related Infrastructure Grant Scheme is being prepared which will be managed jointly by the Ministry of Sea, Transport, Tourism and Development and MELE. It is expected that the project will lead to the implementation of 8-10 projects supporting public goods, rather than private goods investment. The minimum individual grant size will be €500,000 and the maximum will be €1,000,000.

Two main CARDS projects focus on related issues:
- Development of the Business and Investment Climate in Croatia: this project has two components. The first seeks to reduce administrative and regulatory barriers, such as simplifying administrative processes and legislation, including the development of a ‘one-stop shop’ system to promote investments. The second component supports for a second year the activities to a European Info Correspondence Centre located in Zagreb.
- Improving information to the Croatian business community: component one of this project aims to identify, analyse and communicate regulatory/legislative changes to businesses, thus improving information provision and dialogue with the business
community. The second component extends funding for the EICC Zagreb for a third and fourth year of operation.

Strategic Plan for the Long Term Development of Existing Free Zones in Croatia: the project will link up with the activities of this CARDS 2003 project in terms of the enterprise zones.

Other relevant activities being undertaken by other the Croatian government, donors and or international financial institutions (IFIs) include the following:
- Croatia Enterprise Promotion (CEP): this USAID project provides business development services (BDS) to enterprises of all sizes (with an emphasis on SMEs), through an independent network of trained and certified consultants that operate on a ‘for-fee’ basis. CEP stimulates private enterprise productivity, competitiveness and profitability by providing best practices business tools, and access to international quality standards and certification to enterprises.

3.6 Lessons learned
A number of studies have been undertaken on SME development on Croatia, such as OECD-EBRD (2003), the EC (2004) and OECD-EBRD-DG Enterprise (2005). The lessons that have been taken into account in the design of this project include the following (EC, 2004):
- An assessment needs to be made as to whether MELE’s Directorate for SMEs is adequately equipped to perform SME role in relation to policies and strategies.
- There is a need to introduce mechanisms for regular and effective dialogue between Government and business community, especially small enterprises.
- In addition to further enhancing the capacity of specialised business advisory, consulting and related support institutions, there is a need to introduce internationally recognised standards and certification for business advisory services.
- There is a lack of instruments for regular, timely monitoring and evaluation of the performance and impact on the development of the SME Sector in Croatia, especially in relation to central government (Ministry of Economy, Labour Entrepreneurship) and the SME implementation agency (HAMAG).

4. Institutional Framework
A new Government took office at the beginning of 2004 which has continued to strengthen the SME sector as one of its priorities. In an effort to reduce of number of ministries, the former Ministry for Crafts, Small and Medium Enterprises was abolished and reverted to reporting to the Ministry of Economy, Labour and Entrepreneurship (MELE). An SME Directorate was formed within MELE, which is in charge of SME development.

The institutional framework for the development of the SME sector is fairly comprehensive in Croatia. At the state level, the SME Directorate is responsible for setting SME policy. Entrepreneurship and SME development were singled out as priorities for 2002-2004 (Developmental Priorities of the Republic of Croatia, 2002-2004).

The Croatian Agency for Small Business (HAMAG) is funded by the state budget and international sources, and is expected to play the crucial role of implementing the short and medium term plans for the development of small businesses. However, other than the issue of standards and accreditation for business advisors, it focuses almost
exclusively on financial support to SMEs in the form of guarantees. It is expected that HAMAG’s role could be further strengthened with regard to undertaking the SME policy implantation role which is normally performed by SME Agencies.

There is significant additional financial support available for SME sector from the state budget via the other organisations such as the Ministry of Sea, Transport, Tourism and Development, Ministry of Justice, Croatian Bank for Reconstruction and Development, etc. Unlike many other countries in the SEE region, there is a correlation between the ambitions set out in the Programme for Development of Small Entrepreneurship and the funds that the state allocates to achieve that strategy in Croatia.

No dedicated mechanism for SME – government dialogue exists at the present time in Croatia. The main means of involving business community in the legislative process is via the participation of the Croatian Chamber of Commerce, the Croatian Chamber of Crafts and Crafts and the Croatian Employers’ Association (see below). These institutions are asked for feedback on documents and legislation. In addition, the Croatian Employers’ Association participates in the Social and Economic Council and both chambers have signed a “Partnership for Development” under which they are recognised partners in the official dialogue between the Government, employers and Trade Unions, with the aim of reaching consensus on key economic reform policies and legislation.

The major business associations are (European Partnership 2004, pp.39-40):
- The Croatian Chamber of Commerce (HGK).
- The Croatian Chamber of Trades and Crafts (HOK).
- The Croatian Managers’ and Entrepreneurs’ Association (CROMA).
- The Croatian Banking Association (HUB).
- The Association of Management Consultants (UPS).
- The Business Association of Croatian Woman (KRUG).

The technical management of the project will be undertaken by the SME Directorate within the Ministry of Economy, Labour and Entrepreneurship.

Project Steering Committee will be created consisting of representatives from MELE, SME Agency, business associations, academic institutions and other relevant SME stakeholders. The Project Steering Committee will operate under the chairmanship of the SME Department and will meet on a quarterly basis to review project progress. The CFCU and EC Delegations will be invited to participate in the Project Steering Committee as observers. Among others, there will be representatives from Ministry of Foreign Affairs and European integration in the Project Steering Committee.

The Contracting Authority for the project will be the CFCU. The CFCU will be responsible for all tendering, contracting and disbursement in relation to this project. The Ministry of Economy, Labour and Entrepreneurship shall be responsible for the management and implementation of the project.
### 5. **Detailed Budget**

<table>
<thead>
<tr>
<th>Year 2005 - Investment support jointly co funded</th>
<th>Phare/Pre-Accession Instrument support</th>
<th>Co-financing</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Public Funds (*)</td>
<td>Other Sources (**)</td>
<td>Total Co-financing of Project</td>
<td></td>
</tr>
<tr>
<td>% of total public funds</td>
<td>max 75 %</td>
<td>min 25 %</td>
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<table>
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<tr>
<th>Year 2005 Institution Building support</th>
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<tr>
<td>Sub-project 1</td>
<td>2.5</td>
<td></td>
<td>2.5</td>
</tr>
<tr>
<td>Sub-project 2, etc…</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>IB support</td>
<td>2.5</td>
<td></td>
<td>2.5</td>
</tr>
</tbody>
</table>

| Total project 2005                             | 2.5                                  |              | 2.5       |

(*) contributions from National, Regional, Local, Municipal authorities, FIs loans to public entities, funds from public enterprises

(**) private funds, FIs loans to private entities

1. All investment sub-projects supported by PHARE must receive co-financing from national public funds. Minimum requirement for co-financing from national public funds is 25% of the combined PHARE and national contributions to the overall investment support.

2. Many Institution building projects will also have a degree of co-financing – this should be quantified and included wherever possible.

3. Expenditure related to equipment (regulatory infrastructure or ESC-related) and to Technical Assistance supporting investment (e.g. pre feasibility study / supervision of works / technical specifications) should be considered as Investment support in the project fiche.

4. All co-financing must be provided on a joint basis. Parallel co-financing will, in a principle, not be accepted. Exceptions to this rule have to be agreed with the Commission in advance.
5. All co-financing should be clearly quantified, also the degree of certainty of such co-financing (i.e. for National Public Funds: is it already earmarked in local or national budget, for FIs Loans, private funds: are they already approved/under appraisal, etc.).

6. Where parallel co-financing is accepted and justified per exception to the normal rule it should be provided in monetary form. If this is not possible there should be clear criteria set out for the valuation of any non-monetary contributions (that should be quantified in the table).

7. If twinning is involved, clearly state the expected budget of the twinning covenant.

8. The financial engineering of the project should be closely monitored against actual delivery during implementation and against the objectives that were set in the project fiche so that corrective actions may be taken where required.

6. IMPLEMENTATION ARRANGEMENTS

6.1 Implementing Agency

Programme Authorising Officer
Mrs Vladimira Ivandić
Assistant Minister
Ministry of Finance
Katanciceva 5
10000 Croatia

Senior Programme Officer
Tajana Kesić-Šapić
State Secretary – SME Directorate
Ministry of Economy, Labour and Entrepreneurship
Ulica Grada Vukovara 78
Croatia
Tel: +385 1 610 - 6548
Fax: +385 1 610 - 6921
Email: tajanasapic@mingorp.hr

6.2 Twinning
Not applicable.

6.3 Non-standard aspects
The Practical Guide to contract procedures financed from the General Budget of the European Communities in the context of external actions (the PRAG) will be strictly followed.

6.4 Contracts
This project will be tendered as one service contract: €2,475,000 technical assistance and €25,000 for the audit.

7 IMPLEMENTATION SCHEDULE
The project will be contracted via the CFCU.
The overall implementation schedule is as follows:
<table>
<thead>
<tr>
<th>Component</th>
<th>Start of Tendering</th>
<th>Start of Activity</th>
<th>Completion of Action</th>
</tr>
</thead>
</table>

7.1 Start of tendering/call for proposals: The tendering/call for proposals will begin within 3 months of signing the Financing Agreement.

7.2 Start of project activity: The project activity will begin within 12 months of signing the Financing Agreement.

7.3 Project completion: The project will be completed within 30 months of signing the Financing Agreement.

8 **EQUAL OPPORTUNITY**

The ToRs for the technical assistance will be structured so that the project design, SME strategy, SME policies, etc. will take into account the need for equal participation in the project by women and men, as well as how such participation will be measured.

9 **ENVIRONMENT**

Not applicable.

10 **RATES OF RETURN**

Not applicable.

11 **INVESTMENT CRITERIA (APPLICABLE TO ALL INVESTMENTS)**

11.1 Catalytic effect
Not applicable.

11.2 Co-financing
Not applicable.

11.3 Additionality
Not applicable.

11.4 Project readiness and size
No technical studies were necessary since the SME Department is obliged to implement the SME chapter of the *acquis* and the Charter for Small Enterprises.
11.5 Sustainability
Not applicable.

11.6 Compliance with state aids provisions
Not applicable.

12 CONDITIONALITY AND SEQUENCING
No preconditions are required.

The tendering/call for proposals will begin within 3 months of signing the Financing Agreement; project activity will begin within 9 months of signing the Financing Agreement; and the project will be completed within 27 months of signing the Financing Agreement.

As a result of the project, the following will be achieved:
- The SME institutional framework will be enhanced for accession.
- SME policies, programmes and strategies will be enhanced in line with EU practice.
- Business Advisory Service support mechanisms will be more sustainable.
- SME definitions, statistics and analyses will be enhanced and harmonized.
- The regulatory regime for SMEs will be simplified and improved.
- Training and capacity building to national SME institutions will be delivered.

Annexes to the Project Fiche:
Annex 1 – Logframe
Annex 2 – Detailed Implementation Chart
Annex 3 – Contracting and Disbursement Schedule
Annex 4 – List of Feasibility Studies, Financial Appraisals, EIAs
Annex 5 – Reference List of Legislation
Annex 6 – Reference List of Documents
<table>
<thead>
<tr>
<th>Capacity building for the SME support structure and alignment of policy and actions to the SME charter and acquis communautaire</th>
<th>Programme name and number</th>
<th>HR2005/5/5</th>
</tr>
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<tbody>
<tr>
<td>Total budget: 2 500 000 €</td>
<td>PHARE budget: 2 500 000 €</td>
<td></td>
</tr>
<tr>
<td>Overall objective</td>
<td>Objectively Verifiable Indicators</td>
<td>Sources of Verification</td>
</tr>
<tr>
<td>Fulfillment of the requirements of the SME Chapter of the acquis and the European Charter for Small Enterprises</td>
<td>Progress in implementing the EU Charter for Small Enterprises Successful negotiation of SME Chapter of the acquis</td>
<td>- EU Charter progress reports - Commission regular report</td>
</tr>
<tr>
<td>Project purpose</td>
<td>Objectively Verifiable Indicators</td>
<td>Sources of Verification</td>
</tr>
<tr>
<td>To ensure that the SME Department (Ministry of Economy, Labour and Entrepreneurship) / SME Agency is able to develop policies and provide support to SMEs to EU standards as required by the SME Chapter of the acquis and the EU Charter for Small Enterprise.</td>
<td>- Clear roles and responsibilities allocated at the national level - Effective cooperation and interaction between SME Department and Agency - Government approved SME strategy / programmes aligned to the needs of accession - Progress towards signing the SME Chapter of the acquis and implementation of EU Charter</td>
<td>- Published statistics - BEEPS survey results - EU Charter for Small Enterprise regular progress report - Commission regular report - OECD-EBRD-DG Enterprise EPPA report</td>
</tr>
<tr>
<td>Results</td>
<td>Objectively Verifiable Indicators</td>
<td>Sources of Verification</td>
</tr>
<tr>
<td>Result 1 – SME institutional framework enhanced</td>
<td>- SME Department / Agency’s institutional structure meets international best practice - SME definition and statistics consistent with the acquis - No of Staff in SME Department / SME Agency’s understand requirements of the EU Charter and acquis</td>
<td>- Technical assistance reports - Monthly, quarterly and annual progress reports - Monitoring by the Delegation - World Bank’s Costs of Doing Business survey</td>
</tr>
</tbody>
</table>
the project
- A favourable regulatory
environment especially for
SMEs
- It is assumed that policy advice
will translate into actual
organisational and staffing
changes

<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>- SME institutional framework reviewed and enhanced</td>
<td>2 475 000 € for:</td>
<td>- Both organisations recruit and retain adequate staff</td>
</tr>
<tr>
<td>- SME policies, programmes and strategies reviewed and enhanced</td>
<td>- Technical Assistance</td>
<td>- Effective co-operation with other SME stakeholders (universities, industry, business associations)</td>
</tr>
<tr>
<td>- Business Advisory Service policies and support mechanisms reviewed and</td>
<td>25 000 € for:</td>
<td>- Willingness of relevant governmental agencies to cooperate in implementing the SME agenda</td>
</tr>
<tr>
<td>enhanced for sustainability</td>
<td>- Audit</td>
<td></td>
</tr>
<tr>
<td>- SME definitions, statistics and analyses reviewed and enhanced</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Regulatory regime for SMEs reviewed and enhanced</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Training and capacity building to national SME institutions delivered</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Preconditions:
- none

ANNEX 2 – DETAILED IMPLEMENTATION CHART
### ANNEX 3 – CONTRACTING AND DISBURSEMENT SCHEDULE

<table>
<thead>
<tr>
<th>SME Institutional Strengthening and Policy Development</th>
<th>Cumulative contracting schedule by quarters in EUR (provisional)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>2006</strong></td>
</tr>
<tr>
<td></td>
<td>I</td>
</tr>
<tr>
<td>Technical assistance Audit</td>
<td>2,475,000</td>
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<tr>
<td>TOTAL (EUR):</td>
<td>2,475,000</td>
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<tr>
<td>SME Institutional Strengthening and Policy Development</td>
<td>Cumulative disbursement schedule by quarters in EUR (provisional)</td>
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<td>------------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
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<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td></td>
<td>I</td>
</tr>
<tr>
<td>Technical assistance</td>
<td>1,380,000</td>
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<tr>
<td>Audit</td>
<td></td>
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<tr>
<td>TOTAL (EUR):</td>
<td>1,380,000</td>
</tr>
</tbody>
</table>

ANNEX 4 – LIST OF FEASIBILITY STUDIES, FINANCIAL APPRAISALS, EIAs, ETC
Not applicable.

ANNEX 5 – REFERENCE LIST OF LEGISLATION
4 main laws affect the activities of the SME Directorate, namely:
• Cooperatives Act (1995)
• Crafts Act (2003)
• Investment Promotion Act (2000)
• Small Business Encouragement Act (2002)

These laws will not impact on the operation of the proposed project. Legislation can be obtained from the SME Department, MELE.

ANNEX 6 - REFERENCE LIST OF DOCUMENTS

These materials can be obtained from the SME Department, MELE.