SME Policy Index

Western Balkans and Turkey 2019

ASSESSING THE IMPLEMENTATION OF THE SMALL BUSINESS ACT FOR EUROPE

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FOR EUROPE

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Foreword

Small and medium-sized enterprises (SMEs) and entrepreneurs are key drivers of inclusive and sustainable growth, job creation, skills development and innovation. As such, creating thriving environments for SMEs is at the forefront of the policy-making agenda in OECD countries and beyond.

The Western Balkans and Turkey are no exception. Together, their SMEs make up 99% of all firms, generate around 65% of total business sector value added and account for 73% of total business sector employment. Acknowledging these crucial contributions of SMEs to their economies, governments across the region have set up dedicated agencies and developed strategies to foster SMEs' competitiveness. However, more remains to be done to tackle the challenges facing SMEs and entrepreneurs in the region, ranging from access to finance to participation in international trade. In light of its advancing economic integration with the European Union (EU), addressing these challenges is both timely and crucial for the economic development of the region.

The *SME Policy Index: Western Balkans and Turkey 2019 - Assessing the Implementation of the Small Business Act for Europe* provides an important tool to help policy makers design and implement policies to support the creation, innovation and growth of SMEs based on good practices in OECD and EU countries. It is the fifth edition of this series, following assessments in 2007, 2009, 2012 and 2016. This report provides a comprehensive overview of the implementation status of the ten Small Business Act for Europe (SBA) principles, and monitors progress made since 2016. In addition, it identifies the remaining challenges affecting SMEs in these EU pre-accession economies and makes recommendations to overcome them. It also provides guidance on how they can meet EU requirements and converge towards global best policy practices.

The assessment shows that in recent years many new public initiatives have surfaced, in particular those providing technical and financial support to SMEs. Increasingly, entrepreneurs can turn to public institutions for advice and support to help them start and grow a business. At the same time, administrative barriers to starting and sustaining a small enterprise have been further reduced.

While these developments are welcomed, some persistent deficiencies remain. Regulatory conditions continue to challenge the business environment and programmes are often insufficiently funded and off-target. Policies need to be better aligned with SMEs' needs in order to help them improve productivity, scale up and become better integrated into global markets. This requires a business-led approach to designing policies and programmes that identify and consider SMEs' needs from the start. Existing monitoring practices need to be accompanied by regular evaluations of programme impact, in order to favour the optimal use of public resources and advance evidence-based policy making.

This report is the result of a collaborative effort by the Organisation for Economic Co-operation and Development (OECD), the European Bank for Reconstruction and Development (EBRD) and the European Training Foundation (ETF), with the support of

the European Commission and the governments involved. The views of a wide range of stakeholders, including SMEs themselves, were sought and are reflected throughout the publication.

We commend the efforts of the EU pre-accession economies to foster private sector development through strengthened SME policies, and look forward to our continued partnership delivering better opportunities for companies and citizens across the region.

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Secretary General OECD	EU Commissioner for European Neighbourhood Policy and Enlargement Negotiations	President European Bank for Reconstruction and Development	Director European Training Fondation

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The assessment was conducted under the guidance of Andreas Schaal, Director of the OECD Global Relations Secretariat, and Marzena Kisielewska, Head of the OECD South East Europe Division.

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Abbreviations and acronyms

AIDA	Albanian Investment Development Agency
ALL	Albanian lek
APPRM	Agency for the Promotion of Entrepreneurship (North Macedonia)
ASEAN	Association of Southeast Asian Nations
B2B	Business-to-business
BAM	Bosnia and Herzegovina convertible mark
BAN	Business angel network
BDC	Business Development Bank (Canada)
BSS	Business support service
CAB	Conformity assessment body
CAGR	Compound annual growth rate
CCIS	Chamber of Commerce and Industry of Serbia
Cedefop	European Centre for the Development of Vocational Training
CEFTA	Central European Free Trade Agreement
CEN	European Committee for Standardization
CENELEC	European Committee for Electrotechnical Standardization
CGS	Credit guarantee scheme
COSME	Competitiveness of Enterprises and Small and Medium-Sized Enterprises
DG Exports	Directorate General of Exports (Turkey)
DIN	Deutsches Institut für Normung
EA	European co-operation for Accreditation
EA BLA	EA Bilateral Agreement
EA MLA	EA Multilateral Agreement
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EEN	Enterprise Europe Network
EFTA	European Free Trade Association
EIC	European Innovation Council

eIDAS	Authentication and Trust Services Regulation
EIF	European Interoperability Framework
EMS	Environmental management system
ENIF	Enterprise Innovation Fund
EPA	Export promotion agency
ESPP	Electronic System of Public Procurement
ETF	European Training Foundation
EU	European Union
EURAMET	European Association of National Metrology Institutes
FBiH	Federation of Bosnia and Herzegovina
FDI	Foreign direct investment
FITD	Fund for Innovation and Technology Development (North Macedonia)
FMRPO	Federal Ministry of Development, Entrepreneurship and Crafts (FBiH)
FX	Foreign exchange
GCI	Global Competitiveness Index
GCIP	Global Cleantech Innovation Programme
GDP	Gross domestic product
GFI	Global Failure Index
GIZ	Gesellschaft für Internationale Zusammenarbeit
GNI	Gross national income
GVC	Global value chain
ICT	Information and communications technology
IPR	Intellectual property rights
ISO	International Organization for Standardization
JICA	Japan International Cooperation Agency
JRC	Joint Research Centre
KIESA	Kosovo Investment and Enterprise Support Agency
KGF	Credit Guarantee Fund (Turkey)
KOSGEB	SME Development and Support Organisation (Turkey)
MKD	Macedonian denar
MFI	Microfinance institution
MNE	Multinational enterprise

MoU	Memorandum of understanding
MSME	Micro, small and medium-sized enterprise
MXN	Mexican peso
NACE	Statistical classification of economic activities in the European Community
NEN	Netherlands Standardization Institute
NBFI	Non-bank finance instrument
NGO	Non-government organisation
NIP	National Incubation Program (Sweden)
NPL	Non-performing loan
NSO	National standards organisation
NSSD	National Strategy for Sustainable Development (Montenegro)
OECD	Organisation for Economic Co-operation and Development
OGD	Open government data
OIZ	Organised Industrial Zone (Turkey)
PPA	Public Procurement Authority
PPC	Public-private consultation
PPC	Public Procurement Commission
PPL	Public Procurement Law
PPO	Public Procurement Office
PPP	Purchasing power parity
PSC	Point of single contact
R&D	Research and development
RARS	Republic Agency for the Development of Small and Medium Enterprises (RS)
RAS	Serbian Development Agency
RDA	Regional development agency (Serbia)
RIA	Regulatory impact analysis
RIF	Régimen de Incorporación Fiscal
RS	Republika Srpska
RSD	Serbian dinar
SATE	Technological and Business Assistance System (Mexico)
SBA	Small Business Act for Europe
SCEBN	Scottish Circular Economy Business Network
SME	Small and medium-sized enterprise

STP	Science and Technology Park
TDZ	Technology development zone
TES	Technology extension service
TFI	Trade Facilitation Indicator
TMM	Turkey Materials Marketplace
TNA	Training needs analysis
TRY	Turkish lira
TSE	Turkish Standards Institution
TÜBİTAK	Scientific and Technological Research Council of Turkey
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNIDO	United Nations Industrial Development Organization
UR-GE	Supporting the Development of International Competitiveness (Turkey)
USAID	United States Agency for International Development
VAT	Value-added tax
VC	Venture capital
VET	Vocational education and training
WB	Western Balkans
WB EDIF	Western Balkans Enterprise Development and Innovation Facility
WBT	Western Balkans and Turkey
WGI	Worldwide Governance Indicators
ZSE	Zagreb Stock Exchange

Economy abbreviations*	
ALB	Albania
BIH	Bosnia and Herzegovina
KOS	Kosovo**
MKD	North Macedonia
MNE	Montenegro
SRB	Serbia
TUR	Turkey

Note: * The figures in this publication use ISO alpha-3 codes for economy names, with the exception of Kosovo.
**Kosovo is not listed as an ISO standard economy. While the unofficial 3-digit code XKX is used by the European Commission, this publication opted for KOS for ease of reference.

Executive summary

Given its sizeable contribution to economic performance and social well-being, a robust small and medium-size enterprise (SME) sector is critical to the prosperity of an economy. This is especially true for the European Union (EU) pre-accession economies (Albania, Bosnia and Herzegovina, Kosovo[*], Montenegro, the Republic of North Macedonia, Serbia, and Turkey), where SMEs account for close to three-quarters of those employed in the private sector, and generate two-thirds of private sector value added. Despite this, their potential remains largely untapped: SMEs are under-represented in international trade and their contribution to value added remains low as they have difficulties in moving or expanding into high-value added activities.

Developing a dynamic and competitive SME sector has become even more of a priority for the region's governments as they advance toward EU accession. The European Commission's recent Strategy for the Western Balkans has injected fresh momentum into the accession process, offering further opportunities to strengthen the economies' competitiveness and deepen their economic integration with the EU.

Against this backdrop, this report provides a comprehensive overview of the implementation of the ten principles of the Small Business Act for Europe (SBA) in the seven EU pre-accession economies over the period 2016-18. It aims to support the economies in evidence-based policy making, monitors progress against similar assessments performed over the past decade, and provides guidance to help them prepare for negotiating their accession to the EU.

Since the last edition of the *SME Policy Index* in 2016, the EU pre-accession economies have made significant strides in building a more SME-friendly policy environment. They have continued to reduce the administrative burdens on SMEs by streamlining registration processes and extending the scope of digital public services. They have strengthened their legal frameworks for insolvency, and further simplified their public procurement procedures to reduce SMEs' barriers to participation. While favourable external financing conditions have somewhat eased SMEs' access to bank finance, governments have also stepped up their efforts to lay the groundwork for non-bank financial instruments in order to diversify financing sources.

During the assessment period, support measures for SMEs have also grained traction, and public funds have been earmarked at a growing rate to implement the actions planned under the various SME development strategies. Small-scale funds targeting high-growth innovative SMEs have been rolled out, and an expanding network of incubators, accelerators and science and technology parks in the region provides vital support.

[*] 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.

Schools and higher education institutes across the region are increasingly developing students' entrepreneurship competences and stimulating their entrepreneurial mindsets.

Nonetheless, there is further room for progress and SMEs across the region still grapple with numerous challenges that hamper their growth and productivity. Based on the assessment's findings, the report makes the following principal recommendations:

- **Strengthening evaluation in the policy cycle would allow for informed SME policy making**. Although monitoring of SME support programmes is already well established across the region, systematic evaluation of their efficiency and efficacy has yet to become embedded into the policy cycle. Given the increasing amount of state aid funnelled to SMEs, governments need to ensure they are making optimal use of public resources. Therefore, before they scale up existing support measures further, they should first assess their impact and identify those worth continuing.
- **Enhancing regulatory conditions for SMEs would contribute to their competitiveness**. In spite of efforts to create a level playing field for SMEs, consideration of their unique needs has yet to be mainstreamed into policy making across the region. Regulatory impact analysis is not carried out regularly, even where legally required, and its use in gauging the impact of legislation on SMEs remains untapped. Governments need to intensify their engagement with the private sector in cutting red tape and when developing new policies affecting SMEs. Bankruptcy procedures could be made more efficient by reducing the time between liquidation and formal debt cancellation, to allow failed entrepreneurs to start new businesses. Furthermore, well-designed tax provisions are needed to reduce the disproportionate compliance burden imposed on SMEs by the tax system.
- **Supporting SMEs to scale up would enhance their productivity.** SMEs in many of the region's economies have barely grown in terms of their share of employment or value added compared to large enterprises. Thus, a co-ordinated policy approach is needed to help SMEs further improve their productivity and to scale up. To that end, systems to understand the demand for and supply of skills need to be strengthened across the region to better identify SMEs' needs and devise training programmes accordingly. Credit guarantee schemes and greater use of alternative financial instruments would further enable SMEs to grow by facilitating their access to finance. Initiatives to raise awareness among SMEs of the advantages of greening their activities should be implemented with a view to improving productivity. Governments also need to actively promote links between multinational firms and SMEs since these partnerships can be instrumental to SME growth.
- **Expanding regional co-operation over SME development would help economies make better use of their resources and reap the benefits of enhanced economic integration.** Given the size of the Western Balkan economies, better regional co-operation in providing certain resources – such as innovation and quality infrastructure – would be a cost-efficient way to help them scale up beyond their domestic capacities. Doing so would also underpin economic integration efforts, contributing to enhanced intra-regional trade, as well as the creation of knowledge-sharing networks.

These recommendations should serve as a blueprint for the Western Balkans and Turkey in removing barriers to SME development and unleashing their potential to drive inclusive economic growth

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Economic context and the role of SMEs in the Western Balkans and Turkey

The economic context

All the economies of the Western Balkans and Turkey (WBT) assessed in this report are upper-middle income economies according to the World Bank's Atlas method, with the exception of Kosovo*, which is a lower-middle income economy (World Bank, 2019[1]). While they all have the objective of joining the EU, they are each at different stages of the accession process (Box 1).

Table 2 summarises the WBT economies' basic structural indicators as of 2017. The service sector is the dominant sector in all seven economies, contributing most to gross domestic product (GDP) in terms of value added (52.3% on average) and generating the most employment (54.7% of total employment on average). It also shows that all seven economies had high unemployment rates in 2017, ranging from 11.1% in Turkey to 30.5% in Kosovo.

However, while the WBT economies have these main structural elements in common, in many other aspects they differ significantly (Table 2). These are outlined below, in order of population size.

Most strikingly, **Turkey** has a much larger population size, and higher GDP per capita, than the six Western Balkan economies. Turkey's population of 80.74 million is more than 11 times the size of Serbia's, which has the largest population of the six Western Balkan economies. With a GDP per capita almost twice that of the average Western Balkan economy in 2017, the Turkish economy is also more advanced. While still high at 11.1%, Turkey's unemployment rate was the lowest of all the WBT economies in 2017. Its economy is dominated by the services and industry sectors, with agriculture accounting for only 6.1% of GDP in terms of value added in 2017. However, the agriculture sector still contributed 19.4% to total employment in 2017 – the third highest share of all the WBT economies.

With a population of 7.02 million in 2017, **Serbia** is the largest economy of the Western Balkans. Its nominal GDP in 2017 corresponded to just under the combined GDP of Albania, Bosnia and Herzegovina, Kosovo and Montenegro. In 2017, Serbia had the lowest unemployment rate (13.5%) of the six Western Balkans economies and the second highest GDP per capita. Despite its modest contribution to GDP, agriculture accounted for 19.0% of employment, while the industry sector employed 24.4% of the active labour force in 2017.

Bosnia and Herzegovina, with a population of 3.5 million in 2017, is the third largest economy in the WBT region. In 2017, its GDP per capita was the second lowest of all the

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WBT economies and its unemployment rate stood at 20.5%. Of all the WBT economies, the services sector plays the second most dominant role in Bosnia and Herzegovina, contributing 55.7% to GDP in terms of value added in 2017 – 3.4 percentage points more than the WBT average. Conversely, agriculture plays the least important role in the region, generating only 5.6% of GDP in terms of value added. However, it accounted for 19.1% of employment – the third highest contribution to employment of all the WBT economies.

Box 1. The WBT economies' EU accession status

At the time of writing, all the WBT economies were either candidates or potential candidates for accession, and accession negotiations were underway with three of them. Table 1 provides an overview of the economies' current EU accession status (as of 2018).

Table 1. Overview: WBT economies' EU accession status (2018)

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
(Stabilisation and) Association Agreement with the EU in force	Since 2009	Since 2015	Since 2016	Since 2004	Since 2010	Since 2013	Since 1964
Potential candidate status	n/a	Since 2003	Since 2008	n/a	n/a	n/a	n/a
Candidate status	Since 2014	No	No	Since 2005	Since 2014	Since 2012	Since 1999
Accession negotiations opened	Planned for 2019	No	No	Planned for 2019	Since 2012	Since 2014	Since 2005
Negotiating chapters opened	No	No	No	No	30 / 35	14 / 35	16 / 35
Negotiating chapters closed	n/a	n/a	n/a	n/a	3[p] / 35	2[p] / 35	1[p] / 35

Note: [p] provisionally; ALB – Albania; BIH – Bosnia and Herzegovina; KOS – Kosovo; MKD – North Macedonia; MNE – Montenegro; SRB – Serbia; TUR – Turkey.

In February 2018, momentum for EU accession by the Western Balkans economies was renewed by a statement from the European Commission seeking "a credible enlargement perspective for an enhanced EU engagement with the Western Balkans" (EC, 2018[2]). This "perspective" mentions Serbia and Montenegro as the current front runners for accession and sets out the key steps and conditions in the negotiations for their possible accession by 2025.

Chapter 20 of the EU *acquis*, "Enterprise and industrial policy", has been opened for Serbia, Montenegro and Turkey – this is the most relevant chapter for SMEs in the assessed economies. The chapter aims to strengthen competitiveness, facilitate structural change and encourage a business-friendly environment. Implementing the ten SBA principles is one of the requirements of this chapter. The findings and recommendations published in the *SME Policy Index: Western Balkans and Turkey 2019* provide the monitoring and guidance for the economies to prepare and meet the requirements of Chapter 20".

In 2017, **Albania** had a population of 2.87 million, making it the fourth largest economy of the WBT region. Its GDP per capita was slightly higher than that of Bosnia and Herzegovina, while its unemployment rate was lower, at 14.1% in 2017, the third lowest

in the region. Agriculture plays a much more important role in Albania than in the other six WBT economies, representing 19.0% of GDP in value added and employing 40.3% of the active labour force in 2017. Nonetheless, as in the other WBT economies, services and industry are the most important sectors of the Albanian economy in terms of both value added and employment.

North Macedonia has the fifth largest population of the seven assessed economies (2.08 million people in 2017) and the third highest GDP per capita in the Western Balkans. However, its unemployment rate – 22.4% of the active population – was the second highest of all WBT economies in 2017. As in the other WBT economies, the services and industry sectors make the largest contributions to both employment and to GDP in terms of value added. The agriculture sector still represents 7.9% of GDP – the third highest share of all WBT economies. However, it only accounts for 16.4% of total employment, less than in Albania, Bosnia and Herzegovina, Serbia and Turkey.

Table 2. Selected structural indicators (2017)

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Population (million)[1]	2.87	3.50	1.83	2.08	0.62	7.02	80.74	14.09
Nominal GDP at current prices (EUR billion)[2]	11.58[e]	15.29[*]	6.41	10.06[p]	4.30	39.18	753.90	120.10
GDP per capita PPP (constant 2011 international $)[1]	11 802	11 731	9 780	13 132	16 465	14 049	25 135	14 585
Unemployment (% of total active population)[3]	14.1	20.5	30.5	22.4	16.4	13.5	11.1	18.4
Services, value added (% of GDP)[1]	47.5	55.7	45.8	54.6	59.1	50.0	53.4	52.3
Industry (including construction), value added (% of GDP)[1]	20.9	23.9	25.6	24.1	15.9	26.4	29.2	23.7
Agriculture, forestry, and fishing, value added (% of GDP)[1]	19.0	5.6	9.1	7.9	6.8	6.0	6.1	8.6
Employment in services (% of total employment) (modelled ILO estimate)[4]	41.1	48.7	..	53.8	74.3	56.6	53.8	54.7
Employment in industry (% of total employment) (modelled ILO estimate)[4]	18.6	32.2	..	29.8	18.0	24.4	26.8	25.0
Employment in agriculture (% of total employment) (modelled ILO estimate)[4]	40.3	19.1	..	16.4	7.6	19.0	19.4	20.3

Note: [e] estimate; [p] provisional; * 2016 data due to unavailability of 2017 data; ILO – International Labour Organization; PPP – purchasing power parity. The WBT averages have been calculated as simple averages; data for Kosovo on employment in services, industry and agriculture were not available.
Sources: [1] World Bank (2018[3]), *World Bank Open Data* (database), https://data.worldbank.org; [2] Eurostat (2018[4]), *Eurostat* (database), https://ec.europa.eu/eurostat/data/database; [3] EC (2018[5]), *EU candidate countries' and potential candidates' economic quarterly (CCEQ): 3rd quarter 2018*, https://ec.europa.eu/info/publications/economic-and-financial-affairs-publications_en; [4] ILO (2018[6]) ILOSTAT, http://www.ilo.org/ilostat.

Kosovo, with a population of 1.83 million in 2017, is the second smallest economy of the WBT region. Compared to the other WBT economies, it had the lowest GDP per capita and the highest unemployment rate in in 2017: at 30.5% of the active population, Kosovo's unemployment rate was 12.1 percentage points above the WBT average. In

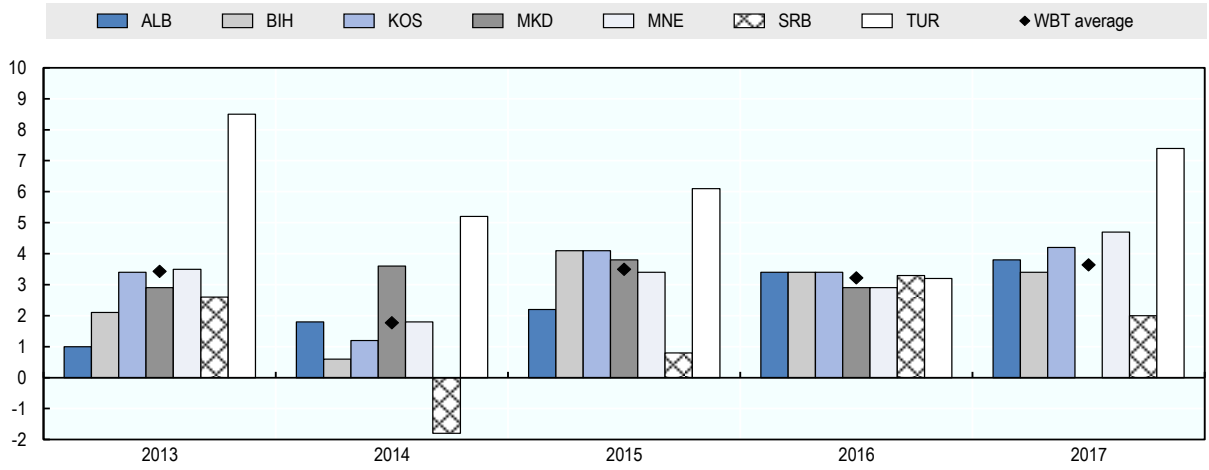
comparison to its WBT peers, Kosovo's services sector makes the lowest contribution to GDP in terms of valued added (45.8%), while industry contributes more to the economy's GDP than in the average WBT economy.

With a population of 622 471 in 2017, **Montenegro** is the smallest of the WBT economies. It is also the most developed of the six Western Balkan economies in terms of GDP per capita. While its unemployment rate is below the WBT average, 16.4% of its active labour force were unemployed in 2017 – the fourth highest rate of all WBT economies. The services sector employs by far the highest share of the active labour force of all the WBT economies (74.3%) and makes the highest contribution to GDP in terms of value added (59.1%). Conversely, agriculture makes by far the lowest contribution to employment.

Recent economic trends

Between 2013 and 2017, the WBT economies saw their GDP grow by 3.1% per year on average (Figure 1). Turkey saw the highest annual growth rates in all years except 2016. On average its GDP grew by 6.1% each year between 2013 and 2017. Compared to the other WBT economies, Albania's annual GDP growth rates increased the most over this period – from 1.0% in 2013 to 3.8% in 2017. Serbia recovered from negative growth in 2014 to reach the average GDP growth level for the WBT region in 2016. However, its GDP grew less dynamically in 2017 than the average for the WBT economies. North Macedonia saw its GDP growth stall completely (0%) in 2017.

Figure 1. GDP growth in the Western Balkans and Turkey (2013-17)
Annual % change



Note: WBT average has been calculated as simple average.
Source: EC (2018[5]), *EU candidate countries' and potential candidates' economic quarterly (CCEQ): 3rd quarter 2018*, https://ec.europa.eu/info/publications/economic-and-financial-affairs-publications_en.

StatLink https://doi.org/10.1787/888933937166

Table 3 provides a selection of the main economic indicators for the WBT economies between 2013 and 2017. It reveals a relatively stable situation across most indicators on average.

For example, the inflation rate of the average WBT economy was relatively low and stable between 2014 and 2016. While the average inflation rate rose again in 2017 compared to the 2016 rate, four of the WBT economies had an inflation rate of 2% or lower that year. The government balance in the average WBT economy steadily improved, from -3.4% to -1.3% of GDP between 2013 and 2017. Yearly net foreign direct investment (FDI) measured as a percentage of GDP remained relatively stable and varied between 4.5% and 5.9% of GDP in the average WBT economy between 2013 and 2017. On average, the WBT economies have also opened up further to international trade, with an average increase of exports and imports of 5.5 and 3.8 percentage points of GDP respectively between 2013 and 2017. Current account balances in the region remained negative but relatively stable between 2013 and 2017, varying between -6.1% and -7% of GDP, while the average WBT economy's external debt increased from 69.7% to 73.8% of GDP.

Table 3. Selected economic indicators for the Western Balkans and Turkey (2013-17)

	ALB					BIH				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
Inflation (annual % change)[1]	1.9	1.6	1.9	1.3	2	-0.1	-0.9	-1.0	-1.1	1.2
Government balance (% of GDP)[1]	-5.2	-5.2	-4.1	-1.8	-2.0	-2.0	-2.0	0.6	1.2	2.5
Current account balance (% of GDP)[2]	-9.3	-10.8	-8.6	-7.6	-6.9	-5.3	-7.4	-5.4	-4.9	-4.8
External debt (% of GDP)[2]	60.5	56.1	63	61.9	63.2	61.7	61.6	62.3	62.4	61
Net FDI (% of GDP)[1]	9.6	8.2	8.0	8.7	8.6	1.2	2.8	1.7	1.6	2.0
Exports of goods and services (% of GDP)[1]	28.9	28.2	27.3	28.9	31.5	31.8	32.8	33.6	34.4	39.4
Imports of goods and services (% of GDP)[1]	47	47.2	44.5	45.7	46.6	51.1	54.6	51.4	50.5	55.5
	KOS					MKD				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
Inflation (annual % change)[1]	1.8	0.4	-0.5	0.3	1.5	2.8	-0.3	-0.3	-0.3	1.4
Government balance (% of GDP)[1]	-3.1	-2.2	-2.0	-1.2	-0.8	-3.8	-4.2	-3.5	-2.7	-2.7
Current account balance (% of GDP)[2]	-3.6	-6.9	-8.6	-7.9	-6.6	-1.6	-0.5	-2.0	-2.7	-1.3
External debt (% of GDP)[2]	30.2	31.2	33.3	33.2	32.6	66.1	64.9	68	70.7	77.1
Net FDI (% of GDP)[1]	5.3	2.7	5.3	3.6	4.5	2.8	2.3	2.2	3.6	2.3
Exports of goods and services (% of GDP)[1]	21.9	22.5	21.9	22.2	27	42.3	47.7	48.7	50	55.1
Imports of goods and services (% of GDP)[1]	49.6	51.2	50.4	50.8	53.8	60.4	64.9	65	64.7	68.8
	MNE					SRB				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
Inflation (annual % change)[1]	1.8	-0.5	1.4	0.1	2.8	7.9	2.1	1.4	1.1	3.1
Government balance (% of GDP)[1]	-4.6	-2.9	-8.3	-3.6	-5.3	-5.5	-6.6	-3.5	-1.2	1.1
Current account balance (% of GDP)[2]	-14.5	-12.4	-11	-16.2	-16.3	-6.1	-6	-3.5	-2.9	-5.2
External debt (% of GDP)[2]	153.5	163.1	161.8	158.8	160.2	74.8	77.1	78.3	76.5	69.5
Net FDI (% of GDP)[1]	9.6	10.2	16.9	9.4	11.3	3.8	3.7	5.1	5.2	6.2
Exports of goods and services (% of GDP)[1]	41.3	40.1	42.1	40.6	41.1	41.2	43.4	43.8	47.2	49.3
Imports of goods and services (% of GDP)[1]	61.4	60	60.6	63.1	64.5	51.9	54.2	52.9	54.2	57.5

	TUR					WBT average				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
Inflation (annual % change)[1]	7.5	8.9	7.7	7.8	11.1	3.4	1.6	1.5	1.3	3.3
Government balance (% of GDP)[1]	0.1	0.1	1.3	-1.3	-2.0	-3.4	-3.3	-2.8	-1.5	-1.3
Current account balance (% of GDP)[2]	-6.7	-4.7	-3.7	-3.8	-5.6	-6.7	-7.0	-6.1	-6.6	-6.7
External debt (% of GDP)[2]	41.1	43.5	46.7	47.8	53.3	69.7	71.1	73.3	73	73.8
Net FDI (% of GDP)[1]	1.4	1.4	2.1	1.6	1.3	4.8	4.5	5.9	4.8	5.2
Exports of goods and services (% of GDP)[1]	22.3	23.8	23.3	22	24.8	32.8	34.1	34.4	35	38.3
Imports of goods and services (% of GDP)[1]	28.1	27.6	26	24.9	29.3	49.9	51.4	50.1	50.6	53.7

Note: For inflation figures, the consumer price index was used for all WBT economies except Montenegro and Kosovo, where the harmonised index of consumer prices was used instead. The FDI figures for Kosovo are not net, but reflect inflows.
Sources: [1] EC (2018[5]), "EU candidate countries' and potential candidates' economic quarterly (CCEQ): 3rd quarter 2018", https://ec.europa.eu/info/publications/economic-and-financial-affairs-publications_en; [2] EBRD (2018[7]), *Transition Report 2018-19: Country Assessments*, https://2018.tr-ebrd.com/downloads.

Albania's economy has expanded, driven by a favourable domestic and external environment. GDP growth reached 3.8% in 2017, mainly reflecting increases in capital investments, but also growing private consumption. Capital investments gained momentum due to two energy-related projects, the Devoll hydropower plants and the Trans Adriatic Pipeline. Private consumption has picked up following accelerating job creation, increasing wages and growing household credit. However, growth is expected to become more subdued, with the two energy projects projected to end by 2020 (EC, 2018[8]).

Since 2015, **Bosnia and Herzegovina** has sustained annual GDP growth rates of more than 3.4% (Figure 1). This trend has been mainly driven by an increase in private consumption and exports (EC, 2018[5]). In the medium term, growth is expected to pick up, provided that structural reforms continue to be implemented by the new government (World Bank, 2018[9]). The main short-term risk is the possibility of delays in forming the government, which could hold back the reform agenda (World Bank, 2018[9]).

Kosovo's economy has maintained consistent growth in recent years (Figure 1). Despite managing these positive growth rates, however, Kosovo was still one of the poorest economies in Europe in 2017 in terms of GDP per capita. The economy is characterised by limited regional and global economic integration, and a high dependence on remittances from the Kosovar diaspora. Remittances are an important source of income for many households, and accounted for 12% of GDP in 2017 (EC, 2018[10]).

Following a solid growth period which saw GDP increase annually by 3.3% on average between 2013 and 2016, the economy of **North Macedonia** stagnated in 2017 (Figure 1). Growth in 2017 suffered from political uncertainty in the first half of that year, due to delays in forming a government following the parliamentary elections in December 2016. This caused public and private investment to drop, offsetting increased exports and higher household spending underpinned by higher employment and wages (EC, 2018[11]).

With GDP growing 4.7% in 2017, **Montenegro** registered the highest growth rate among the six Western Balkan economies that year (Figure 1). However, Montenegro also had the highest external debt in the WBT region, amounting to 160.2% of GDP in 2017. Montenegro also has a considerable trade imbalance – with imports in 2017 amounting to 64.5% of GDP, compared to just 41.5% for exports. Consequently, the

economy has the largest current account deficit in the region, at 16.3% of GDP in 2017, 9.6 percentage points higher than the WBT average.

Following negative growth in 2014, **Serbia**'s GDP growth recovered in 2015 and reached 2% in 2017 (Figure 1). Over the short to medium term, economic growth is expected to pick up, driven by increased investment and the recovery of consumption – as wages increase and its fiscal consolidation programme gradually expires. Economic activity continues to be supported by strong export expansion and rising investment, including FDI (EC, 2018[5]).

Turkey is the world's 18th largest economy and its GDP per capita continues to catch up with the more advanced OECD economies. Annual GDP growth rates averaged 6.1% over 2013-17, the highest rate of all WBT economies (Figure 1). At 7.4% in 2017, Turkey's GDP growth was among the highest worldwide, exceeding both market expectations and official projections (OECD, 2018[12]). Demand in 2017 was stimulated by expansionary fiscal measures and the Credit Guarantee Fund. However, strong demand has resulted in high consumer price inflation, which averaged 11.1% in 2017.

SME sector performance in the Western Balkans and Turkey

In relative terms, Serbia had the largest number of SMEs per inhabitant in 2017, followed by Montenegro and Turkey (Table 4). On average, there were 37 SMEs registered in the WBT economies for every 1 000 inhabitants in 2017.

Table 4. Number of SMEs per 1 000 inhabitants (2017)

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
SMEs per 1 000 inhabitants	15.4	8.5	20.3	26.5	48.8	50.9	38.3	37.0

Note: Data for Albania, and Kosovo are for 2016. Data on the number of SMEs for North Macedonia are provisional. For Albania, only SMEs operating in Statistical Classification of Economic Activities in the European Community (NACE) Rev. 2 sectors 05-96 are included, excluding SMEs operating in sectors 64-66, 84 and 94, due to the unavailability of data. For Bosnia and Herzegovina, the data do not include unincorporated enterprises. Due to unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska.
Sources: Statistical offices of the six Western Balkan economies and Turkey; World Bank (2018[3]), *World Bank Open Data* (database), https://data.worldbank.org.

Table 5 provides the latest data for the seven WBT economies on the number of SMEs, their employment and value added, as well as their share of exports, broken down by enterprise size. It shows that SMEs in the Western Balkans and Turkey, just as in the EU, hold a dominant place in the economy.

In 2017, SMEs made up 99.7% of all enterprises in the Western Balkans and Turkey, ranging from 99.1% in Bosnia and Herzegovina to 99.9% in Kosovo. Micro enterprises make up by far the highest share: they accounted for 90.4% of all enterprises in the WBT on average in 2017, ranging from 87.9% in Albania to 96.2% in Serbia. The share of small enterprises ranged from 3% in Serbia to 17.3% in Bosnia and Herzegovina, while the share of medium-sized enterprises ranged between 0.66% in Serbia to 4.09% in Bosnia and Herzegovina. Large enterprises make up only 0.3% of all businesses in the

average WBT economy, ranging from 0.14% in Kosovo to 0.88% in Bosnia and Herzegovina.

SMEs make a significantly smaller contribution to business sector employment, value added and total exports than their numerical representation in the economy. Even so, in 2017 SMEs still accounted for 73.2% of total business sector employment, 64.4% of the business sector's value added and 60.3% of exports in the average WBT economy. Although SMEs make up more than 99% of all enterprises in all WBT economies, their contribution to employment, value added and exports differ significantly between the seven economies. In Montenegro, about four out of five business sector employees were working in an SME, while in Bosnia and Herzegovina and Serbia the figure was only about two in three. The differences among the WBT economies are even more pronounced when it comes to value added: while SMEs only accounted for 54.1% of the business sector's value added in Turkey, they accounted for 80.97% in Kosovo. Disparities between the WBT economies are greatest when it comes to SMEs' share of exports, with SMEs accounting for 97.33% of all of Kosovo's exports, but only 31.58% of exports for North Macedonia.

Table 5. SME sector statistics (2017 or latest year available)

	ALB		BIH		KOS		MKD		MNE		SRB		TUR	
	Number	Share	Number	Share	Number	Share	Number	Share	Number	Share	Number	Share	Number	Share
Number of enterprises														
Micro	38 946*	87.87%*	23 317	77.70%	34 611*	93.12%*	49 689p	90.01%p	28 578	94.36%	344 279	96.23%	2 896 357	93.42%
Small	4 236*	9.56%*	5 199	17.33%	2 182*	5.87%*	4 572p	8.28%p	1 376	4.54%	10 583	2.96%	170 088	5.49%
Medium	991*	2.23%*	1 227	4.09%	322*	0.87%*	794p	1.44%p	284	0.94%	2 372	0.66%	28 592	0.92%
Large	151*	0.34%*	265	0.88%	52*	0.14%*	148p	0.27%p	48	0.16%	521	0.15%	5 375	0.17%
SMEs	**44 173***	**99.66%***	**29 743**	**99.12%**	**37 115***	**99.86%***	**55 055p**	**99.73%p**	**30 238**	**99.84%**	**357 234**	**99.85%**	**3 095 037**	**99.83%**
Employment														
Micro	121 537*	30.74%*	64 906	14.01%	62 450*	34.92%*	123 077p	31.91%p	51 569	38.96%	415 762	31.42%	5 646 664	35.26%
Small	86 221*	21.81%*	105 631	22.80%	40 727*	22.77%*	87 466p	22.68%p	26 263	19.84%	213 380	16.12%	3 363 973	21.01%
Medium	98 440*	24.90%*	125 614	27.11%	33 075*	18.49%*	77 801p	20.17%p	28 182	21.29%	244 320	18.46%	2 871 407	17.93%
Large	89 113*	22.54%*	167 186	36.08%	42 588*	23.81%*	97 384p	25.25%p	26 352	19.91%	449 963	34.00%	4 131 591	25.80%
SMEs	**306 198***	**77.46%***	**296 151**	**63.92%**	**136 252***	**76.19%***	**288 344p**	**74.75%p**	**106 014**	**80.09%**	**873 462**	**66.00%**	**11 882 044**	**74.20%**
Value added (in EUR million)														
Micro	651.5*	19.36%*	883.8	11.90%	39.9*	13.16%*	890.3p	20.93%p	0.7*	44.68%*	4 241	21.99%	34 218.7	14.54%
Small	772.4*	22.95%*	1 709.1	23.02%	61.5*	20.29%*	956.4p	22.48%p			2 963	15.36%	42 433.7	18.03%
Medium	759.4*	22.57%*	1 847.9	24.89%	144.1*	47.52%*	867.1p	20.38%p	0.4*	25.80%*	3 723	19.30%	50 613.8	21.51%
Large	1 181.9*	35.12%*	2 984	40.19%	57.7*	19.03%*	1 539.9p	36.20%p	0.5*	29.52%*	8 359	43.34%	108 051.5	45.92%
SMEs	**2 183.4***	**64.88%***	**4 440.1**	**59.81%**	**245.6***	**80.97%***	**2 713.8p**	**63.80%p**	**1.1***	**70.48%***	**10 927**	**56.66%**	**127 266.2**	**54.08%**
Share of exports														
Micro	..	9.11%n	..	11.03%	..	54.85%*	..	7.43%*	..	49.37%*	..	7.95%	..	
Small	..	17.50%n	..	21.32%	..	33.55%*	..	10.13%*	..		..	11.05%	..	56.20%
Medium	..	34.58%n	..	28.89%	..	8.93%*	..	14.03%*	..	25.97%*	..	20.25%	..	
Large	..	38.80%n	..	38.76%	..	2.67%*	..	68.43%*	..	24.67%*	..	60.75%	..	43.80%
SMEs	..	**61.19%n**	..	**61.24%**	..	**97.33%***	..	**31.58%***	..	**75.33%***	..	**39.25%**	..	**56.20%**

Note: * 2016 data due to unavailability of 2017 data; p provisional data; n national size class definition. For Albania, only SMEs operating in NACE Rev. 2 sectors 05-96 are included, excluding SMEs operating in sectors 64-66, 84 and 94 due to unavailability of data. For Bosnia and Herzegovina, data do not include unincorporated enterprises. Due to unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska.
Source: Statistical offices of the six Western Balkan economies and Turkey.

Most SMEs in the Western Balkans and Turkey operate in the distributive trade sector (Table 6). In 2017 (or the latest year available), the share of all SMEs operating in this sector ranged from 28.2% in Serbia to 50.6% in Montenegro. Consequently, it is not surprising that the distributive trade sector also accounted for most of SMEs' contribution to employment, followed by manufacturing and other services (Table 7).

Table 6. Distribution of SMEs by sector (2017 or latest year available)

	ALB*	BIH	KOS*	MKD[p]	MNE	SRB*	TUR	WBT average
Agriculture, forestry and fishing	..	3.3%	2.8%	..	1.8%	1.8%	..	..
Mining and quarrying	1.0%	0.7%	0.4%	0.3%	0.3%	0.1%	0.2%	0.4%
Manufacturing	12.6%	16.3%	12.5%	13.3%	12.1%	15.7%	12.6%	13.6%
Utilities	1.1%	2.0%	0.4%	0.7%	1.2%	0.6%	0.3%	0.9%
Construction	5.7%	7.3%	7.0%	8.1%	16.8%	7.1%	7.3%	8.5%
Distributive trade	33.3%	33.6%	44.1%	40.4%	50.6%	28.2%	36.4%	38.1%
Transportation and storage	2.7%	6.7%	3.4%	9.9%	7.5%	10.2%	14.7%	7.9%
Information and communication	2.7%	3.7%	2.3%	3.0%	5.2%	3.5%	1.2%	3.1%
Other services	40.9%	26.2%	27.1%	24.3%	4.5%	32.8%	27.3%	26.2%

Note: * 2016 data due to unavailability of 2017 data; [p] provisional data. For Bosnia and Herzegovina, data do not include unincorporated enterprises. Due to unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska. For Albania, North Macedonia and Turkey, data for the agriculture, forestry and fishing sector are not available and thus not reflected in the sectoral distribution. The sector classification generally follows the NACE Rev.2 classification of productive economic activities with the following exceptions: "Utilities" represents the sum of "Electricity, gas, steam and air conditioning supply" (D) and "Water supply, sewerage, waste management and remediation activities" (E); "Distributive trade" covers "Wholesale and retail trade; repair of motor vehicles and motorcycles" (F); and Other services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification.
Sources: Statistical offices of the six Western Balkan economies and Turkey.

Table 7. SMEs' employment share by sector (2017 or latest year available)

	ALB*	BIH	KOS*	MKD[p]	MNE	SRB*	TUR**	WBT average
Agriculture, forestry and fishing	..	2.0%	2.0%	..	1.3%	2.7%	..	..
Mining and quarrying	2.0%	1.1%	1.0%	0.6%	0.8%	0.4%	0.7%	0.9%
Manufacturing	21.8%	28.9%	17.2%	26.0%	14.9%	27.8%	23.9%	22.9%
Utilities	3.3%	4.0%	1.6%	2.1%	4.5%	3.3%	0.6%	2.8%
Construction	10.7%	9.7%	10.2%	9.2%	16.3%	7.4%	14.2%	11.1%
Distributive trade	24.0%	27.1%	33.0%	30.3%	44.5%	27.1%	26.0%	30.3%
Transportation and storage	2.9%	5.9%	3.4%	8.6%	9.3%	5.3%	8.0%	6.2%
Information and communication	3.1%	3.5%	3.9%	3.7%	5.0%	3.4%	1.4%	3.4%
Other services	32.3%	17.9%	27.7%	19.5%	3.4%	22.5%	25.3%	21.2%

Note: * 2016 data due to unavailability of 2017 data; ** 2015 data due to unavailability of more recent data; [p] provisional data. For Bosnia and Herzegovina data do not include unincorporated enterprises. Due to unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska. For Albania, North Macedonia and Turkey, data for the agriculture, forestry and fishing sector are not available and thus not reflected in the sectoral distribution. The sector classification generally follows the NACE Rev.2 classification of productive economic activities with the following exceptions: "Utilities" represents the sum of "Electricity, gas, steam and air conditioning supply" and (D) "Water supply, sewerage, waste management and remediation activities" (E); "Distributive trade" covers "Wholesale and retail trade; repair of motor vehicles and motorcycles" (F); and Other services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification.
Sources: Statistical offices of the six Western Balkan economies and Turkey.

Only four of the seven WBT economies have data on SME value added by sector: Albania, Bosnia and Herzegovina, North Macedonia and Serbia. In all four, SMEs in the distributive trade and manufacturing sectors accounted for the most value added (Table 8).

Table 8. SMEs' share of value added by sector (2017 or latest year available)

	ALB*	BIH	KOS	MKD[p]	MNE	SRB*	TUR	WBT average
Agriculture, forestry and fishing	..	0.9%	..	..	..	3.6%	..	..
Mining and quarrying	3.3%	1.3%	..	0.8%	..	0.4%	..	..
Manufacturing	16.7%	25.2%	..	20.1%	..	25.1%	..	..
Utilities	5.5%	3.4%	..	2.7%	..	2.6%	..	..
Construction	16.5%	8.6%	..	13.3%	..	8.7%	..	..
Distributive trade	27.9%	31.4%	..	31.3%	..	25.1%	..	..
Transportation and storage	4.2%	6.9%	..	9.9%	..	7.5%	..	..
Information and communication	3.3%	5.1%	..	5.6%	..	5.7%	..	..
Other services	22.6%	17.1%	..	16.3%	..	21.2%	..	..

Note: * 2016 data due to unavailability of 2017 data; [p] provisional data. For Bosnia and Herzegovina, data do not include unincorporated enterprises. Due to unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska. For Albania, data for the agriculture, forestry and fishing sector are not available and thus not reflected in the sectoral distribution. Data for Kosovo, Montenegro and Turkey not available. The sector classification generally follows the NACE Rev.2 classification of productive economic activities with the following exceptions: "Utilities" represents the sum of "Electricity, gas, steam and air conditioning supply" and (D) "Water supply, sewerage, waste management and remediation activities" (E); "Distributive trade" covers "Wholesale and retail trade; repair of motor vehicles and motorcycles" (F); and Other services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification.
Sources: Statistical offices of the six Western Balkan economies and Turkey.

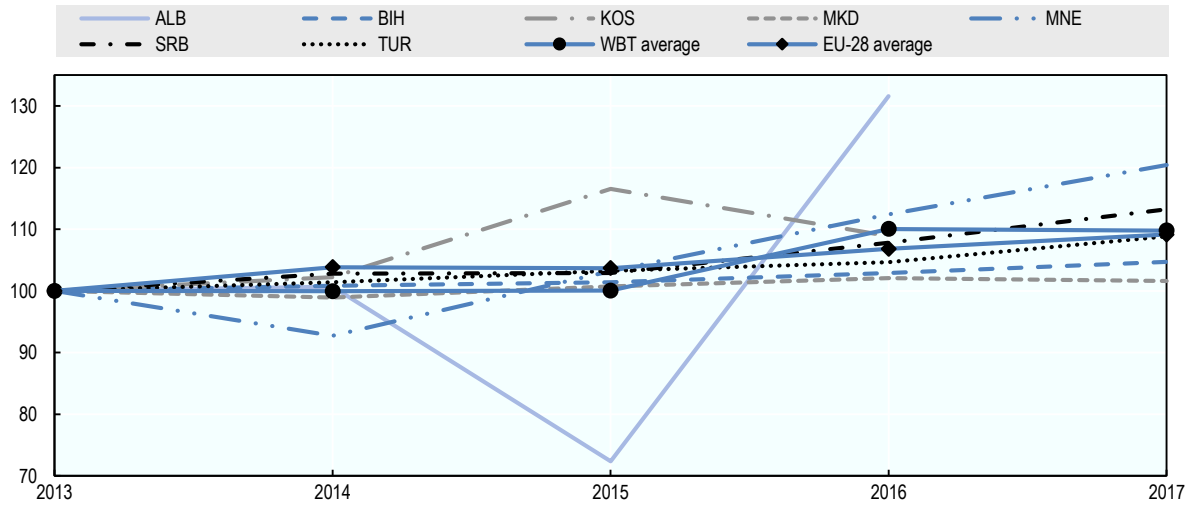
On average, between 2013 and 2016, the SME sector in the Western Balkans and Turkey has continued to grow in terms of numbers of businesses, their contribution to employment, value added and – to a lesser extent – the economies' exports. While the number of SMEs grew on average by 10%, and their contribution to business sector employment by 6% and to business sector value added by 14%, their share of exports only grew by 0.3% over the period. These elements are discussed in further detail below.

Growth in the number of SMEs

While the number of SMEs in the seven WBT economies grew by 10% between 2013 and 2016 on average, the number of SMEs in the EU only grew by 6.8%. Albania (31.6%), Montenegro (12.4%) and Kosovo (8.9%) witnessed the biggest increases over that period (Figure 2).

Figure 2. Growth in the number of SMEs (2013-17)

Index (2013=100)



Note: 2017 data for Albania and Kosovo are not available. The 2017 data for North Macedonia are provisional. For Albania, only SMEs operating in NACE Rev. 2 sectors 05-96 are included, excluding SMEs operating in sectors 64-66, 84 and 94 due to unavailability of data. For Bosnia and Herzegovina data do not include unincorporated enterprises. Due to unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska. The WBT average for 2017 only includes Bosnia and Herzegovina, Montenegro, North Macedonia, Serbia and Turkey.

Sources: Statistical offices of the six Western Balkan economies and Turkey; EC (2018[13]), *SME Performance Review*, https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en (accessed on 30 November 2018).

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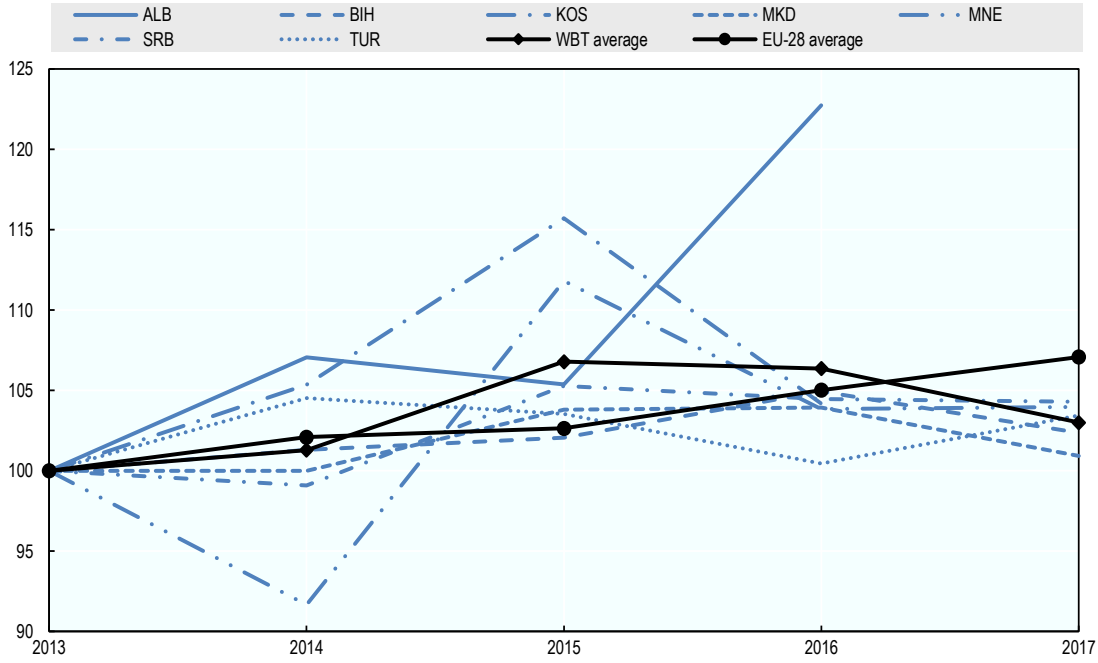
Growth in employment

In the average WBT economy, SMEs' contribution to employment increased by 6.3% between 2013 and 2016, slightly above the EU average of 5%. Albania saw the largest increase by far in SMEs' share of business sector employment, by 22.7% between 2013 and 2016, followed by Bosnia and Herzegovina (4.9%), Serbia (4.5%) and Kosovo (4.2%) (Figure 3).

Figure 3. Growth in employment by the SME sector (2013-17)

Index (2013=100)



Note: 2017 data for Albania, Kosovo and Serbia are not available. The 2017 data for North Macedonia are provisional. For Albania, only SMEs operating in NACE Rev. 2 sectors 05-96 are included, excluding SMEs operating in sectors 64-66, 84 and 94 due to unavailability of data. For Bosnia and Herzegovina data do not include unincorporated enterprises. Due to the unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska. The WBT average for 2017 only includes Bosnia and Herzegovina, Montenegro, North Macedonia, Serbia and Turkey.

Sources: Statistical offices of the six Western Balkan economies and Turkey; EC (2018[13]), *SME Performance Review*, https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en (accessed on 30 November 2018).

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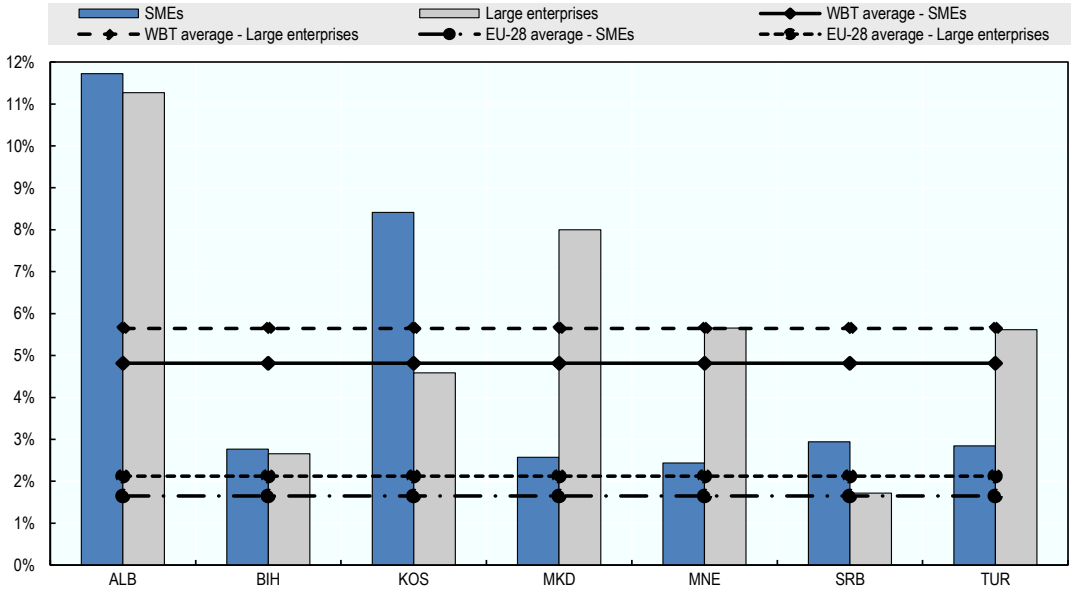
SMEs in the WBT had a slightly lower average annual employment growth rate than large enterprises between 2014 and 2016. However, in Albania, Bosnia and Herzegovina, and Kosovo, the average employment growth rates for SMEs outstripped those of large enterprises over that period (Figure 4).

Figure 4. Annual employment growth: SMEs versus large enterprises (2014-16)

2014-16 average annual growth rate



Note: For Albania, only SMEs operating in NACE Rev. 2 sectors 05-96 are included, excluding SMEs operating in sectors 64-66, 84 and 94 due to unavailability of data. For Bosnia and Herzegovina data do not include unincorporated enterprises. Due to the unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska.

Sources: Statistical offices of the six Western Balkan economies and Turkey; EC (2018[13]), *SME Performance Review*, https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en (accessed on 30 November 2018).:

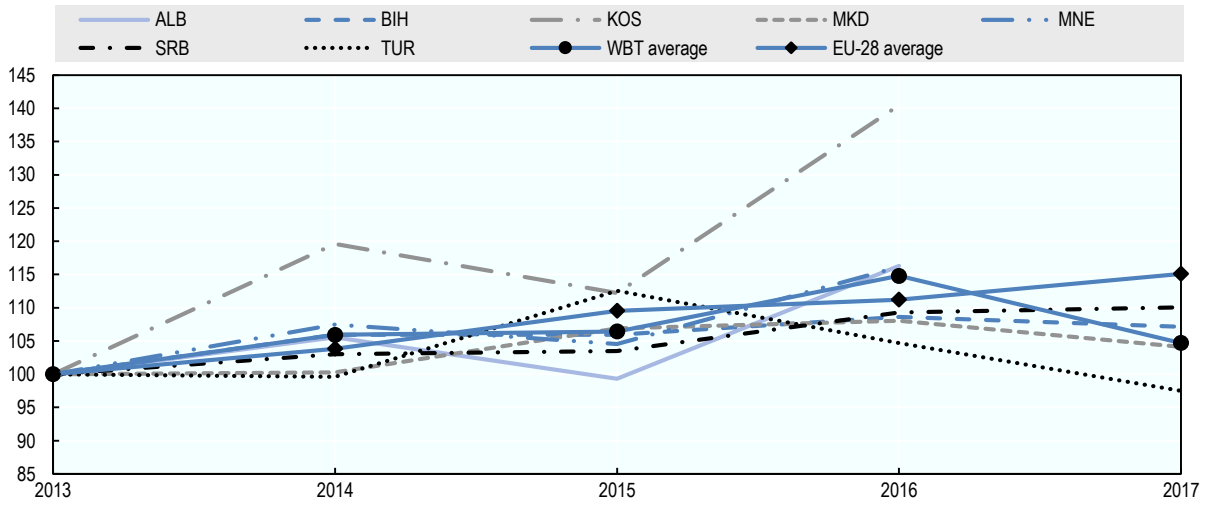
StatLink http://dx.doi.org/10.1787/888933937223/

Value added generated by SMEs

The value added generated by SMEs in the average WBT economy grew by 14.8% between 2013 and 2016, compared to 11.2% in the EU (Figure 5). Kosovo (40.5%), Albania (16.3%) and Montenegro (16.1%) witnessed the strongest increases over that period.

Figure 5. Growth in value added generated by the SME sector (2013-17)

Index (2013=100)



Note: 2017 data for Albania and Kosovo were not available. 2017 data for North Macedonia are provisional. For Albania, only SMEs operating in NACE Rev. 2 sectors 05-96 are included, excluding SMEs operating in sectors 64-66, 84 and 94 due to unavailability of data. For Bosnia and Herzegovina data do not include unincorporated enterprises. Due to unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska. The WBT average for 2017 only includes Bosnia and Herzegovina, North Macedonia, Serbia and Turkey.

Sources: Statistical offices of the six Western Balkan economies and Turkey; EC (2018[13]), *SME Performance Review*, https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en (accessed on 30 November 2018).

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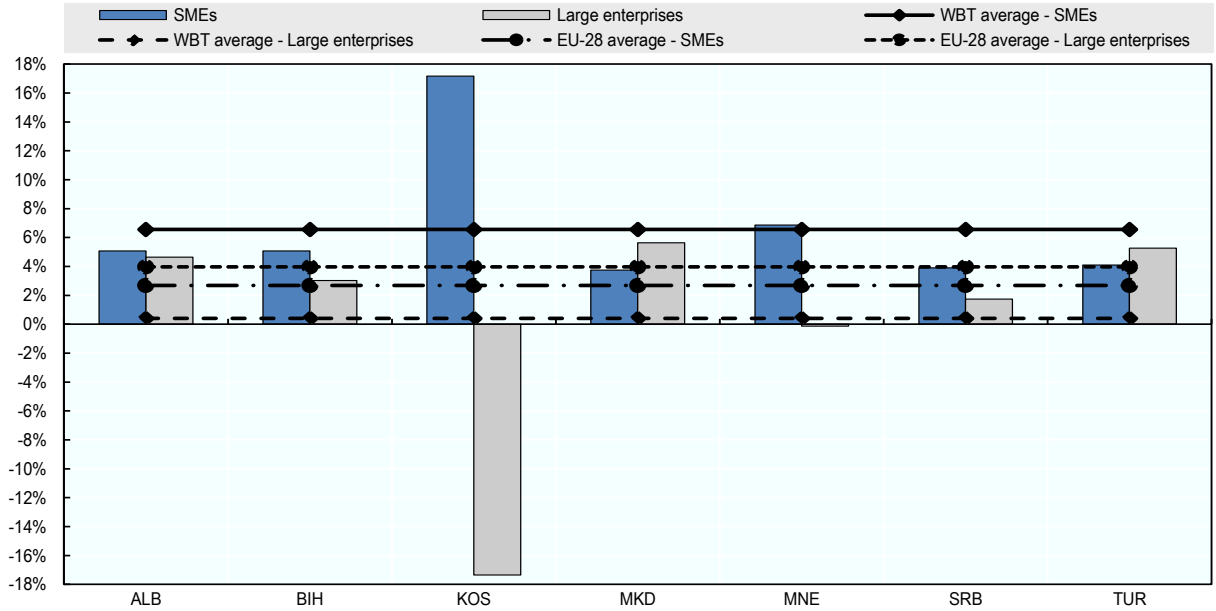
Between 2013 and 2016, SMEs had a higher compound annual growth rate (CAGR) of value added than large enterprises in all WBT economies except North Macedonia and Turkey. Indeed, on average, the CAGR of SMEs' value added was more than 6% higher than for large enterprises for that period. In Kosovo, the CAGR of SMEs increased by 17.2%, while the rate for larger enterprises decreased by 17.4% over the same period (Figure 6).

Figure 6. Growth in value added: SMEs versus large enterprises (2013-16)

CAGR 2013-16, current prices



Note: CAGR: compound annual growth rate. For Albania, only SMEs operating in NACE Rev. 2 sectors 05-96 are included, excluding SMEs operating in sectors 64-66, 84 and 94 due to unavailability of data. For Bosnia and Herzegovina data do not include unincorporated enterprises. Due to the unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska.

Sources: Statistical offices of the six Western Balkan economies and Turkey; EC (2018[13]), *SME Performance Review*, https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en (accessed on 30 November 2018).

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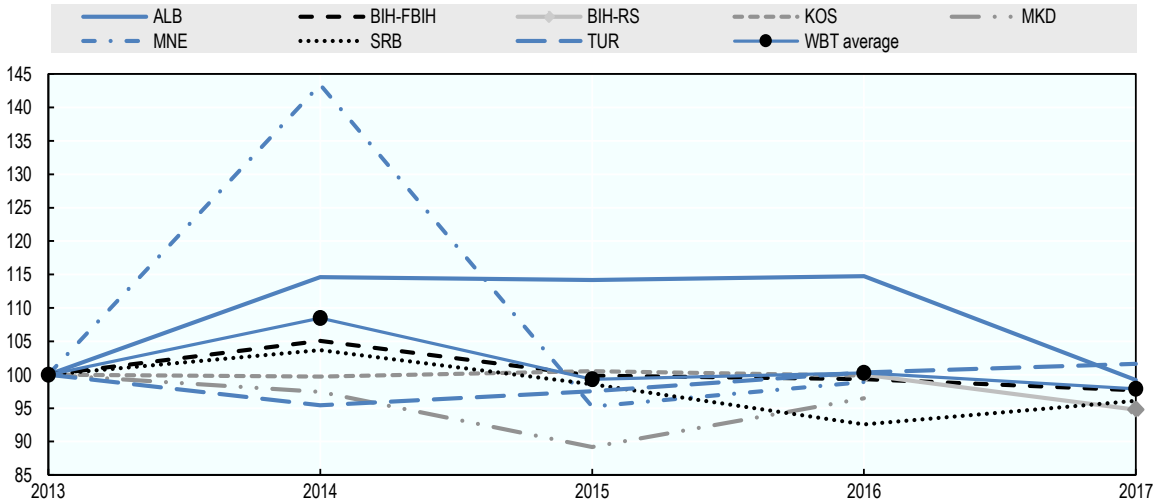
Export performance of SMEs

On average, SMEs' share of exports only grew by 0.3% between 2013 and 2016 in the WBT economies. Although Montenegro witnessed a strong increase in SMEs' share of exports in 2014, it fell slightly below the WBT average in 2015. In Albania, SMEs' share of exports increased in 2014 by 14.6% compared to 2013, but fell back to the 2013 level in 2017 (Figure 7).

Albania and Montenegro saw the highest average annual growth rates in SMEs' share of exports over 2014-16. In North Macedonia, Serbia and Turkey, large enterprises had a higher annual average export share growth rate than SMEs (Figure 8).

Figure 7. Growth of SMEs' share of exports (2013-17)
Index (2013=100)



Note: 2017 data for Kosovo, Montenegro, North Macedonia and Serbia are not available. Due to the unavailability of data, the national definition of SMEs was used for Albania. Data for the Republika Srpska only available as of 2016. The WBT average for the years 2013, 2014 and 2015 do not include the Republika Srpska. The 2017 WBT average only includes Albania, the Federation of Bosnia and Herzegovina, the Republika Srpska, Serbia and Turkey.

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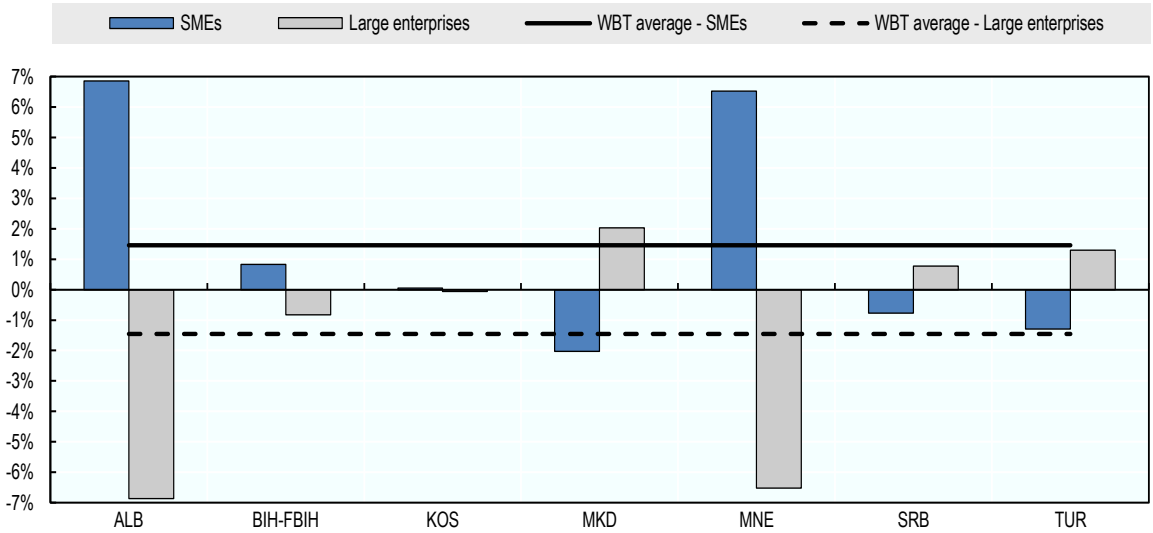
Figure 8. Annual growth in share of exports: SMEs versus large enterprises
2014-16 average annual growth rate



Note: Due to the unavailability of data, the national definition of SMEs was used for Albania. For Bosnia and Herzegovina, only data for the Federation of Bosnia and Herzegovina were available. Data for the Federation of Bosnia and Herzegovina do not include unincorporated enterprises.
Sources: Statistical offices of the six Western Balkan economies and Turkey.

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Policy framework and assessment process

Introduction

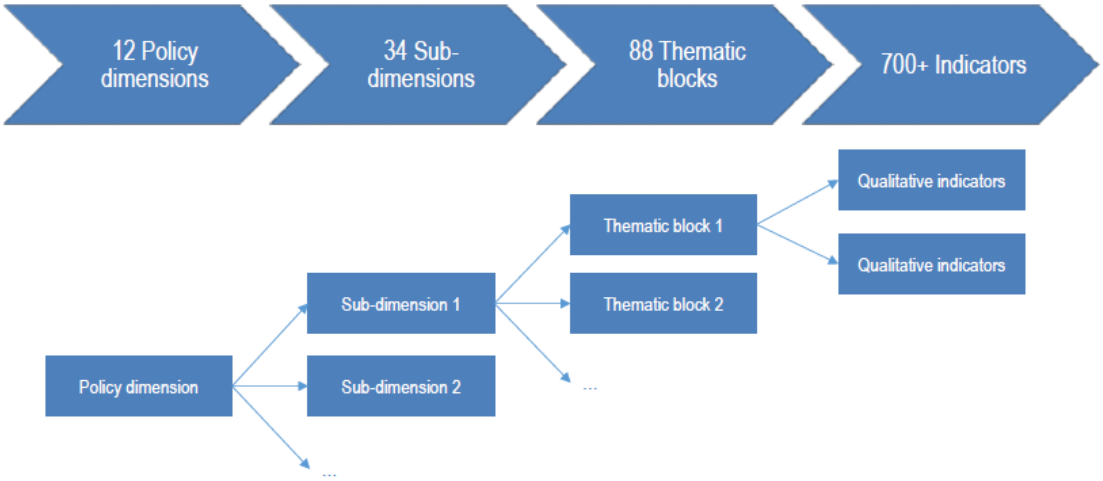
The SME Policy Index is a benchmarking tool for emerging economies to monitor and evaluate progress in policies that support small and medium-sized enterprises (SMEs). It is structured around the ten principles of the Small Business Act for Europe (SBA), providing a wide range of pro-enterprise measures to guide the design and implementation of SME policies in the European Union (EU). The index was developed in 2006 by the OECD in partnership with the European Commission, the European Bank for Reconstruction and Development (EBRD), and the European Training Foundation (ETF). It has been applied 12 times, covering 33 economies in 4 regions: the Western Balkans and Turkey, Eastern partnership countries, North African and Middle East regions, and the Association of Southeast Asian Nations (ASEAN) countries.

While a number of other indices and benchmarking reports have been used to assess the business environment in the Western Balkans and Turkey (WBT), the SME Policy Index follows a holistic approach that seeks to provide policy makers with a single window through which to assess and, if necessary, readjust policies favouring the development of SMEs. This report identifies the nature and extent of their strengths and weaknesses in SME-related policy settings and their implementation, allowing comparisons to be made across economies and measuring convergence towards OECD and EU good practice.

Overview of the 2019 assessment framework

The *SME Policy Index: Western Balkans and Turkey 2019* analyses and benchmarks SME policies across 12 policy areas ("dimensions"). These are further broken down into sub-dimensions and thematic blocks. Each of the 12 policy dimensions comprises up to 5 sub-dimensions that capture the critical elements of policy development in the policy dimension of which they are part. The sub-dimensions are, in turn, made up of thematic blocks that consist of concrete indicators, both quantitative and qualitative (Figure 9).

Figure 9. Overall assessment framework of the SME Policy Index 2019



The SME Policy Index assessment framework was developed to respond to the priorities identified in the ten principles of the SBA. Table 9 shows how the policy dimensions and sub-dimensions relate to each SBA principle.

Table 9. The Small Business Act assessment framework and its links to the SBA principles

SBA principle	Related policy dimension	Related sub-dimension
1. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded	1. Entrepreneurial learning and women's entrepreneurship	Entrepreneurial learning Women's entrepreneurship
2. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance	2. Bankruptcy and second chance	Preventive measures Bankruptcy procedures Promoting second chance
3. Design rules according to the "think small first" principle	3. Institutional and regulatory framework for SME policy making	Institutional framework Legislative simplification and regulatory impact analysis Public-private consultations
4. Make public administration responsive to SMEs	4. Operational environment for SMEs	Digital government services for enterprises Company registration Business licensing Tax compliance procedures for SMEs
5. Adapt public policy tools to SME needs	5a. Support services for SMEs	Business support services provided by the government Government initiatives to stimulate private business support services
	5b. Public procurement	Public procurement

6. Facilitate SME access to finance and develop a legal framework and business environment supportive of timely payments in commercial transactions	6. Access to finance for SMEs	Legal and regulatory framework Sources of external finance – bank financing Sources of external finance – non-banking financing Venture capital ecosystem Financial literacy
7. Help SMEs to benefit more from the opportunities offered by the Single Market	7. Standards and technical regulations	Overall co-ordination and general measures Harmonisation with the EU *acquis* SME access to standardisation
8. Promote the upgrading of skills and all forms of innovation	8a. Enterprise skills 8b. Innovation policy for SMEs	Enterprise skills Policy framework for innovation Government institutional support services for innovative SMEs Government financial support services for innovative SMEs SME and research institution collaboration and technology transfer
9. Enable SMEs to turn environmental challenges into opportunities	9. SMEs in a green economy	Framework for environmental policies targeting SMEs Incentives and instruments for SME greening
10. Encourage and support SMEs to benefit from growth markets	10. Internationalisation of SMEs	Export promotion Integration of SMEs into global value chains Promoting the use of e-commerce

The SME Policy Index 2019 assessment framework has been adjusted since the 2016 assessment to provide a more in-depth analysis and to better respond to the needs of the economies being assessed. Over the last decade, while most of the economies have demonstrated improvements in building up their institutional frameworks and designing comprehensive policies, the implementation of SME policies has largely remained below par, with limited impact on their local SME populations. In light of this, the assessment framework has been adjusted to account for policy implementation (Box 2).

Box 2. Refinements to the assessment framework

Compared to the 2016 SME Policy Index, the 2019 assessment includes new features introduced to strengthen the analysis and increase its impact. These refinements include:

- five new sub-dimensions to include policy aspects that were not covered in the previous cycle
- extending and amending other sub-dimensions to collect more in-depth information
- increased focus on the economy's performance and implementation of SME

policies
- private sector feedback to gauge the outcome of policies
- greater involvement of national statistical offices and more extensive collection of relevant statistical data.

A detailed description of how the assessment framework has been adjusted is presented in Annex A.

Methodological approach

Policy areas are given a score from 1 to 5, with Level 1 being the weakest and Level 5 the strongest (Table 10). Reaching Levels 4 and 5 is more difficult, requiring solid policy implementation and monitoring and evaluation. Scores are determined by assigning a numerical value to each qualitative indicator. The results are then aggregated with weightings applied at the sub-dimensional and thematic block levels, taking into consideration the importance of each indicator in policy formulation or implementation. A detailed description of the allocation of scores is presented in Annex A.

By assigning scores, the index transforms qualitative information into numerical information, facilitating cross-economy comparison and allowing for systematic monitoring of policy developments.

Table 10. Description of score levels

Level 5	Level 4 plus results of monitoring and evaluation inform policy framework design and implementation
Level 4	Level 3 plus evidence of a concrete record of effective policy implementation
Level 3	A solid framework, addressing the policy area concerned, is in place and officially adopted
Level 2	A draft or pilot framework exists, with some signs of government activity to address the policy area concerned
Level 1	No framework (e.g. law, institution) exists to address the policy topic concerned

In order to make it easier to compare performance across economies and over time, quantitative indicators are used to provide additional evidence on the performance of policy settings, processes and programmes. These include horizontal statistical data, to better understand the nature of the SME sector; and data specific to individual dimensions to assess policy outputs and outcomes relevant for implementation. Although the quantitative data are not included in the scoring, they have been taken into account in the narrative text, including the analysis of the overall SME policy setting and formulation of policy recommendations. The quantitative data were primarily collected by the OECD from national statistical offices.

The assessment process

The SME Policy Index is based on the results of two parallel assessments. The economies' governments conducted a self-assessment, which involved completing a questionnaire and assigning a score for each policy indicator using the assessment grid, and providing an accompanying justification. The OECD and its partner organisations also conducted an independent assessment, with input from a team of local experts.

The final scores are the result of a highly collaborative and consultative consolidation of these two assessments, enhanced by further desk research by the OECD and the partner organisations, as well as consultations with government representatives. To achieve this,

a series of reconciliation meetings were held in each of the assessed economies to discuss and compare the two parallel assessments, which helped to reduce bias and misjudgements (see below for more details).

Based on the information gathered in these reconciliation meetings, the OECD and its partner organisations then decided the final results. These were presented to the SBA Co-ordinators in a regional meeting at the end of the assessment process. Minor modifications of the scores were subsequently made.

Assessment methodology for Dimensions 1 and 8a

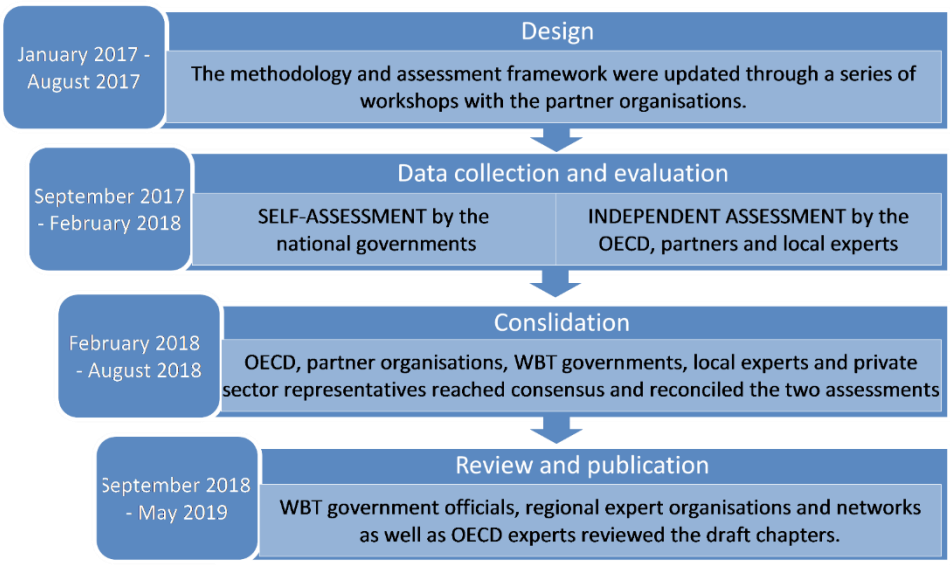
For this assessment, the methodology for the two human capital dimensions, Dimensions 1 and 8a, has been harmonised with the remaining dimensions. Previously, Dimensions 1 and 8a were assessed using 5-level qualitative indicators. Moving to the questionnaire, with its binary (yes/no), multiple-choice and open questions, has harmonised the assessment methodology across all the SBA dimensions (the other dimensions were first assessed in this way in 2016). However, comparison of the scores between the 2016 and 2019 assessments need to be made with caution because of this change.

For Dimensions 1 and 8a, the self-assessments took place with the support of an ETF local expert. Focus group meetings on each of the three sub-dimensions – entrepreneurial learning, women's entrepreneurship and SME skills – were held in each economy, attracting between 10 and 75 stakeholders from all relevant sectors. The aim was to validate and interpret the initial assessment findings, and identify additional evidence to strengthen the analysis. The final results of the assessment have been agreed between the ETF and the national counterparts.

Assessment phases and timing of the 2019 assessment

The assessment was carried out between January 2017 and January 2019 in four main phases: 1) design; 2) data collection and evaluation; 3) consolidation; and 4) review and publication (Figure 10).

Figure 10. Overview of the assessment process phases



- **Design phase** (January 2017-August 2017). The OECD and the partner institutions revised the assessment framework in consultation with the SBA Co-ordinators, partner organisations and the European Commission. The assessment methodology for Dimensions 1 and 8a was harmonised with the remaining dimensions.

- **Data collection and evaluation phase** (September 2017-February 2018). Launch meetings were held in the seven capitals of the assessed economies to present the new assessment framework to the line ministries and public institutions which were expected to contribute to the information collection process. The two documents making up the assessment framework – the questionnaire and statistical data sheet – were explained in depth to the participants, directing particular attention to the newly added questions and indicators.

  Following the launch events, the SBA Co-ordinators distributed the questionnaires to the appropriate counterparts in the ministries and government agencies, as well as the statistical sheet to the national statistical offices. The SBA Co-ordinators then compiled the data and documentation, and completed the questionnaire. Scores were assigned for each policy dimension, with an accompanying justification. The completed questionnaires and statistical data sheets were sent to the OECD team by February 2018. Meanwhile, the OECD and its partner organisations also conducted an independent assessment. This was based on input from a team of local experts who collected data and information, and conducted interviews with SME representatives as well as key public and civil society stakeholders. A detailed description of the interviews is presented in Annex C.

- **Consolidation phase** (February 2018-August 2018). Reviews of the inputs by the OECD and the partner institutions revealed the need for additional information on certain elements. These were requested and the revised questionnaires were sent back during February-April 2018.

  Once the data collection was complete, the OECD and EBRD organised reconciliation meetings in each of the assessed economies. These meetings were typically attended by 60-80 SME policy stakeholders, including ministries and government agencies, international donors, and representatives from civil society, academia, non-government organisations, the private sector and the EU delegations. These meetings aimed to close any remaining information gaps in the questionnaire, discussing any discrepancies between the two parallel assessments and filling in missing information. They also served as an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies, and what else can be done across various policy areas to improve SMEs' performance and competitiveness in the Western Balkans and Turkey.

  For the two policy dimensions (entrepreneurial learning and women's entrepreneurship, and enterprise skills) whose assessment was led by the ETF, similar meetings took place during February-March 2018, as described above.

  After the reconciliation meetings, the assessment findings were consolidated. The OECD and partner organisations decided on the final scores under each policy dimension presented in this report. The preliminary findings and scores were subsequently presented to SBA Co-ordinators at a meeting in Paris on 12 July 2018.

- **Review and publication phase** (September 2018-May 2019). The draft SME Policy Index chapters were made available to the WBT governments, the European Commission and the EU delegations for review during September-December 2018. Meanwhile, the draft report was also peer reviewed internally by the OECD, the EBRD and the ETF. Following the review, final comments were integrated into the report. The publication was launched on 7 May 2019 in Sarajevo.

Strengths and limitations

The SME Policy Index: Western Balkans and Turkey 2019 has a number of strengths which make it a uniquely valuable report for policy makers, citizens, researchers and international organisations. However, it also has some limitations which need to be borne in mind (Table 11).

Table 11. Strengths and limitations of the SME Policy Index 2019

Strengths	Limitations
The indicators have been structured to be fully compatible with the EU Small Business Act.	Limited comparability of performance over time due to the inclusion of additional policy areas in the assessment framework and changes in scoring weights.
Independent and rigorous assessment enables it to benchmark the performance of WBT economies against OECD/EU policy standards.	Statistical coverage is limited in the seven economies, and comparison of policy performance can be challenging. Problems such as the lack of a uniform SME definition mean data cannot always be directly compared.
Good practice examples and policy recommendations, both at regional and economy level, offer concrete guidance to governments for policy reform.	The sub-dimension weightings are based on expert opinion, and therefore involve subjectivity.
The report facilitates discussion about regional remedies for similar problems and the transferability of experience between economies.	The application of the same set of indicators and weights can mask certain economy-specific characteristics.
Engagement with a wide range of stakeholders, including SME representatives, allows for better understanding of needs on the ground, and how effective government policies have been.	The assessment framework does not exhaustively cover all the policy areas affecting SMEs.
The tripartite participatory approach to evaluation and measurement brings together governments, the private sector and the OECD.	In economies where SME policies are mainly implemented at sub-national level, the implementation of government policy can be hard to measure.
Combines original data collected by the OECD, European Commission, ETF and EBRD with existing data from sources such as the World Bank.	

Overview of key findings

This chapter provides an overview of the key findings of the 2019 SBA assessment for each of the 12 policy dimensions. Complete scores for each dimension and sub-dimension can be found in Table 12. Full details of the methodology and the background to this assessment are contained in Annex A.

This 2019 assessment reveals that the economies of the Western Balkans and Turkey (WBT) perform best in the areas of business support services, public procurement, standards and technical regulations, as well as in their institutional and regulatory frameworks for SME policy making.

All the WBT economies have well-developed SME strategies in place and they are implementing these strategies according to implementation plans. They have continued to reduce the administrative burdens on SMEs by streamlining registration processes and extending the scope of digital public services. The WBT economies have also strengthened their legal frameworks for insolvency, and further simplified their public procurement procedures to reduce SMEs' barriers to participation. During the assessment period (2016-18), support measures for SMEs have also grained traction, and public funds have been earmarked at a growing rate to implement the actions planned under the various SME development strategies. Although very few WBT economies have targeted and regular programmes to support SME awareness of and participation in the development of standards, their quality infrastructure systems are increasingly consistent with the established principles in the European Union (EU) and internationally.

By contrast, there are several policy areas in which the region as a whole still has room for improvement. These include bankruptcy and second chance policies, enterprise skills, innovation policy for SMEs, and SME greening policies.

Bankruptcy procedures could be made more efficient by reducing the time between liquidation and formal debt cancellation to allow failed entrepreneurs to start new businesses quickly. Furthermore, well-designed tax provisions are needed to reduce the disproportionate compliance burden imposed on SMEs by the tax system. This assessment also reveals that systems to understand the demand for and supply of skills need to be strengthened across the region to better identify SMEs' needs and devise training programmes accordingly. A better understanding of SMEs' needs would also help in creating a more co-ordinated policy approach to help them further improve their productivity and to scale up. Given the size of the Western Balkan economies, better regional co-operation in providing certain resources – such as innovation and quality infrastructure – would be a cost-efficient way to help them scale up beyond their domestic capacities. In most WBT economies, the implementation of SME greening policies remains limited overall. Initiatives to raise awareness among SMEs of the advantages of greening their activities should be implemented with a view to improving productivity and reducing their environmental impact.

Key findings by dimension

Dimension 1: Entrepreneurial learning and women's entrepreneurship

Entrepreneurial learning features in national policy across all assessed economies, and ranges from stand-alone strategies to being a component of wider strategic policy instruments. The policy drive in the region is supported by a variety of stakeholder partnership arrangements, working towards co-ordination and co-operation across a range of policies (education, employment, small and medium-sized enterprises, innovation, regional development). However, leadership and commitment, particularly from education authorities, remains weak. Efforts to address entrepreneurship as a key competence in lower secondary and vocational education reflect wider developments within the European Union. However, the higher education community remains on the fringe of wider entrepreneurial learning developments, with little evidence that it is accommodating key competence approaches to entrepreneurship. Options for young people to acquire practical entrepreneurial experience before leaving school are confined to school-based projects; none of the economies have incorporated entrepreneurial experience within the national curriculum.

Women's entrepreneurship is now on the policy agendas of all the WBT economies, with most progress being made in designing and implementing policies. Partnerships, both formal and informal, between public and private stakeholders to support women's entrepreneurship are increasingly found across the region. In many cases, support for women's entrepreneurship programmes comes from the combined actions of more than one government sector. The main challenge is still to ensure the effectiveness and efficiency of collective efforts, which requires increased recognition of the importance of policy evaluation, and co-ordination among the partners responsible for the design and implementation of women's entrepreneurship policies and programmes.

Dimension 2: Bankruptcy and second chance for SMEs

Mechanisms to prevent bankruptcy are still underdeveloped across the WBT region. The assessed economies lack institutional support and tools to prevent honest entrepreneurs from going bankrupt, such as early warning systems. All WBT economies have functioning insolvency laws that govern formal procedures for financially distressed companies. However, few have succeeded in reducing the time taken to resolve insolvency to below the OECD average, and the recovery rates in the region are still very low. Most of the economies have a formal bankruptcy discharge procedure in their legal framework; however, almost none of the governments have set a legal time limit for entrepreneurs to obtain a discharge. There is a lack of publicly available bankruptcy registers; this prevents enterprises from obtaining detailed information about potential business partners – undermining the transparency and legal certainty of business activities. Second chance policies for failed entrepreneurs are still largely absent in the region, and no public institutions are leading efforts to reduce the cultural stigma attached to business failure. The WBT governments also do not provide dedicated training or information on restarting a business after failure, hampering the economic reintegration of honest bankrupt entrepreneurs. However, none of the economies impose civic consequences on bankrupt business owners.

Dimension 3: Institutional and regulatory framework for SME policy making

All WBT economies have well-developed SME strategies in place and are implementing them according to linked action plans. While most of the economies regularly monitor implementation, no comprehensive evaluation of the effectiveness and cost efficiency of policy measures has been conducted in the region. The WBT economies have also introduced measures to combat the informal economy, but a fully co-ordinated whole-of-government approach is lacking. Efforts to monitor regulatory reform are weak due to the lack of data on the proportion of primary and subordinate legislation that has been reviewed and eliminated. Regulatory impact analysis (RIA) has become a mandatory part of the policy-making system in the whole WBT region, but the RIA process is still unevenly institutionalised and not consistently practised. Despite a formal requirement to conduct public-private consultations (PPCs) prior to all major regulations in most of the region, the quality of the PPC process is uneven and varies across institutions. The majority of government acts in the WBT region are still adopted through an "urgent" procedure that bypasses any consultation. To increase SME participation in PPCs a few WBT governments have established councils and associations for SMEs. Most of the WBT economies have also introduced a single government portal listing all the ongoing PPCs and making publicly available the views of participants in the consultation process. However, there are few control mechanisms or co-ordinating institutions to ensure regular updates and consistent use of the portals.

Dimension 4: Operational environment for SMEs

All WBT governments 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 completed fully on line. One-stop shops have been established in all seven assessed economies, allowing businesses and administrations to save time and expense during the registration process. The WBT economies have also made a start in improving data exchanges among state institutions. However, their systems only connect a handful of institutions, meaning that various public institutions need to ask enterprises repeatedly for the same information, increasing the administrative burden on SMEs. All WBT economies apply clear procedures when granting licences. 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 governments have established a threshold below which SMEs are not obliged to register for and remit value-added tax. This has reduced SMEs' administrative burden and given them a competitive advantage over larger companies.

Dimension 5a: Support services for SMEs

All WBT governments have included specific steps in their relevant SME policy frameworks to boost the provision of business support services (BSSs) by both public institutions and private providers. However, only three of the WBT economies have conducted extensive stakeholder or training needs analyses to adapt their BSS provision to SMEs' needs. In all the WBT economies SMEs have access to BSSs provided by public institutions, although not all the dedicated public SME institutions across the region directly delivered training or mentoring to SMEs during the assessment period. The provision of BSSs through private sector providers is also supported by all WBT economies. They all offer co-financing mechanisms which are characterised by defined

structures and clear eligibility criteria. Although the relevant public institutions in all WBT economies provide information about their co-financing schemes, online databases showcasing private sector consultants are rare in the region. BSS provision is monitored by the SME agency or relevant public institution in all WBT economies, but an in-depth independent evaluation of BSSs has only been conducted in one of the economies. All the assessed economies offer online information about the BSSs available. However, only four of them have established a dedicated portal collating information on all of the BSSs available from all government institutions.

Dimension 5b: Public procurement

All the assessed economies also allow procurement contracts to be divided into smaller lots that are more accessible to SMEs and set maximum time periods for payments in public procurement, and impose penalties for late payments. Public procurement offices in all the WBT economies offer some form of support and most of the economies provide training to businesses in public procurement issues, including to SMEs specifically. All the assessed economies allow or require the use of electronic tools in public procurement. A few WBT economies also collect and analyse information on SME participation in public procurement, as well as information on delayed payments.

All the economies collect information on the share of contracts awarded to foreign businesses. They all also enable economic operators to have complaints reviewed by procurement review bodies that are independent both from procuring entities and economic operators. Most economies regulate minimum time periods for submitting complaints that are in accordance with the relevant EU Remedies Directives – although in a few cases the time periods are shorter than those required by EU law. All WBT economies also regulate the maximum time period in which procurement review bodies should reach decisions on complaints submitted by economic operators – slightly over two weeks in most economies. All the economies charge fees for submitting appeals to review bodies, but at a level that does not hinder economic operators' access to legal protection.

Dimension 6: Access to finance for SMEs

Legal and regulatory frameworks are in place in all WBT economies that facilitate access to finance for SMEs. The coverage of credit information systems has expanded in most economies, enabling more enterprises to build the credit history they need. Across all the economies, bank lending continues to be the dominant source of finance. As banking systems recover, lending has resumed and in some economies commercial banks are increasingly focusing on SME lending. However, systemic barriers remain in all WBT economies, as loan conditions are typically less favourable for SMEs, reflecting lenders' perceptions of the risk of default. Public sector interventions are still common, often in the form of subsidised lending, although governments are slowly shifting towards more commercially aligned solutions such as credit guarantees. Non-bank finance instruments have gained momentum as governments increasingly recognise the need to diversify sources of finance. Venture capital is still in its infancy across the Western Balkan region, although some pioneer venture capital fund investments took place in two of the WBT economies during the reporting period. Venture capital is active in Turkey, boosted by strong government support. Both public and private sector efforts to increase financial know-how among businesses and the wider population more generally remain scattered and uncoordinated, and all the WBT economies lack a clear strategic approach to tackling shortcomings in this area.

Dimension 7: Standards and technical regulations

Overall co-ordination of the quality infrastructure and procedures required to facilitate SMEs' access to the EU Single Market has significantly improved across most WBT economies. However, challenges remain in a few economies, particularly in integrating market surveillance into the co-ordination mechanism for quality infrastructure. Most WBT governments have renewed their strategic documents for adopting quality infrastructure legislation and transposing EU directives. However, monitoring and evaluation is largely ineffective and insufficient in all economies. All WBT governments have taken steps to conclude mutual recognition agreements and participate in international quality infrastructure structures. As a result, their quality infrastructure systems are increasingly consistent with the established principles in the EU and internationally. Maintaining and expanding the current level of accreditation, conformity assessment and metrology services remain challenges. Although some co-operation is taking place regionally, there has been no attempt by WBT governments to collaborate to provide cost-effective quality infrastructure services at a regional level. In addition, national standards bodies in the Western Balkans have not succeeded in increasing their own revenues, and struggle to reduce their dependence on public funding. SMEs' access to standardisation in the WBT economies remains inadequate, and they are not systematically informed about new standards or involved in their development. Effective programmes are scattered, and very few WBT economies have targeted and regular programmes to support SME awareness of and participation in standard development.

Dimension 8a: Enterprise skills

The WBT economies have made some progress in improving the governance of enterprise skills. Most have taken steps to collect information on skills needs, although institutional capacity needs to be strengthened to co-ordinate data collection and use it to inform SME skills policy and programming. Although the statistical basis for analysing companies' skills needs has improved over the assessment period, the monitoring results of SME measures and support programmes are not always made available to enable decision makers to identify those which are successful and those which are less relevant. And while most economies recognise the importance of digital skills for SMEs and the link with internationalisation, this recognition has not been systematically translated into providing the conditions or the training required to steer SMEs towards the digital economy. Training provision in the WBT economies is not always tailored to the specific needs of start-ups at different stages of growth. In addition, e-training for SMEs is not widely available across the region; online platforms are needed to provide an overview of the training on offer to SMEs. The assessment finds that the economies have recognised the importance of skills for innovation; they will now need to define an approach to smart specialisation in which the territorial concentration of SME skills, knowledge and competences are transformed into a competitive advantage.

Dimension 8b: Innovation policy for SMEs

The WBT economies have made progress in developing holistic innovation frameworks, and the majority have an innovation strategy in place, or are in the process of renewing one. The horizontal co-ordination of innovation policy has improved across the region, with national councils for innovation established in four economies. However, monitoring and evaluation of policy implementation is largely insufficient. While donor support remains critical, a few governments have allocated significant budgets to sustain this type of policy support in the long term. In addition, most economies have introduced a mix of

financial instruments to support firms' innovation and technology development. However, with the exception of Turkey, none of the assessed economies have capitalised fully on the potential of indirect financial support – such as fiscal measures to encourage investments in research and development – as a cost-effective policy tool. Disbursement rates of funds earmarked for innovation are often low, suggesting there is room to increase SMEs' awareness to absorb available funds, and to improve the design of financial instruments. Young companies increasingly benefit from a solid infrastructure of incubators that also extends to regions outside the main economic hubs. Several WBT economies have established science and technology parks, technology institutes, and technology transfer offices, but it is too early to evaluate their impact. Government efforts to foster collaboration among industry and academia seem to be hampered by the private sector's poor perception of public research institutes' capacity, and the lack of an environment encouraging academic staff to engage in joint activities with the private sector.

Dimension 9: SMEs in a green economy

SME greening measures and policies are now included in overall SME strategies in almost all the WBT economies. Resource efficiency and eco-innovation lie at the forefront of new SME greening measures, which mostly contain clear targets, planned budgets and timeframes. Advice and guidance programmes on SME greening are slowly emerging in the region and greening practices are becoming recognised and awarded. However, the implementation of SME greening policies remains limited overall in the Western Balkans. This is mainly due to the limited budgets allocated for the envisaged greening measures, creating a high dependence on external donor support. The unpredictability of funds results in frequent interruptions and delays in programme implementation, contributing to overall underperformance in realising the measures. Regulatory instruments are almost non-existent in the entire region, except Turkey, but green public procurement is slowly gaining momentum in some WBT economies. Business associations are increasingly involved in developing and implementing SME greening policies and their supporting instruments, for example providing information and guidance to SMEs on adopting environmental practices.

Dimension 10: Internationalisation of SMEs

All the WBT economies have dedicated institutions to carry out export promotion programmes. However, their provision of programmes is hampered to some extent in most economies by resource constraints. Almost all economies have monitoring mechanisms in place for their export promotion programmes and export promotion agencies. The economies have also improved their collection of data by enterprise size, as nearly all of them now regularly collect data recording SME-specific imports and exports. All economies now also address SME integration in global value chains in their relevant strategic documents and all have planned programmes. Nonetheless, the majority of the WBT economies have operational programmes with mobilised budgets. Few WBT economies have conducted independent evaluations of the achievement of targets or the extent to which services are efficient or cost-effective in enhancing SMEs internationalisation. Albania is the only economy to benefit from an independent review of its export promotion activities. Although institutions for promoting e-commerce have been established in most of the WBT economies, only Turkey has implemented a programme during the assessment period to encourage SMEs to take up e-commerce.

Only four WBT economies have websites dedicated to informing SMEs about the opportunities and challenges of e-commerce.

2019 SME Policy Index scores for the Western Balkans and Turkey

The Table below presents the 2019 assessment scores by economy for each dimension, sub-dimension and thematic block, as well as the weights used for each element. Scores range between 1 and 5, with a higher score indicating a more advanced level of policy development and implementation. The scores reflect the situation of SME policy in the seven WBT economies and reforms introduced between 2016 and the end of 2018.

For the detailed methodology of the assessment, please see the chapter on the policy framework and assessment process and Annex A.

Table 12. 2019 SME Policy Index Scores

		Scores							Weights
		ALB	BIH	KOS	MKD	MNE	SRB	TUR	
I	**Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded**								
1	**Entrepreneurial learning and women's entrepreneurship**	**2.81**	**3.24**	**2.53**	**2.48**	**3.83**	**3.96**	**4.32**	
1.1	**Entrepreneurial learning**	**2.94**	**3.23**	**2.89**	**2.82**	**4.08**	**3.70**	**4.38**	**60%**
	Planning and design	3.33	4.13	3.00	3.13	4.73	3.33	4.45	30%
	Implementation	3.47	2.65	3.59	3.35	3.59	4.06	4.55	50%
	Monitoring and evaluation	1.00	3.33	1.00	1.00	4.33	3.33	4.00	20%
1.2	**Women's entrepreneurship**	**2.62**	**3.26**	**1.99**	**1.97**	**3.46**	**4.35**	**4.17**	**40%**
	Planning and design	3.00	3.67	2.33	2.33	4.33	4.33	5.00	30%
	Implementation	2.71	3.29	1.86	2.14	3.29	4.43	4.43	50%
	Monitoring and evaluation	1.80	2.60	1.80	1.00	2.60	4.20	2.60	20%
II	**Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance**								
2	**Bankruptcy and second chance for SMEs**	**2.83**	**2.55**	**2.71**	**2.49**	**3.44**	**2.84**	**3.23**	
2.1	**Preventive measures**	**2.29**	**1.14**	**2.29**	**3.00**	**2.86**	**2.29**	**2.86**	**10%**
2.2	**Survival and bankruptcy procedures**	**3.18**	**2.93**	**3.01**	**2.60**	**3.96**	**3.21**	**3.59**	**70%**
	Design and implementation	3.67	3.25	3.41	3.26	4.33	4.08	3.98	60%
	Performance and monitoring and evaluation	2.44	2.45	2.40	1.60	3.40	1.90	3.00	40%
2.3	**Promoting second chance**	**1.90**	**1.94**	**1.90**	**1.84**	**1.90**	**1.84**	**2.16**	**20%**
III	**Design rules according to the "think small first" principle**								
3	**Institutional and regulatory framework for SME policy making**	**3.55**	**2.62**	**3.92**	**3.86**	**4.24**	**4.24**	**4.12**	
3.1	**Institutional framework**	**4.15**	**2.97**	**4.11**	**3.69**	**4.35**	**4.33**	**4.61**	**40%**
	Planning and design	4.17	2.79	3.71	4.09	4.43	4.73	4.47	30%
	Implementation	4.13	3.09	4.53	3.73	4.27	3.93	4.73	50%

		Scores							Weights
		ALB	BIH	KOS	MKD	MNE	SRB	TUR	
	Monitoring and evaluation	4.14	2.94	3.67	3.00	4.43	4.71	4.52	20%
3.2	**Legislative simplification and regulatory impact analysis**	**2.65**	**2.06**	**3.33**	**4.04**	**4.27**	**4.15**	**3.80**	**30%**
	Planning and design	3.24	2.24	4.20	5.00	4.60	4.20	4.49	30%
	Implementation	2.76	2.10	2.83	3.40	4.00	4.09	3.60	50%
	Monitoring and evaluation	1.51	1.71	3.27	4.20	4.47	4.20	3.25	20%
3.3	**Public-private consultations (PPCs)**	**3.64**	**2.71**	**4.25**	**3.90**	**4.05**	**4.21**	**3.79**	**30%**
	Frequency and transparency of PPCs	3.44	2.84	4.38	4.42	4.29	4.36	3.27	40%
	Private sector involvement in PPCs	4.50	3.09	4.40	4.50	4.68	4.33	4.33	40%
	Monitoring and evaluation	2.33	1.67	3.67	1.67	2.33	3.67	3.77	20%
IV	**Make public administration responsive to SMEs**								
4	**Operational environment for SMEs**	**3.99**	**2.34**	**3.75**	**3.52**	**3.29**	**3.73**	**3.56**	
4.1	**Digital government services for enterprises**	**3.76**	**1.81**	**3.48**	**3.20**	**3.35**	**3.52**	**3.92**	**60%**
	Planning and design	4.39	2.25	4.20	4.39	4.29	4.25	4.72	30%
	Implementation	3.40	1.97	3.57	3.63	3.80	3.69	4.20	45%
	Monitoring and evaluation	3.67	1.00	2.47	1.00	1.40	2.33	2.47	25%
4.2	**Company registration**	**4.51**	**2.78**	**4.87**	**4.63**	**2.93**	**4.49**	**3.59**	**20%**
	Design and implementation	5.00	3.90	4.73	4.67	4.40	4.67	4.00	40%
	Performance	3.93	2.28	4.90	3.83	3.87	4.03	3.17	20%
	Monitoring and evaluation	4.31	1.91	5.00	5.00	1.00	4.54	3.40	40%
4.3	**Business licensing**	**4.18**	**3.51**	**3.44**	**3.38**	**3.45**	**3.59**	**2.43**	**20%**
	Licence procedures	4.64	3.70	3.76	3.25	3.93	3.25	3.16	50%
	Monitoring and streamlining of licence system	3.72	3.32	3.13	3.51	2.97	3.93	1.69	50%
4.4	**Tax compliance procedures for SMEs**								
	SME tax compliance and simplification procedures	n/a							
	Monitoring and evaluation of SME-specific tax measures	n/a							
V	**Adapt public policy tools for SME needs**								
5a	**Support services for SMEs**	**3.61**	**3.41**	**3.64**	**3.96**	**4.03**	**4.12**	**4.42**	
5a.1	**Business support services provided by the government**	**3.01**	**2.98**	**3.35**	**3.52**	**3.83**	**4.33**	**4.39**	**50%**
	Planning and design	3.67	3.07	4.56	3.22	3.96	4.26	4.11	30%
	Implementation	2.79	3.26	2.79	3.95	4.05	4.37	4.58	50%
	Monitoring and evaluation	2.60	2.12	2.92	2.92	3.08	4.36	4.36	20%
5a.2	**Government initiatives to stimulate private business support services**	**4.21**	**3.85**	**3.94**	**4.39**	**4.23**	**3.91**	**4.44**	**50%**

		Scores							Weights
		ALB	BIH	KOS	MKD	MNE	SRB	TUR	
	Planning and design	5.00	4.43	5.00	3.86	5.00	4.43	5.00	30%
	Implementation	3.43	3.64	3.29	4.86	3.86	3.57	4.29	50%
	Monitoring and evaluation	5.00	3.50	4.00	4.00	4.00	4.00	4.00	20%
5b	**Public procurement**	**3.69**	**3.57**	**4.09**	**4.49**	**3.87**	**3.52**	**3.66**	
	Policy and regulatory framework	3.51	2.89	4.76	4.29	4.53	3.59	3.90	30%
	Implementation	4.28	4.28	4.28	5.00	3.39	3.57	3.57	50%
	Monitoring and evaluation	2.50	2.85	2.67	3.57	4.16	3.39	3.57	20%
VI	**Facilitate SME access to finance and develop a legal framework and business environment supportive of timely payments in commercial transactions**								
6	**Access to finance for SMEs**	**3.32**	**3.26**	**3.33**	**3.63**	**3.49**	**3.72**	**3.99**	
6.1	**Legal and regulatory framework**	**3.86**	**3.87**	**3.67**	**4.46**	**4.41**	**4.38**	**4.31**	**60%**
	Creditor rights	4.44	3.85	3.55	4.76	5.00	4.27	3.56	24%
	Registers	4.42	4.50	4.92	4.75	4.58	4.45	4.42	24%
	Credit information bureaus	4.43	4.25	4.22	5.00	4.42	5.00	4.51	24%
	Banking regulations	3.50	3.00	3.50	3.50	3.50	4.50	5.00	14%
	Stock market	1.31	3.07	1.00	3.46	4.00	3.29	4.35	14%
6.2	**Bank financing**	**2.48**	**2.51**	**3.05**	**2.69**	**1.64**	**2.80**	**3.55**	**20%**
	Banking lending practices and conditions	2.48	2.74	3.08	3.37	2.07	3.12	3.61	60%
	Credit guarantee schemes	2.48	2.17	3.00	1.67	1.00	2.33	3.44	40%
6.3	**Non-bank financing**	**3.31**	**2.94**	**2.90**	**2.28**	**3.33**	**2.85**	**3.06**	**10%**
	Microfinance institutions	4.83	4.33	4.67	2.17	4.67	2.00	2.33	33%
	Leasing	2.46	2.75	2.54	3.17	2.33	3.30	3.33	33%
	Factoring	2.63	1.75	1.50	1.50	3.00	3.25	3.50	33%
6.4	**Venture capital ecosystem**	**1.49**	**1.44**	**1.97**	**2.09**	**1.48**	**2.38**	**4.71**	**5%**
	Legal framework	1.67	1.82	2.11	1.78	1.67	2.55	4.67	35%
	Design and implementation of government activities	1.57	1.34	2.29	2.82	1.54	2.86	4.91	45%
	Monitoring and evaluation	1.00	1.00	1.00	1.00	1.00	1.00	4.33	20%
6.5	**Financial literacy**	**2.01**	**1.31**	**2.51**	**1.79**	**2.07**	**2.42**	**3.22**	**5%**
	Planning, design and implementation	2.26	1.38	2.89	1.98	2.33	2.78	3.45	80%
	Monitoring and evaluation	1.00	1.00	1.00	1.00	1.00	1.00	2.33	20%
VII	**Help SMEs benefit more from the opportunities offered by the Single Market**								
7	**Standards and technical regulations**	**3.64**	**2.78**	**3.60**	**3.50**	**3.99**	**4.55**	**4.78**	
7.1	**Overall co-ordination and general measures**	**2.75**	**1.83**	**2.75**	**2.50**	**3.00**	**4.00**	**5.00**	**15%**
7.2	**Harmonisation with the EU *acquis***	**4.00**	**3.09**	**3.99**	**3.82**	**4.44**	**4.79**	**4.93**	**70%**
	Technical regulations	3.53	2.47	4.13	3.00	3.93	5.00	5.00	16.7%

		Scores							Weights
		ALB	BIH	KOS	MKD	MNE	SRB	TUR	
	Standardisation	4.25	2.88	3.88	3.50	4.00	4.50	4.75	16.7%
	Accreditation	4.15	3.44	4.62	4.92	4.69	4.92	5.00	16.7%
	Conformity assessment	3.53	2.07	3.60	2.80	4.00	4.73	4.80	16.7%
	Metrology	4.33	3.89	3.94	4.11	5.00	5.00	5.00	16.7%
	Market surveillance	4.20	3.80	3.80	4.60	5.00	4.60	5.00	16.7%
7.3	**SME access to standardisation**	**2.85**	**2.30**	**2.60**	**3.00**	**2.88**	**3.98**	**3.88**	**15%**
	Awareness raising and information	4.25	3.97	3.50	4.50	4.33	4.83	4.33	33%
	SMEs' participation in developing standards	2.50	1.00	2.50	2.50	2.50	3.50	3.50	33%
	Financial support to SMEs	1.80	1.93	1.80	2.00	1.80	3.60	3.80	33%
VIII	**Promote the upgrading of skills and all forms of innovation**								
8a	**Enterprise skills**	**3.40**	**2.70**	**2.78**	**1.40**	**2.35**	**3.95**	**3.54**	
	Planning and design	3.50	3.50	4.17	1.50	3.17	4.50	3.33	30%
	Implementation	3.50	2.50	2.25	1.50	2.00	4.00	4.06	50%
	Monitoring and evaluation	3.00	2.00	2.00	1.00	2.00	3.00	3.00	20%
8b	**Innovation policy for SMEs**	**2.48**	**1.86**	**2.40**	**3.35**	**2.53**	**3.33**	**4.08**	
8b.1	**Policy framework for innovation**	**2.83**	**1.89**	**2.55**	**3.94**	**2.79**	**3.88**	**4.17**	**40%**
	Strategic approach	3.60	2.25	2.90	3.80	3.45	3.60	4.60	30%
	Co-ordination of innovation policy	2.33	1.44	2.33	3.67	2.33	3.67	5.00	20%
	Implementation of innovation policy	2.57	1.86	2.43	4.14	2.57	4.14	3.57	50%
8b.2	**Government institutional support services for innovative SMEs**	**2.03**	**1.74**	**2.20**	**2.95**	**2.20**	**2.46**	**3.86**	**20%**
	Incubators and accelerators	1.71	2.24	3.00	3.14	3.00	3.43	4.43	60%
	Technology extension services for established SMEs	2.50	1.00	1.00	2.67	1.00	1.00	3.00	40%
8b.3	**Government financial support services for innovative SMEs**	**2.68**	**1.92**	**2.44**	**3.01**	**2.44**	**2.92**	**4.26**	**20%**
	Direct financial support	3.80	2.53	3.40	4.20	3.40	4.20	4.80	60%
	Indirect financial support	1.00	1.00	1.00	1.22	1.00	1.00	3.44	40%
8b.4	**SME and research institution collaboration and technology transfer**	**2.02**	**1.83**	**2.26**	**2.92**	**2.42**	**3.50**	**3.94**	**20%**
	Innovation voucher schemes and co-operative grants	2.00	1.67	2.00	3.00	2.00	4.00	3.00	40%
	Institutional infrastructure for industry-academia co-operation	1.80	1.67	2.40	2.80	2.80	3.00	4.60	40%
	Intellectual property rights	2.50	2.50	2.50	3.00	2.50	3.50	4.50	20%
IX	**Enable SMEs to turn environmental changes into opportunities**								
9	**SMEs in a green economy**	**1.98**	**2.40**	**1.92**	**2.72**	**2.95**	**2.21**	**4.12**	
9.1	**Framework for environmental policies targeting**	**2.22**	**2.69**	**2.50**	**2.93**	**2.99**	**2.44**	**4.16**	**45%**

		Scores							Weights
		ALB	BIH	KOS	MKD	MNE	SRB	TUR	
	SMEs								
	Planning and design	3.40	3.47	3.67	3.67	3.80	3.80	4.87	30%
	Implementation	1.80	2.50	2.20	2.91	2.70	2.00	3.80	50%
	Monitoring and evaluation	1.50	2.00	1.50	1.85	2.50	1.50	4.00	20%
9.2	**Incentives and instruments for SME greening**	**1.78**	**2.16**	**1.45**	**2.54**	**2.91**	**2.02**	**4.08**	**55%**
	Planning and design	1.67	1.67	1.67	2.38	2.98	2.19	3.67	30%
	Implementation	2.17	2.42	1.50	2.91	3.41	2.17	4.75	50%
	Monitoring and evaluation	1.00	2.25	1.00	1.85	1.53	1.40	3.00	20%
X	**Encourage and support SMEs to benefit from the growth of markets**								
10	**Internationalisation of SMEs**	**2.68**	**2.57**	**3.74**	**3.54**	**3.08**	**4.02**	**4.40**	
10.1	**Export promotion**	**4.39**	**3.59**	**4.62**	**4.10**	**3.37**	**4.60**	**4.57**	**45%**
	Planning and design	5.00	4.33	5.00	5.00	5.00	4.67	5.00	30%
	Implementation	4.29	3.70	4.81	4.06	3.12	4.91	4.76	50%
	Monitoring and evaluation	3.71	2.19	3.57	2.86	1.57	3.71	3.43	20%
10.2	**Integration of SMEs into global value chains**	**1.12**	**1.75**	**3.33**	**3.22**	**3.09**	**4.06**	**4.20**	**40%**
	Planning and design	1.40	2.07	4.00	4.60	3.80	4.60	4.60	30%
	Implementation	1.00	1.86	3.86	3.29	2.43	4.43	4.71	50%
	Monitoring and evaluation	1.00	1.00	1.00	1.00	3.67	2.33	2.33	20%
10.3	**Promoting the use of e-commerce**	**1.69**	**1.68**	**2.19**	**2.69**	**2.19**	**2.19**	**4.45**	**15%**
	Planning and design	3.29	2.71	3.29	3.29	3.29	3.29	5.00	30%
	Implementation	1.00	1.33	2.00	3.00	2.00	2.00	4.50	50%
	Monitoring and evaluation	1.00	1.00	1.00	1.00	1.00	1.00	3.50	20%

Part I. Assessment findings by SBA Dimension

Chapter 1. Entrepreneurial learning and women's entrepreneurship (Dimension 1) in the Western Balkans and Turkey

This chapter assesses the role of education and training in developing a more entrepreneurial culture in the Western Balkans and Turkey, as well as the policies needed to allow women to make a more proportionate contribution to the entrepreneurial economy. It starts by outlining the assessment framework, then presents the analysis of Dimension 1's two sub-dimensions: 1) entrepreneurial learning, which assesses the policy and institutional support environment, paying particular attention to developing the entrepreneurship key competence, including curriculum and teacher training requirements, and building on recent policy guidance in this area by the European Commission; and 2) women's entrepreneurship, especially the cross-sectoral policy linkages (e.g. education, employment, economy) which are critical in ensuring more comprehensive and inclusive support for women's entrepreneurship, as well as cross-stakeholder working arrangements. Each sub-dimension section makes specific recommendations for both policy areas in the Western Balkans and Turkey.

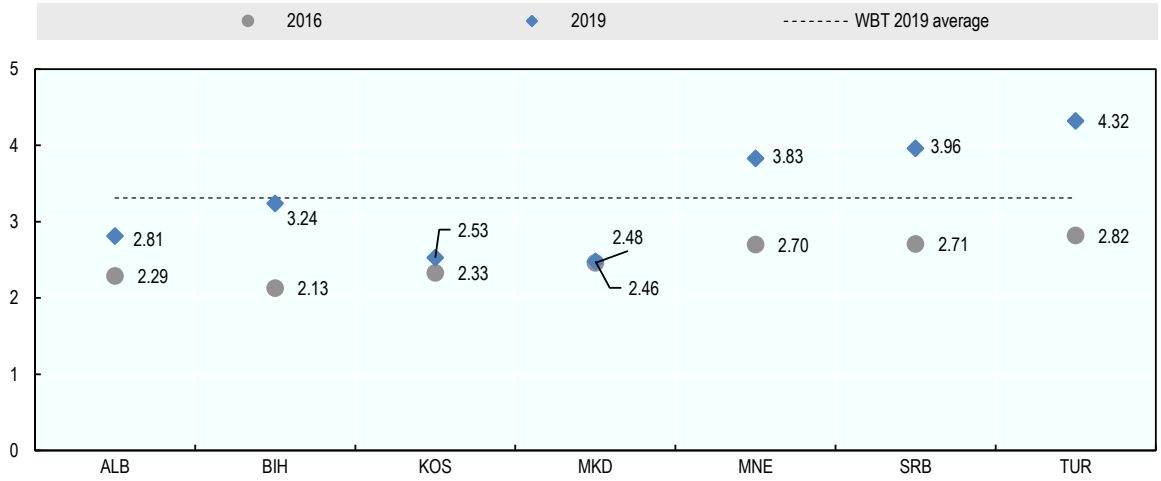
Key findings

- **Entrepreneurial learning features in national policy across all assessed economies,** and ranges from stand-alone strategies to being a component of wider strategic policy instruments e.g. national development plans, lifelong learning or economic development.
- **The policy drive in the region is supported by a variety of stakeholder partnership arrangements**. These work towards co-ordination and co-operation across a range of policies (education, employment, small and medium-sized enterprises, innovation, regional development). However, leadership and commitment, particularly from education authorities, remains weak.
- **Efforts to address entrepreneurship as a key competence in lower secondary and vocational education reflect wider developments within the European Union.** However, the higher education community remains on the fringe of wider entrepreneurial learning developments with little evidence that it is accommodating key competence approaches to entrepreneurship.
- **Teacher training invariably focuses on in-service teaching staff**. Preparing the next generation of teachers will require universities and teacher training colleges to include the European Entrepreneurship Competence Framework (EntreComp) in the teacher training curriculum.
- **Co-operation between schools and enterprises in the region is ad hoc, and generally depends on the initiative of individual teachers or school directors.** A more systematic approach is necessary. On the other hand, business co-operation with vocational schools is well developed, particularly through internships.
- **Options for young people to acquire practical entrepreneurial experience before leaving school are confined to school-based projects;** none of the economies have incorporated entrepreneurial experience within the national curriculum.
- **Women's entrepreneurship is now on the policy agendas of all the WBT economies, with most progress being made in designing and implementing policies**. Less attention is being paid to evaluating their effectiveness and efficiency.
- **Partnerships, both formal and informal, between public and private stakeholders to support women's entrepreneurship are increasingly found across the region**. In many cases, support for women's entrepreneurship programmes comes from the combined actions of more than one government sector.
- **The main challenge is still to ensure the effectiveness and efficiency of collective efforts**, which requires increased recognition of the importance of policy evaluation, and co-ordination among the partners responsible for the design and implementation of women's entrepreneurship policies and programmes.

Comparison with the 2016 assessment scores

Overall, this assessment finds that Turkey, Serbia and Montenegro are leading the region and demonstrating most progress in this dimension (Figure 1.1). Almost all the economies have improved their scores on both entrepreneurial learning and women's entrepreneurship since the 2016 assessment. Bosnia and Herzegovina, Serbia, and Turkey have made the most progress in the women's entrepreneurship sub-dimension, while Turkey and Montenegro have improved the most in the entrepreneurial learning sub-dimension.

Figure 1.1. Overall scores for Dimension 1 (2016 and 2019)



Note: Scores for 2019 are not directly comparable to the 2016 scores due to a methodological change increasing the focus on 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

Table 1.1 summarises progress on the key recommendations for entrepreneurial learning and women's entrepreneurship since the previous assessment (OECD et al., 2016[1]).

Table 1.1. Implementation of the SME Policy Index 2016 recommendations for Dimension 1

Overall 2016 recommendations	SME Policy Index 2019	
	Main developments during the assessment period	Regional progress status
Determine how the learning outcomes of the European Entrepreneurship Competence Framework (EntreComp) can best be addressed within national curriculum and qualifications frameworks.	-Efforts to cross-reference EntreComp learning outcomes with existing curricula remain confined to ad-hoc projects or pilot actions. Such pilots are an important first step given the newness of EntreComp but economies now need to make a systematic, comparative review. - In particular, Bosnia and Herzegovina has taken the initiative to cross-reference its core curriculum with EntreComp while Montenegro's work on entrepreneurial learning outcomes covers pre-primary, primary and secondary education.	Moderate

Key stakeholders to be familiarised with the 2015 EU Education Council's Riga recommendations.	- The national Riga reports for EU candidate economies provide little detail or analysis of the entrepreneurship key competence. Montenegro's entrepreneurial learning partnership stands out for its contribution in this area through its dual role in the SBA assessment and Riga monitoring.	Moderate
Organise national seminars on integrating entrepreneurial learning into the higher education policy agenda.	- There have been no developments in promoting entrepreneurial learning in higher education.	None
Consider state-wide dialogue and policy awareness campaigns promoting women's entrepreneurship to ensure buy-in and ownership of support for women's entrepreneurship.	- Cross-sectoral co-ordination and policy cross-referencing has improved across the region, and practically all the WBT economies have run at least some communication and awareness-raising activities. - Effective co-ordination and building a comprehensive vision for the desired results remains a challenge for the next period, requiring efforts from all parts of the national women's entrepreneurship support framework.	Moderate
Create institutional mechanisms to build women's entrepreneurship into the broader national policy context	- All of the WBT economies have made visible progress in building partnerships and adopting strategies and policy measures to support women's entrepreneurship. - All the economies have active informal women's entrepreneurship partnerships, while some have dedicated women's entrepreneurship strategies, and have integrated them into their broader socio-economic policies.	Advanced
Improve measures for the comprehensive monitoring and evaluation of policies.	- Most of the economies have made good progress on monitoring the implementation of women's entrepreneurship support measures, but little progress on targeted policy evaluation or making evaluation reports publicly available. - Only a few of the economies undertake regular and systematic evaluation, mostly under the wider process of evaluating SME, entrepreneurship or economic reform, or evaluating individual projects or programmes. - The WBT economies generally provide statistical data disaggregated by sex, but their availability and quality should remain in the focus of policy partnerships.	Moderate
Link training and mentoring support to training needs analyses (start-up, growth and internationalisation training, coaching and mentoring).	- The region has made some progress in using training needs analyses to plan and design SME skills training.	Moderate

Introduction

If the economies of the Western Balkans and Turkey (WBT) are to maximise their entrepreneurial potential and meet the challenges of the European Union (EU) Single Market, they will each have to build the human capital their businesses need (European Council, 1993[2]). Dimension 1 of The Small Business Act, supported by the EU's 2020 Entrepreneurship Action (EC, 2013[3]), underlines the importance of entrepreneurial learning in building the entrepreneurial flair needed in a competitive business environment. It also emphasises that economies need to do more to ensure women entrepreneurs play a larger role in building a more sustainable, growth-oriented European economy. This chapter reviews developments in both areas across the seven WBT economies.

A primary feature of the EU's New Skills Agenda (EC, 2016[4]) is its focus on key competences, including entrepreneurship, that businesses increasingly need in their search for greater flexibility in fast-changing economies. Entrepreneurship as a key competence refers less to skills for starting and growing a business and more to "mindset" – the psychological and behavioural traits (e.g. creative thinking, problem solving, opportunity-seeking and risk assessment) typically associated with the entrepreneurial character. The EU's policy interest in entrepreneurship as a key competence reflects the importance of building a more entrepreneurial culture in which all workers are more innovative and adaptable, adding value to the workplace and the economy.

This broader understanding of entrepreneurship requires rethinking how schools, colleges, the teaching profession and the learning process are managed and developed (Gribben, 2013[5]). The European Commission recently reinforced this with its policy commitments for lifelong learning (EC, 2018[6]), particularly for developing vocational training in EU candidate countries (EU, 2015[7]), and has developed tools to support education systems in developing entrepreneurship as a key competence (Bacigalupo et al., 2016[8]).

The Small Business Act for Europe also recognised that economies suffer when women are under-represented among entrepreneurs; it made women's entrepreneurship one of its priority areas (EC, 2008[9]). The essential issues behind the low numbers of women entrepreneurs in the European economies define the position of this policy area within the Small Business Act (SBA) framework – in this chapter it is grouped with the promotion of the entrepreneurship key competence for the general population.

In the area of women's entrepreneurship, this report follows the recommendations of the European Parliament (European Parliament, 2013[10]) and the provisions of the EU 2020 Entrepreneurship Action Plan (EC, 2013[3]) on gender mainstreaming. These include making reliable, disaggregated data available to enable gender-sensitive support for entrepreneurship development; and designing national strategies and implementation measures that aim to increase the share of women-led companies. To address the entrepreneurship gender gap, policy makers and support agents, both in the EU and the WBT, need to "zoom in" on the women's entrepreneurship dimension. Actions and funding from a variety of government domains need to be related to specific, cross-sectoral, women's entrepreneurship policy outcomes. Comprehensive strategy planning and co-ordinated monitoring and evaluation arrangements would help provide a "panoramic" view of developments in this area to both the agencies responsible and their policy partners.

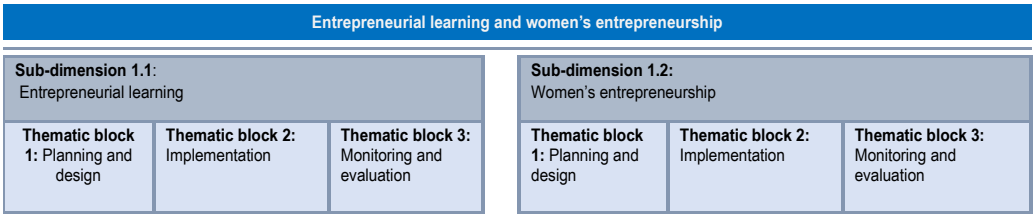
The analysis here places particular importance on the development of support structures for women entrepreneurs; measures to raise awareness of the importance of women's entrepreneurship and develop skills (European Parliament, 2013[10]); expanding dedicated partnerships, networking and support programmes such as mentorships; and putting in place the conditions enabling an adequate work-life balance (EC, 2013[3]).

Assessment framework

Structure

The assessment framework for this dimension has two sub-dimensions: entrepreneurial learning and women's entrepreneurship (Figure 1.2). Both sub-dimensions divided the assessment into three thematic blocks: planning and design (30% of the total score), implementation (50% of the total score), and monitoring and evaluation (20% of the total score). For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

Figure 1.2. Assessment framework for Dimension 1: Entrepreneurial learning and women's entrepreneurship



Key methodological changes to the assessment framework

The assessment framework for Sub-dimension 1.1, entrepreneurial learning, has changed substantially since the 2016 assessment. The new methodological approach of using a questionnaire instead of the five-level indicator grid that was introduced during the 2016 assessment was applied this time round to both sub-dimensions. The overall SBA questionnaire now incorporates the previous 16 indicators for entrepreneurial learning policy developments and implementation. A group of experts from the seven WBT economies contributed to the revised framework early in 2017. The new questions were based on the previous indicators and cover the same areas as in 2016.

The assessment of the first thematic block (planning and design) looks at the lifelong entrepreneurial learning policy environment and how the core elements of entrepreneurial learning are included in policy planning and design: 1) entrepreneurship as a key competence in national curricula; 2) development of teaching material; 3) education-business co-operation and career guidance co-operation; 4) pre-service and in-service teacher training; and 5) training for school and university management. This thematic block also assesses whether there are functioning national policy partnerships for entrepreneurial learning.

The second thematic block, implementation, assesses how entrepreneurial learning is implemented in the various educational levels of education: primary, lower secondary, upper secondary, vocational education and training (VET), and higher education. It also covers how entrepreneurial learning is being promoted, whether practical experiences are

being implemented, whether there is co-operation between education and businesses, and whether good practices in formal and non-formal education are being exchanged.

The third thematic block, monitoring and evaluation, assesses how the implementation of entrepreneurial learning is being monitored and evaluated at national level and whether national policies are being improved as a result. This time round it also assesses whether economies have a student-tracking system in place, and if there is any official recognition for entrepreneurial teachers.

For Sub-dimension 1.2, women's entrepreneurship, the change of methodology had already been applied in 2016 as a pilot phase and therefore the changes were less drastic this time round. This assessment introduces some new questions on the cross-sectoral co-ordination of policies for women's entrepreneurship, government support to the non-government sector in women's entrepreneurship, incentives to increase women's participation in the formal sector, data availability and the gender sensitivity of policies.

For both sub-dimensions, the WBT governments carried out a self-assessment with the support of national experts. The European Training Foundation (ETF) organised focus groups to discuss the results of the self-assessment and provide additional evidence.

Analysis

Entrepreneurial learning (Sub-dimension 1.1)

High youth unemployment in the WBT region (48% in the Western Balkans and 20% in Turkey) and concerns that joblessness in the Western Balkans is a key factor in young people leaving the region (Taleski and Hoppe, 2015[11]), have prompted more policy interest in youth entrepreneurship (Farnesina, 2017[12]). Education and training play a critical role in the entrepreneurship agenda.

For the purposes of this assessment, "entrepreneurial learning" refers to all forms of entrepreneurship promotion through education and training, as well as what is delivered outside mainstream schooling (e.g. through youth entrepreneurship clubs). Importantly, it includes the "entrepreneurship key competence", which comprises cognitive and behavioural traits associated with the entrepreneurial character (e.g. opportunity identification, risk assessment, resource management). Employers increasingly seek these competences to promote initiative and innovation in the workplace. Going beyond the purely business focus of traditional entrepreneurship education, this wider notion of entrepreneurial learning reflects the definition agreed by a group of international organisations working with transition, middle-income and developing economies.[1]

This section begins by examining the policy context for supporting entrepreneurial learning, as well as its planning and design, especially the institutional context, given the range of policy stakeholders involved (e.g. education, employment, economy). The assessment also reviews progress in implementing entrepreneurial learning in secondary, vocational and higher education, especially teachers' readiness to adopt the entrepreneurship key competence. It also addresses the recommendation from the European Entrepreneurship Action Plan to include more practical entrepreneurial experience in secondary education (EC, 2013[3]), and analyses the role of careers guidance services in promoting entrepreneurship. Finally, as an element of monitoring and evaluation, the section reviews good practice developments and wider efforts to raise awareness and understanding of entrepreneurial learning among the general public.

Overall, Turkey achieved the highest score in the entrepreneurial learning sub-dimension, followed by Montenegro and Serbia (Table 1.2).

Table 1.2. Scores for Sub-dimension 1.1: Entrepreneurial learning

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	3.33	4.13	3.00	3.13	4.73	3.33	4.45	3.73
Implementation	3.47	2.65	3.59	3.35	3.59	4.06	4.55	3.61
Monitoring and evaluation	1.00	3.33	1.00	1.00	4.33	3.33	4.00	2.57
Weighted average	**2.94**	**3.23**	**2.89**	**2.82**	**4.08**	**3.70**	**4.38**	**3.43**

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

The policy environment for entrepreneurial learning has improved

All the economies clearly demonstrate their policy commitment to entrepreneurial learning through a range of policy instruments. Bosnia and Herzegovina[2], Montenegro, and the Republic of North Macedonia have strategies for entrepreneurial learning. Dedicated strategic instruments are good practice as they provide coherence and support for a lifelong learning approach to entrepreneurship and are generally associated with cross-stakeholder governance support. In the other economies, entrepreneurial learning is an integral part of wider policy instruments: employment and lifelong learning strategies in Turkey, the government work programme in Serbia, and wider education strategies in Albania and Kosovo.[*] These are important achievements, but as all of these documents are time bound it will be important for economies to ensure that entrepreneurial learning remains on the policy agenda as policy discussions evolve. Where entrepreneurial learning is an integral part of wider policy instruments, the commitment and contribution, particularly of education ministries, is clear.

Mutually reinforcing policies are also good practice, in that they ensure continued visibility for and commitment to entrepreneurial learning. For example, the entrepreneurial learning strategy in North Macedonia is supplemented by clear commitments to entrepreneurship development within its national vocational training strategy, while in Serbia the priority afforded to developing entrepreneurship competences within the 2017-19 government work programme is backed up by commitments in the national SME and education strategies. Likewise, Turkey's national entrepreneurship strategy is mirrored by a lifelong learning strategy in which entrepreneurship is a core feature. The emphasis given to entrepreneurial learning in the Economic Reform Programme of Bosnia and Herzegovina underlines the importance of this area for the state, while the same priorities are mirrored at entity level in the Republika Srpska, and at cantonal levels (e.g. in Herzegovina-Neretva and West Herzegovina).[3]

[*] 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.

Diverse partnerships are supporting entrepreneurial learning

Entrepreneurial learning transcends individual policy areas (e.g. education, employment, economy, innovation), meaning that co-ordination and co-operation are crucial to ensure a more joined-up policy and delivery framework. This requires stakeholders to work in partnership to bring order to the policy environment (Gribben, 2018[13]). The assessment found a variety of partnerships to support entrepreneurial learning, ranging from informal governance arrangements to more established structures. For example, Turkey's Entrepreneurship Council, Serbia's SME Council and Kosovo's National Council for Innovation and Entrepreneurship are good examples of a multi-stakeholder partnership.

The value of formal, institutional structures is that they make it more likely that entrepreneurial learning will be better understood and afforded policy time within wider economic development discussions. It is particularly important that the education authorities maximise the potential embodied by the membership of these structures and ensure that entrepreneurial learning is prioritised. Leadership by the education authorities through high-level participation will be important.

Montenegro stands apart with a dedicated cross-stakeholder advisory group supporting the entrepreneurial learning agenda. This partnership has added value in that it has widened its policy advisory services to address broader policy areas e.g. SME development. Bosnia and Herzegovina and North Macedonia also have dedicated partnership arrangements in place but momentum is generally weak and spurred by external demands, such as the SBA assessment.

Entrepreneurship key competence is implemented in a variety of ways

All the WBT economies have made good efforts to accommodate the EU key competence recommendations through cross-curricular approaches. However, their approaches to this area differ. For example, some address aspects of the entrepreneurship key competence within the wider curriculum – in Kosovo creativity falls under the wider curriculum area of "creative thinking", while Serbia focuses on interpersonal competences, such as problem solving, in primary and secondary education. These reflect key areas of the European Entrepreneurship Competence Framework (EntreComp). In North Macedonia, aspects of entrepreneurship key competence are included under the "life skills" curriculum. Bosnia and Herzegovina had already established the entrepreneurship key competence within its common core curriculum but implementation of the curriculum by the range of education authorities across the state has been weak. However, the Republika Srpska recognises entrepreneurial learning as a key feature for development in the 2016-21 education strategy. Bosnia and Herzegovina's plans to cross reference its existing curriculum with EntreComp are also promising. In Montenegro, the Bureau of Education Services used EntreComp as a reference tool to introduce entrepreneurship key competences in pre-school education. In addition to these entrepreneurship key competence approaches, most economies also offer entrepreneurship as a subject in its own right.

Given the newness of the entrepreneurship key competence in education policy, cross-curricular approaches take time to develop, and require piloting and improvements along the way. This requires a more developed, system-based approach to preparing teachers – those in service and future intakes – to meet the demands of employers and build a more entrepreneurial spirit and mindset among young people.

In all economies teacher developments related to entrepreneurship are targeted at in-service teachers without any strategic, system-development plan and are invariably donor-supported. None of the economies have a strategic framework for entrepreneurship development in pre-service training. Nonetheless, the assessment did identify a range of good practices for including the entrepreneurship key competence in teacher training. For example, in the University of Pristina in Kosovo, pre-service teacher training focuses on experiential learning and includes learning techniques involving business games.

Public-private partnerships have been key to Turkey's efforts to support both teachers and administrative staff from VET schools on developing a business culture. The National Ministry of Education, Scientific and Technological Research Council and the Turkish Management Institute together trained 7 000 professionals in 2017. Also noteworthy is the small grants initiative by the Federal Ministry of Education and Science in Bosnia and Herzegovina to support teacher development, which includes the entrepreneurship key competence.

Young people's business skills are being developed

Key competence developments also apply to vocational education and training, where entrepreneurship is also well developed as a subject, with basic business skills most prominent. Vocational schools have well-developed co-operation with businesses, while business engagement with general secondary schools is generally confined to ad-hoc co-operative initiatives. Most of the WBT economies provide business work placements for vocational students, but these primarily build occupational skills with little coverage of business administration experience within the company.

The assessment also considered the extent to which young people have the opportunity to gain practical entrepreneurial learning experience as recommended in the 2020 European Entrepreneurship Action Plan (EC, 2013[3]). Junior Achievement[4] is a key contributor and partner to schools in a number of the economies, allowing young people to experience business first hand, often through simulation exercises. Montenegro's Entrepreneurial Clubs allow secondary students to work on specific business projects, although these are confined to a limited number of schools. Serbia's Chemical Technology School is another good example (Box 1.1).

Box 1.1. Good practice in promoting the entrepreneurship key competence in vocational education: Serbia's Chemical Technology School

The School for Chemical Technology in Subotica prepares young people for the world of work by developing their vocational and commercial skills and the entrepreneurship key competence, with a particular emphasis on "learning by doing". Working in teams, students establish and run school-based companies involving market analysis, product identification (e.g. liquid soap), sourcing of raw materials, production management, testing and quality assurance packaging, marketing, and sales. The school was recognised for its good efforts in promoting entrepreneurship as a key competence in the awards for VET excellence at the European Vocational Skills Week 2018. More specifically, the school's teaching and learning approaches stand out for their concentration on a number of key areas of the European Entrepreneurship Competence Framework. These include identifying opportunities (products to meet market interests); recognising environmental

concerns in the production process; team work to design, produce and commercialise products; and financial management. Moving away from instruction and towards more facilitation, teachers play a mentoring role to student teams while assessing individual students' theoretical knowledge and their practical skills. Finally, students learn how to network, liaise and learn from local businesses through direct business deals (e.g. procuring raw materials) and from the wider support from local economic development organisations for business development purposes.

Source: ETF (2018[14]), *Serbian School Taking the Lead in Entrepreneurial Skills Development*, www.etf.europa.eu/en/news-and-events/news/serbian-school-taking-lead-entrepreneurial-skills-development.

Entrepreneurship is rarely included in careers guidance and counselling

Entrepreneurship continues to be a blind spot in careers guidance and counselling services in most of the economies. Albania and the Republika Srpska in Bosnia and Herzegovina stand out for offering careers guidance to vocational students which specifically identifies entrepreneurship and self-employment as a career option. One good practice is the presence of dedicated entrepreneurship centres at a number of vocational schools in Montenegro. These support pupils in determining career choices, including providing preparation for self-employment.

Entrepreneurship in higher education is making little progress

The 2016 SBA assessment found little progress in entrepreneurship in higher education. This assessment finds no improvement. Overall, the promotion of entrepreneurship remains confined to business and economics faculties, and on-site incubators where these exist. There are few efforts to promote a cross-campus approach, giving all students access to entrepreneurship education. The engagement in and contribution of higher education to the SBA assessment process was weak, particularly during the focus groups. This suggests that the higher education community remains on the fringe of wider socio-economic developments, at least at a national level. Nonetheless, the assessment identified efforts by Tuzla University in Bosnia and Herzegovina to promote entrepreneurship outside of the traditional business and economies faculties, while in North Macedonia entrepreneurship modules are obligatory for mechanical and electrical engineering programmes, as well as agriculture.

As in 2016, Turkey leads the WBT region on entrepreneurship in higher education. A strategic partnership between the Higher Education Council (YÖK) and the SME Development and Support Organisation (KOSGEB) ensures good university-business co-operation. A KOSGEB Practical Entrepreneurship Course is available for universities to administer. KOSGEB also provides a grant facility allowing students following these courses to progress with their business development plans.

New initiatives are building awareness, understanding and sharing good practice

As entrepreneurial learning – particularly the development of the entrepreneurship key competence – is a relatively fresh policy area, the assessment considered what measures the economies were taking to build awareness and understanding of its importance in the wider socio-economic context. It found a number of economies undertaking a range of activities, including entrepreneurship competitions, strategic press coverage and events to

share good practice. Business plan competitions are the most prominent forms of publicity for youth entrepreneurship in most of the economies.

While most entrepreneurship competitions are local, the success of students from the Faculty of Economics of Podgorica University in the entrepreneurship Euroskills competition attracted significant attention from national media in Montenegro, including recognition by the Minister for Education. More innovative competitions include the 2018 Sarajevo Business Forum challenge involving some 200 schools in Bosnia and Herzegovina to determine the most creative solution to a business problem. Albania stands out for its high levels of press and media coverage. A current affairs programme involving a televised panel discussion on entrepreneurship in schools in the Kukës region raised the subject's profile. The "i-Club" (Innovation Club) initiative and competition, where school students worked on innovative ideas and projects outside school hours, was covered on television for nine consecutive weeks, with viewer voting generating great public interest.

The assessment also looked at how policy makers and education and training providers were identifying and sharing good practice. This is important for three reasons. First, access to good practice allows fellow educators and training providers to see how entrepreneurial learning can be designed and delivered. Educators can draw on existing expertise and participate in networks leading to further opportunities to innovate. Second, access to good practice provides an opportunity to copy the practice, saving both time and money. Third, good practice can provide inspiration to policy makers, and in particular shows what works well and at what cost, offering potential to scale up programmes to increase their impact.

Overall, the assessment found very little connection between good practice and system reform. Where good practice is shared, it is generally at conferences or other events, with little follow-up. Nonetheless, Montenegro's Bureau for Education hosts a platform for school-based good practice, including teaching and learning materials, which is available to the wider education community for development purposes. It also stands out for its 2016 conference dedicated to showcasing how its schools are promoting entrepreneurial learning. Vocational schools in Montenegro also exchange good practice on practice enterprises, while membership of a wider European network (EUROPEN-PEN International) allows these schools access to good practice in Europe and to share their own experiences.

The way forward for entrepreneurial learning

The WBT economies should consider the following to boost their entrepreneurial learning:

- **Raise awareness of the entrepreneurship key competence**. Given the newness of the EU's EntreComp framework, all the economies should determine ways to increase awareness and understanding of entrepreneurship as a key competence for employability and competitiveness. Possible measures include good practice awards, expert advocacy groups, seminars and conferences. Such initiatives would allow for the latest developments and good practice to be showcased. They would also generate dialogue – as much across government as with the private sector, parents and the teaching community – about the issues and options to move forward with developing entrepreneurship as a key competence. For example, the Principality of Asturias (Spain) already has a well-developed approach to lifelong learning but is revisiting its work on entrepreneurial learning

through cross-stakeholder working groups to develop a shared understanding and a common language on EntreComp. It is also mapping existing activities against the EntreComp framework to identify gaps and extend or improve entrepreneurship promotion in education (European Committee of the Regions, 2018[15]).

- **Build entrepreneurial experience into vocational education programmes.** While many vocational programmes offer students opportunities to develop their occupational skills in work placements, consideration should be given to developing business skills as well (e.g. sales, marketing and finance). This could include developing a "practice enterprise" within the curriculum, with businesses directly supporting the teaching and learning process. Support could be obtained from EUROPEN-PEN International, which manages a European network of schools promoting practice enterprises and provides guidelines and support to vocational schools interested in developing business experience within their programmes (EUROPEN-PEN International, 2018[16]).

- **Share good practice in entrepreneurship promotion in higher education.** The economies should consider initiatives to identify and recognise the higher education institutions that are promoting entrepreneurship by creating an Entrepreneurial University of the Year award. This could be supported by the private sector, for example the banking community, and aim to promote cross-campus approaches to entrepreneurship promotion. One example to consider would be the United Kingdom's National Centre for Entrepreneurship in Education, which holds an annual competition to identify excellence in embedding entrepreneurship within a university's culture and curriculum. Submissions are subject to peer review. The initiative is run in co-operation with an education journal, thereby increasing awareness and visibility of entrepreneurship promotion in higher education (NCEE, 2018[17]).

Women's entrepreneurship (Sub-dimension 1.2)

This section explores the gender gap in entrepreneurship – a policy challenge not only for the EU and its partner countries, but also at the global scale.

The gender gap manifests itself in low numbers of female business owners, as well as in the statistics for company boards. Only 27.5% of business owners in the WBT region are women, and they hold just 14.2% of the top management positions in companies (Bekh, 2014[18]). Throughout the EU, in economic sectors traditionally dominated by men, and in international trade, the number of women entrepreneurs is also drastically lower than the number of men. For instance, while women make up around 31% of active entrepreneurs in the EU, this share falls to only 3% in the construction sector; 7% in transportation and storage; 11% in electricity, gas, steam and air conditioning supply; and 19% in information and communication (EC, 2014[19]). The picture is slightly better in real estate (31%) and professional, scientific and technical activities, but women are most active in the human health and social work sector (60% of all entrepreneurs), in other services (59%) and in education (55%) (EC, 2014[19]).

To address the scarcity of women engaging in entrepreneurship, both in quantitative and in structural terms, it is not enough simply to introduce separate programmes for women to study entrepreneurship and SME skills. Instead, policy makers need to look at the complexity of the challenges and the cultural, social, economic, legal and regulatory

factors that force many women to choose the predefined, traditional, "safe" route of wage employment that does not involve the risk and uncertainty of entrepreneurship, or that does not conflict with family or community expectations about the role of women in society, the economy and the labour market. The SBA assessment framework urges governments to recognise the equal role and value of women in the national and global economy, and promotes strong measures to address the causes rather than the symptoms behind the strikingly low numbers of women entrepreneurs. In the Western Balkans and Turkey, entrepreneurship could fit well with demands for a better quality of life for both sexes, and provide women and their families with a more comfortable work-life balance, while intensifying job creation for entrepreneurial women themselves and for their future employees.

Policy makers should draw on the support and strong engagement of women's entrepreneurship networks and organisations to fully engage with the experiences of successful women entrepreneurs as business leaders, mentors, coaches, experts and business angels for women's enterprises. Such co-operation involves a high level of ownership and commitment from non-government policy partners. It also increases the quality and relevance of support actions because most women's entrepreneurship organisations are close to their beneficiaries and have accumulated expertise in women's entrepreneurship over many years of peer learning and support.

This section assesses the following aspects of women's entrepreneurship policy support systems in the WBT region:

1. **Planning and design**: the policy environment and policy partnerships for promoting women's entrepreneurship, including whether there are any strategies and action plans, arrangements and measures, to ensure policy making is gender sensitive.
2. **Implementation**: the overall framework for implementing women's entrepreneurship policies, including cross-sectoral co-ordination within government, and the institutional arrangements and incentives supporting women's entrepreneurship. This also looks at the critical enabling factors for women's entrepreneurship support, including co-operation with non-government organisations (NGOs) and peer networks for women entrepreneurs, and strategic investment in communication and awareness-raising measures.
3. **Monitoring and evaluation**: the degree to which economies have regulatory provisions to review policies for gender sensitivity, and to which they evaluate women's entrepreneurship programmes.

Overall, the assessment scores suggest that there has been progress on policy design and implementation, with Turkey, Serbia and Montenegro leading in this assessment period (Table 1.3). This indicates an overall improving trend, with women's entrepreneurship gradually getting onto the policy radar of policy makers and support agencies in the region. Lower scores for monitoring and evaluation across the board should prompt policy partners to take more strategic action for ensuring the effectiveness and efficiency of government investment in this important policy area.

Table 1.3. Scores for Sub-dimension 1.2: Women's entrepreneurship

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	3.00	3.67	2.33	2.33	4.33	4.33	5.00	3.57
Implementation	2.71	3.29	1.86	2.14	3.29	4.43	4.43	3.16
Monitoring and evaluation	1.80	2.60	1.80	1.00	2.60	4.20	2.60	2.37
Weighted average	**2.62**	**3.26**	**1.99**	**1.97**	**3.46**	**4.35**	**4.17**	**3.12**

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

Policy frameworks and partnerships support women's entrepreneurship

The SBA assessment does not prompt all economies to adopt separate policies, strategies or programmes for each human capital policy area. Instead, the format or type of policy document should be chosen after the main stakeholders have agreed on a common vision, goals and priority actions for women's entrepreneurship support. Whether these priority actions are best packaged into specific policy documents or are included under wider strategies depends on the national policy context. Establishing an effective policy partnership is a top priority objective for women's entrepreneurship support, irrespective of the formal or non-formal nature of this partnership.

The 2016 SBA assessment concluded that most of the region's economies had put together some type of policy frameworks to support women's entrepreneurship, but that policy partnership arrangements were still weak. Women's entrepreneurship measures were mainly packaged under general SME and gender equity agendas, in the form of a special pillar or as individual actions within a broader economic reform, SME, employment or gender strategy.

Since then, the region has made visible progress in building partnerships to support women's entrepreneurship policies. The assessments demonstrate an interesting trend: all the WBT economies now report they have active, informal women's entrepreneurship partnerships between public and private organisations which drive strategic developments and jointly implement programmes and projects with other stakeholders. Moreover, there are formal partnerships in Bosnia and Herzegovina, and Turkey. Turkey develops women's entrepreneurship under the umbrella of a large, high-level Entrepreneurship Council which has a broad mandate and brings stakeholder discussions to the national policy level. This ensures greater accountability, but less flexibility for co-ordinating specific women's entrepreneurship policy issues. In Bosnia and Herzegovina, the Republika Srpska has established a formal partnership, the Council for Women's Entrepreneurship, and also developed a draft women's entrepreneurship strategy for 2018-22. Albania and Montenegro also boast dedicated women's entrepreneurship strategies, while some of the other economies have integrated the topic into their socio-economic agenda. Albania, Montenegro, Serbia and Turkey have recognised the importance of a cross-sectoral approach and scaled up their actions to support women's entrepreneurship beyond the SME and gender policy areas. This is an important achievement, in line with the most up-to-date policy approaches in women's entrepreneurship globally.

Co-ordinating policy implementation is still a challenge in the region

Of the three main thematic blocks of the SBA assessment instrument – planning and design, implementation, and monitoring and evaluation – implementation is given the most weight in the assessment methodology. Effective implementation relies on the combination of many factors, such as stakeholders' implementation capacity, good collaboration mechanisms, and adequate resources, both financial and human. Another factor is the existence of an action plan, supported by dedicated budget funding. This assessment found that all the WBT economies include women's entrepreneurship as part of a formal policy, and Albania, Montenegro, Serbia and Turkey also have an action plan to implement it. This emphasises why it is a good idea to put strategies and programmes formally on paper – it ensures the public bodies responsible are accountable for delivering the results contained in the action plans.

In 2016 all the economies in the region reported they had allocated funds to support women's entrepreneurship but there were no data on the amount of funding available. Co-ordination remains a problem in the region, meaning that during this assessment it was difficult to obtain information on the budgets allocated to women's entrepreneurship from the different government bodies, and the total expenditure data from parallel sources of funding. Once again, it was the four economies which include women's entrepreneurship in formal strategies and action plans – Albania, Montenegro, Serbia and Turkey – which also reported having budgets for women's entrepreneurship, emphasising the high level of government commitment. In the Republika Srpska in Bosnia and Herzegovina, the use of funding to support women's entrepreneurship is backed up by a structured partnership and a dedicated, draft women's entrepreneurship strategy document.

Effective cross-sectoral co-ordination of government policies and programmes is especially important because women's entrepreneurship is a complex area which straddles economic, SME, employment, gender, social and other policies. Implementation therefore requires well-planned institutional arrangements and government bodies with sufficient institutional capacity to make informed decisions which improve women's entrepreneurship. All key ministries should have officials who act as "Gender focal points" and who need to be aware of specific issues related to women's entrepreneurship. Albania, Kosovo, Montenegro, North Macedonia, Serbia and Turkey have gender focal points in their ministries of labour and social policies, but only Montenegro has one in its education ministry, and only Montenegro, Serbia and Turkey have them in the government bodies responsible for youth policies. The Republika Srpska has established a Gender Centre.

Similarly, most of the economies have at least some cross-linkages between SME/entrepreneurship policies and other policy areas, most often employment and labour market policies. In Turkey, the National Employment Strategy (2017-19) includes provisions for strengthening women's entrepreneurship. Albania has cross-linkages between its National Development Integration Strategy, National Employment and Skills Strategy, and its Business Investment Development Strategy (2014-20). Albania, North Macedonia and Turkey also have special incentives to encourage self-employed and entrepreneurial women to join the formal economy.

Governments and partners are co-operating to create an institutional environment conducive to women's entrepreneurship

Targeting actions and resources to meet the needs of both women and men who are starting, growing or internationalising their businesses requires a systematic training needs analysis. Policy makers also need to distinguish between general **gender-neutral** programmes and programmes that address women entrepreneur's **gender-specific** requirements for skills and competences. While both women and men have the same creative and intellectual entrepreneurial potential, support for women entrepreneurs should go beyond general SME training courses, and address three critically important objectives (Bekh, 2014[18]):

- **Boosting women's self-efficacy and ambition to encourage them to embark on an entrepreneurial career** that requires a great deal of risk taking and competition. This involves mentoring, coaching and networking support to encourage women into business leadership and new ventures, as well as measures to develop their skills and competences. Governments need to establish effective collaboration with NGOs which have the capacity to implement delegated budget-funded programmes and which have direct access to female beneficiaries of entrepreneurship development programmes. NGOs can also be partners of the government in policy design and improvement, implementation, cost-sharing, monitoring and evaluation of women's entrepreneurship support programmes.
- **Integrating the entrepreneurship key competence[5] in a gender-sensitive way** into education curricula, teacher training and career guidance in formal and non-formal education from an early age.
- **Building policy awareness within wider society of the economic value of women's entrepreneurship** and its importance for national growth and competitiveness through measures such as media information and promotion campaigns, role models, and awards for successful women entrepreneurs.

There are excellent examples of implementation of budget-funded women's entrepreneurship support programmes by NGOs in Bosnia and Herzegovina and North Macedonia. In Serbia, the strong collaboration between the government, the Women's Business Association, Chamber of Commerce and other partners demonstrates good practice, being based on broad-scale agreements and co-ordinated plans. The government has delegated the execution of budget-supported programmes to non-government partners to strengthen market access for women through their inclusion in supplier chains. Other national and regional actions are implemented through the joint efforts of the government, women entrepreneurs' organisations and international partners like the European Commission, the European Bank for Reconstruction and Development, Ernst & Young, and others.

Montenegro, North Macedonia, Serbia and Turkey all use communication strategically to promote women's entrepreneurship. In North Macedonia, the Action Plan of the National Women's Entrepreneurship Strategy and the Strategy for Gender Equality (2016-20) both include a significant number of communication actions. In Montenegro, communication measures are well defined in the Strategy for Women's Entrepreneurship Development and its Action Plan for 2018, and include awareness-raising actions and a media campaign. In Serbia, women's entrepreneurship communication and visibility measures are supported by multiple partners including the Ministry of Economy, the Serbian Development Agency, the Woman Business Association and the Gesellschaft für

Internationale Zusammenarbeit (GIZ). In Turkey, there are awareness-raising and communication actions in the Entrepreneurship Strategy and Action Plan (2015-18) and the National Employment Strategy and Action Plan (2017-19). These include the promotion and expansion of the Woman's Entrepreneurship Ambassadors project implemented by the Women Entrepreneurs Association of Turkey (KAGİDER), and measures to develop an entrepreneurial culture through an annual contest for successful women entrepreneurs, in co-ordination with KOSGEB.

The region also has activities to share good practice in supporting women's entrepreneurship, such as the annual Golden Bee event in Albania; good-practice sharing, networking and communication support activities in Bosnia and Herzegovina through the Association of Women Entrepreneurs, the Women's Entrepreneurship Council and conferences in the Republika Srpska; the Good Practice awards in Montenegro; the Success Flower good practice sharing, visibility, role models and networking promotion event in Serbia; and the Aspiring Woman Entrepreneur and Women-Social Entrepreneur of Turkey in the SME and Entrepreneurs' Awards, promoted by KOSGEB.

Policy makers are increasingly taking gender into account, but monitoring and evaluation remain limited

It is important to apply a gender-sensitive approach to all policies that might affect the state of women's entrepreneurship; it acts as a quality assurance and "reality check" that requires the involvement of gender experts and women's entrepreneurship practitioners. The aim of a gender sensitivity check is to ensure that all relevant existing and new policies are gender sensitive, and is best done with the support of policy partnerships. Overall, it is too early to say whether the SME policies in the region or in individual economies are gender sensitive. Bosnia and Herzegovina, Montenegro and Serbia have regulatory provisions to review policies for gender sensitivity. For example, in Montenegro this is required by the Law on Gender Equality, and the economy is moving towards gender-sensitive budgeting.

The implementation of women's entrepreneurship support measures is subject to policy monitoring by the governments in Albania, Bosnia and Herzegovina, Montenegro, Serbia, and Turkey. For all the economies of the region which have partnerships and which have adopted structured policy frameworks and action plans, monitoring becomes a natural feature of implementation. In the economies where the goals and actions to support women's entrepreneurship are incorporated into broader government strategies and action plans, sustained by government resources, monitoring is also executed at the broader level.

The evaluation of women's entrepreneurship programmes remains an area for future improvement. Currently, it is either confined to rather ad-hoc project- or programme-based reports, or is packaged into the wider evaluation of SME, entrepreneurship or economic reforms. Serbia and Turkey have reported on women's entrepreneurship as part of a wider evaluation of government strategies: in Serbia, evaluation reports from the Serbian Development Agency and the National Employment Office feature women's entrepreneurship support actions, while in Turkey, women's entrepreneurship is included in KOSGEB's evaluation of the Entrepreneurship Strategy and Action Plan.

Once the initial lack of data concerning women entrepreneurs has been closed in all the WBT economies, it goes without saying that the availability, quality and accessibility of individual level statistical data disaggregated by sex should remain on the radar of policy

partnerships to allow systematic monitoring and evaluation of public and private programmes serving the needs of both male and female entrepreneurs.[6]

The way forward for women's entrepreneurship

Moving forward, policy makers should consider the following recommendations:

- **Focus on strengthening formal and informal women's entrepreneurship policy partnerships** by establishing formal policy and institutional frameworks, implementing a common vision, and aiming to create co-ordinated action plans, accompanied by joint monitoring efforts. "Zooming-in" on the women's entrepreneurship dimension of related policies should identify all available sources of funding and actions supported by different government domains and link them to specific, cross-sectoral, women's entrepreneurship policy outcomes. France's implementation of the Plan of Promotion of Women's Entrepreneurship in 2013-17 (Box 1.2) offers an example of how comprehensive actions can be designed and implemented by different parts of the government around common women's entrepreneurship promotion goals.

Box 1.2. France's Women's Entrepreneurship Plan

The Women's Entrepreneurship Plan was launched in August 2013 by the ministries of women's rights and national education, higher education and research; and the Delegate Ministry for SMEs, Innovation and the Digital Economy. It aimed to increase the proportion of women in new business start-ups from 30% in 2012 to 40% in 2017.

Two of the three pillars of the action plan focus on skills development. The first pillar aims to improve communication on entrepreneurship by strengthening entrepreneurship in the education system, supporting promotional events such as the Entrepreneurship Awareness Week and the launch of a new website (www.ellesentreprennent.fr), which provides information and links to available support programmes (e.g. training, mentoring).

The second pillar boosts individual support for women entrepreneurs with the creation of 14 regional support networks that provide mentoring to women entrepreneurs. Some of these networks offer general support, while others offer tailored support for specific groups such as innovative women entrepreneurs or older women entrepreneurs. One of the main objectives of these networks is to strengthen support for women entrepreneurs in rural areas.

The third pillar improves access to finance for women entrepreneurs. The approach was to build a partnership with the *Caisse des Dépots et Consignations*, two banks (BPCE and BNP Paribas) and financial networks (France Active and Initiative France), which organise breakfast meetings and networking events for entrepreneurs and financial institutions. In addition, the government facilitates loans for women entrepreneurs through the loan guarantee *Fonds de garantie à l'initiative des femmes* (FGIF). As of September 2015, the ceiling for the guarantees was EUR 45 000.

In 2013, the initiative mobilised a network of 130 women entrepreneurs, and reached 260 young women who were interested in becoming entrepreneurs. There were

400 promotional events in 2015, which was double the number in 2014. The FGIF assisted 2 075 women to start businesses in 2015 and helped create 3 095 jobs.

The key to the success of this initiative is that it is an integrated approach that touches pre-start-up, start-up and business development activities. Thus, the three pillars reinforce each other because people can move through the different stages of support as their business project develops.

Source: Adapted from OECD (2016[20]), *Policy Brief on Women's Entrepreneurship*, https://www.oecd.org/cfe/smes/Policy-Brief-on-Women-s-Entrepreneurship.pdf, Government of France (2018[21]), *L'entrepreneuriat: Redonner de la Compétitivité aux Entreprises*, www.gouvernement.fr/action/l-entrepreneuriat (in French).

- **Focus on policy evaluation,** engaging the key policy partners and stakeholders, and making the results of evaluations public and open to feedback from stakeholders and beneficiaries. Data from evaluations should be used to build policy awareness in the wider society on the economic value of women's entrepreneurship and its importance for national growth and competitiveness. The programmes implemented by the Swedish Agency for Economic and Regional Growth could be a source of learning and inspiration in this area. They are based on hard evidence and linked to the overarching national strategy goals of gender equity and equality, so all the actions are fine-tuned to the specific needs of male and female target groups of entrepreneurs (Swedish Agency for Economic and Regional Growth, 2015[22]). During 2008-14, the Swedish government regularly reviewed and adjusted the strategies and the resources allocated to them based on the implementation results. Lessons from Sweden were a strong inspiration behind the launch in 2009 of the European Network of Female Entrepreneurship Ambassadors.
- **Continue building a gender-sensitive policy implementation environment** in which the gender sensitivity check becomes a routine procedure. Women's entrepreneurial human capital can be promoted through both gender-neutral support programmes based on the training needs of specific target groups of entrepreneurs (start-ups, growth phase, internationalising SMEs, etc.) delivered to mixed-sex groups; and gender-specific skill support measures designed and implemented in partnership with women's entrepreneurship networks, associations and organisations with strong experience of mentorship, coaching and other types of expertise. Ireland offers a good example of a gender-sensitive approach to entrepreneurship development, engaging the key government bodies such as Enterprise Ireland, the Gender Equality Unit and the Department of Jobs, Enterprise and Innovation, as well as a broad spectrum of policy partners representing national, regional, local level and strong private sector actors. For more information see Box 1.3 and the Enterprise Europe Network (2010[23]) and Enterprise Ireland (2018[24]) websites.

Box 1.3. Training for women running high-potential start-ups: Ireland's Female High Fliers programme

The Female High Fliers programme was established in response to policy interest in enabling women's businesses to play a stronger role in Ireland's wider economic development drive. The programme, run by the Ryan Academy of Dublin City University, addresses specific challenges for women entrepreneurs: lack of role models, low self-confidence, lack of business expertise, and limited networking opportunities and access to finance.

Female High Fliers is an accelerator programme targeting existing women's start-ups (businesses up to five years old) with growth potential. It aims to put their business development on a fast track.

Financed by Enterprise Ireland, the programme helps women to determine the options and opportunities for scaling up their businesses. It includes workshops focusing on areas such taxation, finance and digital marketing and well as one-to-one mentoring by experienced business people on issues such as investment and exporting.

The programme is supported by an online platform where participants work on business development models and where key information on areas such as customers and investors are logged. The platform also provides a link to the programme's mentor network.

The programme culminates in an event at which the businesses have an opportunity to pitch to investors for finance to bring forward their business growth plans.

An important feature of the programme is access to women's business networks for continued informal business support and intelligence from like-minded women entrepreneurs.

The programme builds on a community of mentors and investors already established through wider SME training provided by the Ryan Academy and attracts significant media interest in both the programme and the participating companies.

Source: Ryan Academy (2017[25]), *Female High Fliers*, https://ryanacademy.ie/portfolio/female-high-fliers/.

Conclusions

Overall, the assessment has found that the relevant public stakeholders in all the WBT economies have taken positive steps to improve entrepreneurial learning and women's entrepreneurship.

As entrepreneurial learning touches on a range of policy areas – education, employment and economic development – governance arrangements continue to be a challenge, however, resulting in policy fragmentation. Nevertheless, there is greater buy-in to developing the entrepreneurship key competence, helped by the European Entrepreneurship Competence Framework (EntreComp), which was published after the 2016 assessment. However, in all the economies the key test lies in putting the policy recommendations into practice, including curriculum reform and teacher development. Since the last assessment, there has been little progress in ensuring that new teachers are prepared to deliver the key competences approach, particularly the entrepreneurship key competence. Similarly, the education authorities have paid little strategic attention to

ensuring that all young people have at least one entrepreneurial experience before leaving school.

As the 2016 assessment also found, the higher education community remains distant from the SBA policy dialogue and there have been few strategic developments, particularly in the area of cross-campus approaches to promoting entrepreneurship.

Turning to women's entrepreneurship, the region has made progress in raising this policy area up the policy agenda. Concern for women's entrepreneurship is gaining momentum in Albania and Montenegro, reflected in the development of dedicated strategies and implementation action plans. It has become a priority area for the national entrepreneurship partnership in Turkey, and one of the pillars of the SME Strategy in Serbia. Co-operation over women's entrepreneurship has been transformed into a dedicated policy partnership in the Republika Srpska (Bosnia and Herzegovina). The overall regional trend is gradually becoming positive, making it important that Kosovo and North Macedonia also engage in this policy area.

The economies need to strengthen their cross-sectoral approach to the design and implementation of policy measures although Albania, Montenegro, Serbia and Turkey already make linkages between their economic, SME and gender policies – and in some cases with employment and skills policies. All the economies need a stronger overall understanding of the role of women entrepreneurs in their social and economic development. Building on positive experiences in Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Serbia and others, policy makers could explore different forms of co-operation between the government, NGOs and networks of women entrepreneurs. The region already has some excellent examples of awareness-raising actions, communication, good practice exchanges and networking in women's entrepreneurship, but they need to be used more systematically.

Finally, none of the economies have shown much improvement in system-based approaches to monitoring and evaluation in this dimension. While the data on women's entrepreneurship are improving, hard data on the promotion of entrepreneurship in formal education still do not feature in policy dialogue, planning or evaluation.

Addressing the recommendations proposed in this chapter will support the relevant institutions in the WBT economies to develop entrepreneurial learning and women's entrepreneurship.

Notes

[1] The framework definition of entrepreneurial learning was agreed by an international working group in Geneva on 18 January 2012: "all forms of education and training, which contribute to entrepreneurial or behavior with or without a commercial objective". The working group comprised the ETF; the International Labour Organization; the United Nations Educational, Scientific and Cultural Organization; the International Centre for Technical and Vocational Education and Training (UNEVOC); and GIZ.

[2] The policy focus group in 2018 recommended that the entrepreneurial learning strategy be updated.

[3] 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.

[4]Junior Achievement is a global, non-profit organisation which works with schools to support young people's entrepreneurship: www.jaworldwide.org/.

[5] Entrepreneurship key competence development is discussed substantially earlier in this chapter, and in the individual economy profiles.

[6] Analysis of data availability in a gender-sensitive format to support women's entrepreneurship is included in the chapter on skills for SMEs and in individual economy profiles.

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Chapter 2. Bankruptcy and second chance for SMEs (Dimension 2) in the Western Balkans and Turkey

This chapter assesses policies in the Western Balkans and Turkey that support efficient bankruptcy legislation for small and medium-sized enterprises (SMEs) and promote a second chance for failed entrepreneurs. It starts by providing an overview of the assessment framework and progress since the last assessment in 2016. It then analyses the three sub-dimensions of Dimension 2: 1) preventive measures, which assesses tools and policies to help SMEs avoid bankruptcy; 2) survival and bankruptcy procedures, which investigates the economies' insolvency regimes for SMEs; and 3) promoting second chance, which examines policies to help failed entrepreneurs make a fresh start in business. Each sub-dimension section makes specific recommendations for increasing the capacity and efficiency of the bankruptcy and second chance in the Western Balkans and Turkey.

Key findings

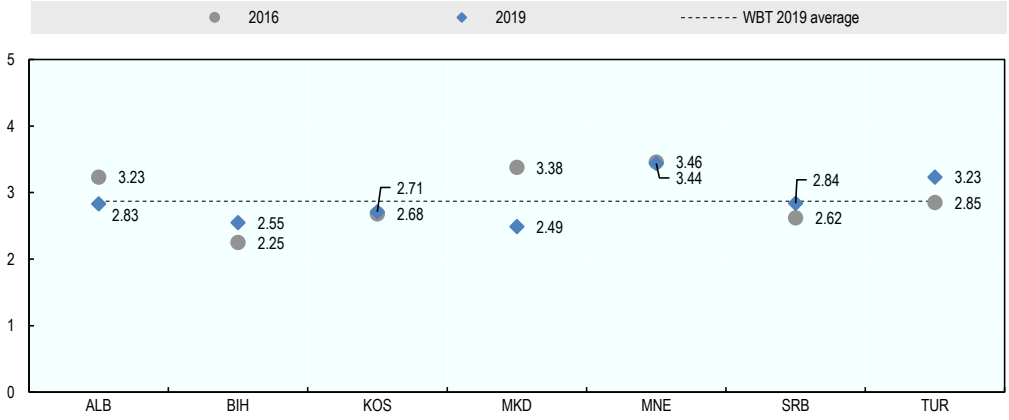
- **Mechanisms to prevent bankruptcy are still underdeveloped across the region**. The assessed economies lack institutional support and mechanisms to prevent entrepreneurs going bankrupt, such as early warning systems.
- **All economies have functioning insolvency laws that govern formal procedures for financially distressed companies.** Yet few of them have succeeded in reducing the time taken to resolve insolvency to below the OECD average, and the recovery rates in the region are still very low.
- **Most of the economies have a formal bankruptcy discharge procedure** in their legal framework; however, almost none of the governments set a legal time limit for entrepreneurs to obtain a discharge.
- **There is a lack of publicly available bankruptcy registers;** this prevents enterprises from obtaining detailed information about potential business partners – undermining the transparency and legal certainty of business activities.
- **Second chance policies for failed entrepreneurs are still absent in the region**. Region-wide, no public institutions are leading efforts to reduce the cultural stigma attached to business failure.
- **The Western Balkans and Turkey (WBT) governments provide no dedicated training or information on restarting a business after failure**, hampering the economic reintegration of honest bankrupt entrepreneurs.[1] However, none of the economies impose civic consequences on bankrupt business owners.

Comparison with the 2016 assessment scores

The performance of the WBT region in bankruptcy and second chance policies has shown limited progress since the last assessment. The region's average score stands at 2.87, close to the score of 2.92 achieved in 2016 (Figure 2.1).

Nevertheless, the progress achieved by some of the economies is more pronounced than the regional average suggests. Compared with the previous assessment, Turkey has made the most significant improvement, with its newly introduced out-of-court settlements. Montenegro continues to be the regional leader as a result of its efforts to bring its bankruptcy regulation closer to international standards.

Figure 2.1. Overall scores for Dimension 2 (2016 and 2019)



Note: Scores for 2019 are not directly comparable to the 2016 scores due to a methodological change increasing the focus on implementation. Therefore, changes in the scores may reflect the change in methodology more than actual changes to policy. 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

Implementation of the SME Policy Index 2016 recommendations on bankruptcy and second chance policies is rather limited across the Western Balkans and Turkey. While a number of changes have been implemented in legal frameworks, there have been no concrete steps to establish bankruptcy prevention mechanisms or to promote second chances for entrepreneurs (Table 2.1).

Table 2.1. Implementation of the SME Policy Index 2016 recommendations for Dimension 2

Overall 2016 recommendations	SME Policy Index 2019	
	Main developments during the assessment period	Regional progress status
Strengthen current insolvency laws by establishing prevention systems and public insolvency registers	- All governments have amended their existing law or have adopted new ones since the previous assessment. - Kosovo* introduced a legal framework for corporate insolvency in 2016. - Turkey has introduced out-of-court settlements as an alternative to filing for bankruptcy. - None of the economies have implemented an early warning mechanism. - No progress has been noted on insolvency registries, which remain mostly closed to the public.	Moderate
Promote second chance among entrepreneurs	- No tangible steps have been taken to promote second chances among entrepreneurs in the region. - Fresh starts have only been promoted in the region through the initiatives of various civil society organisations.	No progress

* 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.

Introduction

Building a business environment conducive to growth and economic viability has long been at the forefront of policy makers' agendas. However, the vital roles of efficient bankruptcy legislation and a culture that accepts entrepreneurial failure have been less recognised in the process of creating this enabling environment.

Generally, corporate bankruptcy has a positive impact on the economy. It allows the market to remove inefficient businesses and reallocate capital to efficient ones. It also provides a way for borrowers to get out of debt, paving the way for the possibility of re-engaging in economic activities. However, when businesses enter bankruptcy in large numbers – as they did during the financial crises – it can have a significantly negative impact on the economy and further contribute to economic depression and recession.

Companies entering and exiting the market are inherent to the business life cycle, and policies should ensure that this can occur in a smooth and organised manner (Cirmizi, Klapper and Uttamchand, 2011[1]). Efficient insolvency regimes protect both entrepreneurs[2] and creditors, striking the right balance between the interests of each; protecting and ensuring support to all parties is imperative for efficient bankruptcy rules and procedures (World Bank, 2017[2]). Efficient regulations for bankruptcy recognise the complexity of the phenomenon and envisage the possibility of viable companies reorganising.

Business success or failure might be explained by internal or external circumstances. Internal causes can include managerial incompetence, overconfidence or excessive risk taking (Hayward, Shepherd and Griffin, 2006[3]). External factors can be related to inadequate economic circumstances, government policies or lack of financial resources (Liao, Welsch and Moutray, 2008[4]; Cardon, 2010[5]). However, regardless of the cause, effective liquidation and discharge procedures need to be in place to allow entrepreneurs to reintegrate into the market. Data show that entrepreneurs who go bankrupt have a higher success rate in their second attempt and, on average, their firms perform better than newcomers in terms of turnover and jobs created (Stam et al., 2008[6]). Currently, this possibility is often impeded by the stigma attached to a firm's failure.

Appropriate measures and legal provisions should promote a positive attitude towards giving entrepreneurs a fresh start; aim to complete all legal procedures to wind up the business, in case of non-fraudulent bankruptcy, within a year; and ensure that restarters have the same opportunities in the market as they had the first time. In this context, effective bankruptcy regulations are crucial to ensuring a positive impact not only on companies' market exit, but also on reducing the opportunity cost of entrepreneurship by creating more welcoming conditions for business creation.

Nevertheless, measures preventing bankruptcy and promoting second chances should be carefully considered, as they carry a certain level of economic risk. On the one hand, there are concerns about the survival of firms that would typically exit a competitive market, also called "zombie firms". These might weigh negatively on average productivity and potential growth opportunities for more productive firms, by slowing the reallocation of scarce sources to the most productive use (Adalet McGowan, Andrews and Millot, 2017[7]). On the other hand, an excessive number of entrepreneurs restarting allows "serial entrepreneurs" who have not necessarily learnt

from their mistakes to reintegrate into the market (Ucbasaran, Westhead and Wright, 2011[8]). This might also have a negative impact on the reallocation of resources.

Assessment framework

Structure

This chapter focuses on bankruptcy and second chance policies for SMEs. The assessment framework is divided into three sub-dimensions:

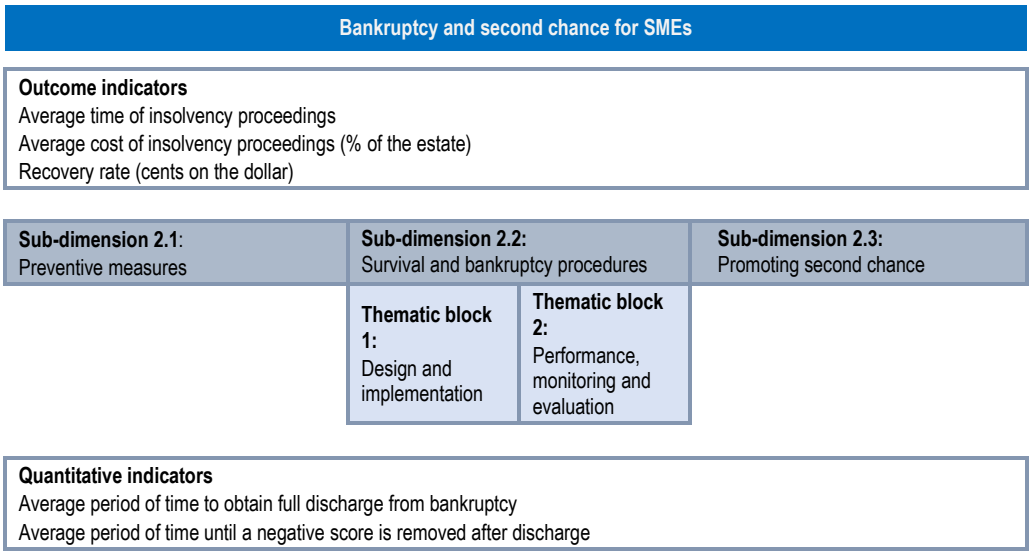
- **Sub-dimension 2.1: Preventive measures** analyses the tools and policies that the economies use to help SMEs avoid bankruptcy.
- **Sub-dimension 2.2: Survival and bankruptcy procedures** focuses on legislation and practice. It looks at whether survival procedures exist and how they operate; out-of-court pre-bankruptcy procedures; and laws and procedures for distressed companies, receivership and bankruptcy. It assesses policy performance, first in design and implementation and then in performance, monitoring and evaluation.
- **Sub-dimension 2.3: Promoting second chance** examines how the economies facilitate a second chance for failed entrepreneurs, assessing their attitude towards giving entrepreneurs a fresh start and restrictions imposed on them during the period of bankruptcy.

The assessment was carried out by collecting qualitative data using questionnaires filled out by governments, and statistical data from national statistical institutes. The quantitative indicators used in the assessment include the recovery rate of distressed companies after the prevention phase, the average time to obtain full discharge from bankruptcy (a court order releasing the failed business owner from certain debts) and the average period of time taken for a negative score, such as the credit score, to be removed after discharge.

The data collected through the questionnaire were complemented by interviews with SME owners and managers.[3] These entrepreneurs were asked their opinion on the effectiveness of the institutional support provided to avoid financial distress or bankruptcy. The entrepreneurs gave their views on the functioning of the bankruptcy process and its fairness. Finally, they evaluated the effectiveness of second chance mechanisms and how well they are promoted.[4]

Figure 2.2 shows how the sub-dimensions and their constituent indictors make up the assessment framework for this dimension. For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

Figure 2.2. Assessment framework for Dimension 2: Bankruptcy and second chance for SMEs



Note: The outcome indicators serve to demonstrate the extent to which the policies implemented by the government bring about the intended results, and they have not been taken into consideration in the scoring. By contrast, quantitative indicators, as a proxy for the implementation of the polices, affect the overall scores.

Key methodological changes to the assessment framework

Since the 2016 assessment, several changes have been introduced to the assessment framework (Table 2.2). This dimension has been expanded in order to better capture new practices and changes in this policy area. A new sub-dimension (Sub-dimension 2.1, on preventive measures) has been introduced to distinguish between before and after bankruptcy procedures. This new sub-dimension assesses the preventive measures in place to support entrepreneurs who risk failure. The sub-dimension on survival and bankruptcy procedures has also been expanded. In its new form, this sub-dimension puts a stronger emphasis on out-of-court settlements and discharge procedures.

Table 2.2. Key changes in the composition of Dimension 2

Sub-dimension	Key changes since the 2016 assessment
Sub-dimension 2.1: Preventive measures	Newly added sub-dimension - it includes information on campaigns and web-based information for entrepreneurs facing difficulties, on training and assistance procedures for entrepreneurs who fear failure and implementing an early warning system
Sub-dimension 2.2: Survival and bankruptcy procedures	Expanded to include more emphasis on out-of–court settlement and discharge procedures

Other sources of information

Statistical data from the World Bank Group's 2019 *Doing Business* report (World Bank, 2018[9]) were also used to assess the efficiency of bankruptcy regimes in the Western Balkans and Turkey. The report provided statistical indicators on insolvency such as time and cost (measured as a percentage of the estate) to resolve insolvency

and recovery rate. The data presented in the report allowed the information on resolving insolvency to be compared across economies, as well as over time. In addition, to better capture entrepreneurs perceptions' and behaviours in the WBT region, the assessment looked at the fear of failure rate measured by the Global Entrepreneurship Monitoring report (see Annex 2.A) and the actions taken by entrepreneurs to resolve an overdue payment based on the business opinion survey from the Balkan Barometer 2018 (RCC, 2017[10]) (GEM, 2018[11]).

Analysis

Performance in bankruptcy and second chance

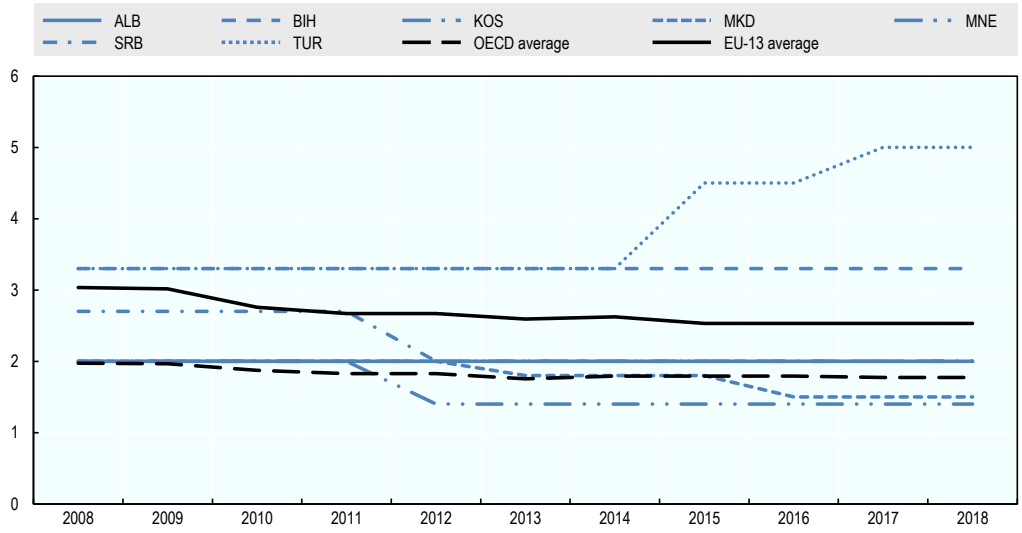
Outcome indicators play a key role in examining the effects of policies, and they provide crucial information for policy makers to judge the effectiveness of existing policies and the need for new ones. Put differently, they help policy makers track whether policies are achieving the desired outcome. The outcome indicators chosen for this dimension are designed to assess the Western Balkan economies and Turkey's performance in resolving insolvency (Figure 2.2). This analysis section starts by drawing on the indicators to describe this performance.

The region's performance in resolving insolvency has, on average, not improved since the previous assessment. The Republic of North Macedonia is the only WBT economy where the time taken to resolve insolvency has fallen since the previous assessment (Figure 2.3). This improvement is directly linked to a reform in 2016, which introduced voting procedures for reorganisation plans into the legislation. This reform made procedures faster by allowing different groups of creditors to participate in insolvency procedures (World Bank, 2017[2]). In both Montenegro and North Macedonia, insolvency is resolved faster than the OECD average.

None of the economies in the region has managed to lower the cost of resolving insolvency since the last assessment (Figure 2.4). However, two economies – Bosnia and Herzegovina and Montenegro – perform better than the OECD and EU-13[5] averages. Meanwhile, Serbia is the regional outlier, with a cost for resolving insolvency that is twice as high as the OECD average.

For the recovery rate[6] of secured creditors, all the WBT economies perform below the OECD and EU-13 average (Figure 2.5). Since the previous assessment, Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia have all increased their recovery rates. Serbia has seen the greatest increase, at 35.8% since 2016; however, it still has the second lowest rate in the region after Turkey. Moreover, Turkey is the only economy where the recovery rate has fallen (by 27.2%) since the last assessment. This change was due to the suspension of bankruptcy postponement applications, which resumed in March 2018 (World Bank, 2017[2]) and were replaced by concordat applications (see section on Survival and bankruptcy procedures (Sub-dimension 2.2) below).

Figure 2.3. Time taken to resolve insolvency (2008-18)
Years



Note: Data for Japan, Mexico and the United States are missing for the period 2008-12 when calculating the OECD average; data for Malta are missing for the period 2008-10 when calculating the EU-13 average.

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

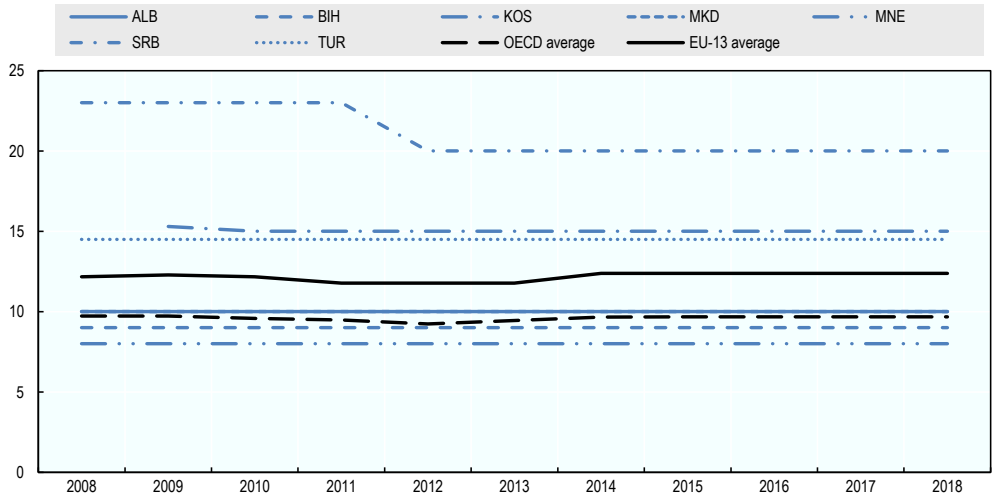
** Footnote by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and 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: Based on data from World Bank (2018[12]), *Doing Business website*, www.doingbusiness.org.

StatLink http://dx.doi.org/10.1787/888933937318

Figure 2.4. Cost of resolving insolvency (2008-18)
% of estate



Note: Data for Japan, Mexico and the United States are missing for the period 2008-12 when calculating the OECD average; data for Malta are missing for the period 2008-10 when calculating the EU-13 average.
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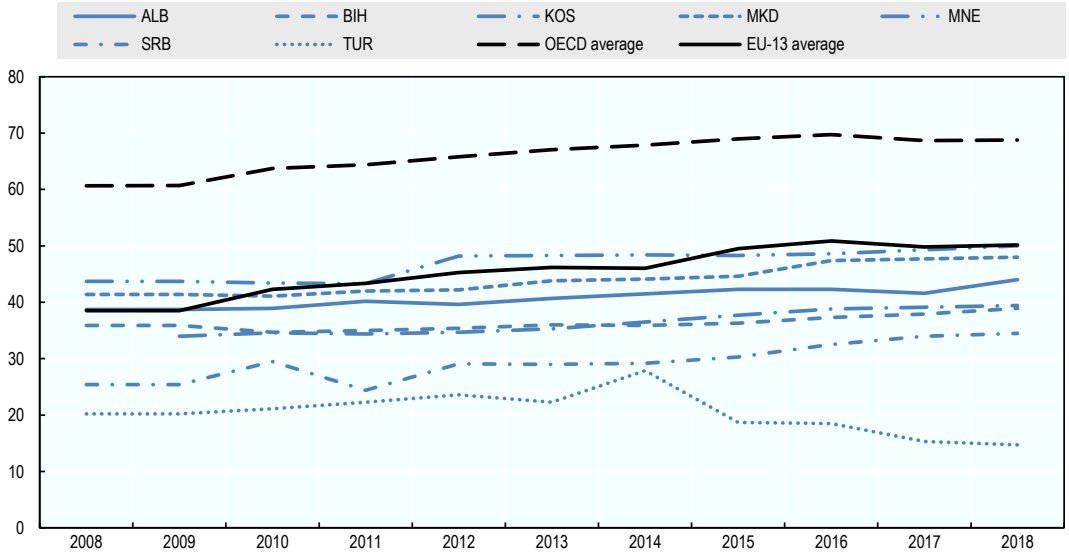
Source: Based on data from World Bank (2018[12]), *Doing Business website*, www.doingbusiness.org.

StatLink http://dx.doi.org/10.1787/888933937337

Figure 2.5. Recovery rate for resolving insolvency (2008-18)
Cents on the dollar



Note: Data for Japan, Mexico and the United States are missing for the period 2008-12 when calculating OECD average; data for Malta are missing for the period 2008-10 when calculating the EU-13 average.
EU-13 Member States – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.
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Source: Based on data from World Bank (2018[12]), *Doing Business website*, www.doingbusiness.org.

StatLink http://dx.doi.org/10.1787/888933937356

Preventive measures (Sub-dimension 2.1)

The earlier a possible failing business is detected, the greater its chance of survival – this is the rationale behind preventive measures. If effectively applied, these measures can protect firms from entering bankruptcy, helping them to save on the cost of consultants specialising in insolvency and bankruptcy (EC, 2011[13]). Preventing bankruptcy is not only crucial from the perspective of enterprises and their owners, but it is also in the economies' interests to save jobs and preserve economic value. Moreover, it helps economies to reduce the administrative burden on the judicial system and the economy overall.

Government intervention is crucial in providing active assistance to entrepreneurs who fear failure or are in financial difficulties. Therefore, initiatives such as diagnostic tools and information services are the backbone of a successful government strategy to prevent bankruptcy. Moreover, limited information on the existence of such initiatives has a negative impact – not only on failed entrepreneurs, but also on potential

entrepreneurs who might be discouraged from starting a business, as well as on the job market in general (EC, 2011[13]).

This section gauges whether bankruptcy preventive measures and policy frameworks address the issues faced by entrepreneurs who encounter financial difficulties. It examines services (such as information campaigns, call centres, websites, self-tests or training) provided by governments to entrepreneurs who fear failure or are already in financial difficulties. It also assesses whether early warning systems exist to help initially identify financially distressed businesses, and then support entrepreneurs to reorganise their companies, if deemed viable.

Overall, preventive measures are still limited in the region (Table 2.3). While there are some initial signs of government activity, there is much room for improvement. North Macedonia scores the highest, followed closely by Montenegro and Turkey.

Table 2.3. Scores for Sub-dimension 2.1: Preventive measures

	ALB	BIH	KOS	MKD	MNE	SRB	Turkey	WBT average
Preventive measures	2.29	1.14	2.29	3.00	2.86	2.29	2.86	**2.39**

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

Mechanisms to help entrepreneurs overcome difficulties are underdeveloped

Business owners fearing failure or facing financial difficulties are not likely to ask for help, for three main reasons. First, they are afraid of losing control of their business. Second, they are concerned about the social stigma and the arduous process associated with bankruptcy. Finally, as entrepreneurs tend to be risk-prone individuals who are characterised by a high rate of optimism, they are often convinced that they will eventually be able to overcome the difficulties themselves (EC, 2011[13]). For this reason, information campaigns, training, call centres and anonymous self-assessment websites might be useful tools for entrepreneurs who fear failure and would like to have targeted information, learn or receive a discreet objective assessment of their situation.

These tools can also be helpful for potential entrepreneurs who would like to improve or assess their aptitude, skills and motivation to run their own business. As detailed in Annex 2.A, according to the Global Entrepreneurship Monitor, almost 30% of potential entrepreneurs fear failure across the WBT region (GEM, 2018[11]), hampering entrepreneurial activity.

Despite their potential positive impact, these tools remain undeveloped in the region, as was confirmed by interviews with SME representatives from the Western Balkans and Turkey. The only economy which currently has websites or call centres for entrepreneurs who fear failure is Turkey, where the SME Development and Support Organisation provides information on support programmes for SMEs.

North Macedonia has a project funded by the Instrument for Pre-Accession Assistance on strengthening the administrative capacities for implementing the legal framework for the bankruptcy and liquidation of companies (Ministry of Economy, 2017[14]). It proposes developing a self-test website, but this has not yet been established. The aim of the website would be to detect financially distressed companies early on, in order to

help them in a timely manner. The project offers training for entrepreneurs who fear failure, organised in co-ordination with the Ministry of Economy, Economic Chambers, and the Chamber of Bankruptcy Administration. However, active entrepreneurs not in financial distress were reluctant to attend these courses, demonstrating that entrepreneurs do not seek help and advice before financial problems emerge.

Fully fledged early warning systems for distressed SMEs still do not exist

Company bankruptcy and liquidation can often be prevented if financially distressed companies are identified at an early stage. The earlier the problems are recognised, the better the chance the business will restructure successfully and continue to operate. Early warning systems identify enterprises that are financially distressed and in need of assistance. Among EU Member States, 14 countries have established early warning and help-desk mechanisms to prevent or coach entrepreneurs before going into bankruptcy (EC, 2017[15]); France has been one of the front runners in designing them (Box 2.1). Efficient early warning systems help regulate relations between companies and creditors, increasing SME owners' awareness and helping them to identify and fix potential problems at the right time.

Such early warning infrastructure remains almost completely undeveloped in the WBT region. The current system adopted by the WBT economies only identifies distressed companies when they are already in the red zone, while ideally an early warning system should identify distressed companies in time to carry out a customised and solution-oriented reorganisation based on identified weaknesses. However, when firms are grappling with financial difficulties, it is sometimes central banks or tax administrations that take responsibility and react swiftly. In Albania, Kosovo, Montenegro, North Macedonia, Serbia and Turkey, these public institutions have established initiatives that act as early stage warning systems, detecting warning signs through financial tools such as tax declarations or bank loans.

In some cases, the tax administration, banks or private credit registries assign a risk classification. For instance, regulations oblige Montenegro's Central Bank to collect data from different banks on entrepreneurs whose accounts are blocked, and to publish them on their website. While this system allows financially distressed companies to be identified before they file for bankruptcy, it does not provide enough time or a solution for reorganising the firm and the debt to prevent bankruptcy. The regulations also oblige the Central Bank to publish data on forced collection procedures, specifically by revealing the names of legal entities/entrepreneurs, their registration numbers, blocked accounts, as well as the number of uninterrupted days the account has been blocked.

In Kosovo, the detection of distressed companies relies on assessments conducted by the tax administration, which are based on companies' tax declarations. The system identifies financially distressed companies by analysing all businesses' corporate tax returns.

In Albania, the Central Bank publishes data on entrepreneurs' blocked accounts from different banks on its website, allowing financially distressed companies to be identified before they file for bankruptcy. In addition, some banks and private credit registries have developed their own mechanisms to assess customers' credit performance, by drawing on information from multiple sources such as tax

declarations, social security declarations and balance sheets. These mechanisms have been designed with a view to reducing the number of non-performing loans.

While the mechanisms described above identify companies which are already in financial distress and are therefore not proper early warning systems, they could constitute a base on which governments could build more effective prevention policies.

Box 2.1. *La procédure d'alerte* in France

France is one of the few EU Member States and OECD countries that offers an early warning process to identify financially distressed companies. A 2005 amendment of the French Commercial Code[1] provides a warning procedure (*procedure d'alerte*) to draw a manager's attention to anything that might signal a threat to the company's survival. This process has two main steps:

The warning procedure*:* the warning procedure can be triggered by the company's external auditors, staff representatives or shareholders who own at least 5% of the capital. One of these stakeholders can warn the manager in writing about concrete identified problems. The manager must then respond within 15 days with a solution to address these difficulties. In the absence of a formal response from the manager (or if the answer confirms the difficulties or is considered insufficient), the account auditor and the commercial court or the district court is alerted.

Court involvement: if the warning has been triggered in a timely manner by the debtor, the commercial court will mandate a mentor to assist the entrepreneur to carry out a reorganisation without going to an in-court phase (*mandat ad hoc*). If the warning has not been triggered in time, the commercial court can follow up with:

- A safeguard proceeding (if the debtor is solvent but meets difficulties that it is not able to overcome on its own). For a period of up to 6 months (which can be exceptionally extended to 18 months), a court-appointed receiver and a court-appointed agent will observe the company to evaluate whether recovery is possible, according to its organisation, economic performance, costs and external factors. At the end of the observation period, if the company is found to be viable the court will launch a reorganisation plan; if not, a liquidation procedure.

- A reorganisation process (if the company cannot meet payment deadlines) aims to settle debts and, ideally, retain employees. For 6 to 18 months, the court will observe the company to evaluate its viability. At the end of the observation period, the court will make one of the following four decisions: 1) to totally or partially cease the enterprise's activities; 2) to open a judicial liquidation, if the court considers that the company's health cannot improve; 3) to end bankruptcy proceedings if it appears that the company actually has sufficient funds to meet its claims; or 4) to set out a recovery plan, detailing the steps that need to be taken to improve the company's viability and retain the maximum number of employees.

- Liquidation of the company (if the company is clearly unable, permanently, to meet its claims and a reorganisation is obviously impossible). Judicial liquidation signals the end of the company's activities, but also stops any lawsuits filed against the company owner. A liquidator is appointed who will be responsible for selling the company's assets.

Sources: Service-Public-Pro (2018[16]), *Alertes pour la prévention des difficultés des entreprises*, www.service-public.fr/professionnels-entreprises/vosdroits/F22321; OECD (2017[17]), *Observatoire consulaire des entreprises en difficultés*, www.oced.cci-paris-idf.fr/; CCNC (2018[18]), *La Prévention*, www.cncc.fr/prevention.html.
[1.] Commercial Code Article L234-1 al 4, *www.legifrance.gouv.fr/affichCode.do?idSectionTA=LEGISCTA000006146054&cidTexte=LEGITEXT000005634379&dateTexte=20060608*.

The way forward for preventive measures

To enhance the insolvency regime and support enterprises in difficulties, policy makers should:

- **Step up efforts to mitigate fear of failure.** One of the ways entrepreneurs can overcome their fear of failure is by gaining more knowledge. Learning can strongly contribute to easing entrepreneurs' fears, by diminishing their doubts about their own personal abilities. Therefore, creating new mechanisms or linking existing ones to disseminate information – such as web-based tools or call centres – would help entrepreneurs find sources where they can easily access information and improve their entrepreneurial skill sets. Canada's Business Development Bank self-test is a good example of how potential entrepreneurs can be helped to identify their weaknesses and be linked to adequate support programmes (Box 2.2).

Box 2.2. Entrepreneurial potential self-assessment

The Business Development Bank of Canada (BDC) is the only bank devoted exclusively to Canadian entrepreneurs. With its 123 business centres, BDC provides businesses in all industries with financing and advisory services. Its investment arm, BDC Capital, offers equity, venture capital and flexible growth and transition capital solutions.

To help entrepreneurs to start or grow their business, BDC offers more than 1 000 online articles, business templates, and other publications on issues connected to entrepreneurship and managing businesses. It also provides interactive tools such as e-learning modules, business assessments and financial calculators.

One of these interactive tools is the entrepreneurial potential self-assessment. Created in 2002 by a professor from Laval University, Quebec City, this tool uses a comparison model that draws on a dataset of 2 000 to 3 000 interviews with Canadian entrepreneurs.

The core of the self-assessment is a set of 50 statements on which entrepreneurs give their opinion. Answers to these statements measure motivation, aptitude and attitude.

The results allow a comparison between the individual's results and the mean of Canadian entrepreneurs' scores. The questionnaire was completed almost 50 000 times in BDC's last fiscal period (2017/18).

After completing the test, entrepreneurs receive customised advice about what content can help them improve their skills as business leaders in BDC's Entrepreneur's Learning Centre. Courses in the centre are grouped by categories, including business strategy and planning, money and finance, operations or entrepreneurial skills. The format of the courses also varies depending on the subject, from short videos and games to online classes.

Source: BDC (2018[19]), *Business Development Bank*, www.bdc.ca.

- **Develop a fully fledged early warning system in order to effectively protect companies from bankruptcy**. SME owners have a tendency to underestimate their financial difficulties and resist taking action to alleviate them. Therefore, governments should consider introducing a system which would convince entrepreneurs to initiate recovery measures without delay. This system might take different forms, but should include certain essential features. First, it should include special detection procedures to screen and monitor early signs of SMEs in financial difficulties. Second, these identified SMEs need to be approached and provided with advice on objectively assessing their financial situation, as well as on the different options available to them to recover. Once they are better informed, SMEs would be able to take the required steps at an earlier stage, increasing their chances of survival. To that end, Early Warning Europe (Box 2.3) offers a blueprint of how economies can build a customised early warning system, advise entrepreneurs in financial distress and reintegrate them into the economy.

Box 2.3. Early Warning Europe

The international project Early Warning Europe (EWE) was developed with the objective of promoting SMEs' growth across Europe by assisting them during financially difficult periods. In 2016, Early Warning Europe applied for funding through Europe's Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME) programme and obtained almost EUR 5 million. The first wave of the project ran for three years and focused on setting up a full-scale early warning mechanism in Poland, Italy, Greece and Spain.

The consortium is comprised of 15 partners in 7 countries including mentor partners Early Warning Denmark, TEAM U in Germany, Dyzo in Belgium, authority partners such as the Danish Business Authority, the regional government of Madrid and the Polish Agency for Enterprise Development, as well as EU-level associations such as the, European Small Business Alliance, Eurochambres and SMEunited. The Early Warning Europe project is financed by COSME and aims to provide assistance to businesses and entrepreneurs in trouble, as well as those who wish to better anticipate problems. The project builds new best practice and draws on existing experience from these 15 organisations. EWE is open to all COSME countries, and the expansion in phases gives access to the early warning mechanisms foreseen in the upcoming EU Directive on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures.

The consortium is composed of three groups of organisations: 1) mentor organisations with substantial experience in providing support to companies in distress; 2) national or regional organisations that intend to implement early warning mechanisms; and 3) organisations that are responsible for supporting the pan-European communication and dissemination activities of the project.

Through EWE, entrepreneurs can receive help from consultants to get a clear overview of the company, identify the areas which are causing problems, and propose further remedial activities. The second step of the restoration process is collaboration with a mentor. Mentors work closely with the entrepreneur providing expertise, knowledge and support to get the enterprise back on the right track. Alternatively, they can guide companies toward a quick, organised closure when this is the best option for the company. This also contributes greatly to the company owner's chances of a second start and reduces the loss for the owner, the creditors and society as a whole.

Independent evaluations show a highly positive impact on society of the Early Warning system in terms of jobs saved and savings for the public treasuries. Evaluations show a general saving of 20% for the public treasuries on company closures under the Early Warning mechanism, a high level of job preservation and significantly better first-year turnover and growth after the Early Warning intervention.

An innovative element of the project is the introduction of artificial intelligence and the processing of big data in detecting early signs of distress in companies. Early Warning Europe has developed a data model that identifies the probability of distress in companies in Poland, Italy, Greece and Spain based on publicly accessible data, allowing the network partners to proactively assist companies that may not otherwise realise their problems before it is too late.

Currently the project has the support of more than 500 mentors. The support provided is impartial, confidential and free-of-charge. In the first wave, EWE provided support to 3 500 companies in distress in Poland, Italy, Greece, and Spain. In its second wave (2017-19) the project will support the establishment of early warning mechanisms in five additional EU Member States, with the ultimate goal of establishing early warning mechanisms in all EU Member States.

Source: Early Warning Europe (2018[20]), *Early Warning Europe website*, www.earlywarningeurope.eu/.

Survival and bankruptcy procedures (Sub-dimension 2.2)

Survival and bankruptcy proceedings are crucial for SMEs to function. They do not only regulate the smooth market entry and exit of new firms, but they can also stimulate the region's entrepreneurial spirit on a more general level. Transparent and well-defined legislation translates into efficient bankruptcy proceedings, creating less of a burden on the judiciary system, and leading to a higher number of reorganisations instead of filed bankruptcies.

This section focuses on measures for survival and bankruptcy procedures in the region, using two thematic blocks (Figure 2.2). First, under design and implementation, it investigates changes in the assessed economies' regulations for insolvency regimes, as well as the existence of alternative ways for financially distressed SMEs to file for bankruptcy. Since legislative frameworks have a significant impact on these procedures, this section also examines the framework for creditor

protection and business restructuring/reorganisation (initiated by debtors, creditors or bankruptcy administrators).

Second, under performance, monitoring and evaluation, the section reviews the monitoring and evaluation of bankruptcy proceedings, as well as limitations in the administrative capacities of WBT economies.

The WBT economies have achieved a solid legal framework for survival and bankruptcy procedure regulations (Table 2.4). The overall weighted average reflects governments' efforts in improving legislative frameworks and the introduction of out-of-court settlements. Montenegro is the regional leader, followed by Turkey, Serbia and Albania. Higher scores in design and implementation than monitoring and evaluation suggest that there is still room for improvement in the WBT region.

Table 2.4. Scores for Sub-dimension 2.2: Survival and bankruptcy procedures

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Design and implementation	3.67	3.25	3.41	3.26	4.33	4.08	3.98	**3.71**
Performance, monitoring and evaluation	2.44	2.45	2.40	1.60	3.40	1.90	3.00	**2.46**
Weighted average	**3.18**	**2.93**	**3.01**	**2.60**	**3.96**	**3.21**	**3.59**	**3.21**

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

Out-of-court settlements are available, but not automatically linked to formal bankruptcy proceedings

Out-of-court settlements can resolve disputes between debtors and creditors, or avoid company insolvency, reducing the burden on economies' judicial systems. This offers a speedy, less expensive and less formal solution than court proceedings and avoids damaging the failed entrepreneur's reputation. Economy-specific research has shown that insolvency reforms that encourage debt restructuring and reorganisation reduce both failure rates among SMEs and the liquidation of potentially profitable businesses (Hart, 2000[21]). According to the *Balkan Barometer*, in 2017 nearly one-seventh of entrepreneurs in the WBT region launched a court action to resolve an overdue payment issue (RCC, 2017[10]). One can imagine the burden on the judiciary systems of processing this number of cases.

Most WBT economies have introduced appropriate measures to provide honest entrepreneurs with alternative settlement procedures that allow them more time to restructure their businesses. However, none of them have a clear link which allows formal bankruptcy proceedings to be triggered automatically if the debtor and creditors cannot reach a full agreement.

In some of the assessed economies, out-of-court settlements are loosely regulated, as they are not prohibited. This is the case in Bosnia and Herzegovina, where the Law on Bankruptcy Proceedings in the entity of the Republika Srpska does not prohibit out-of-court procedures.[7] However, the law specifies that out-of-court settlements can take place if one of the creditors is a bank, and that they must be mediated by the chamber of commerce.

Montenegro has a similar approach to regulating out-of-court settlements. The legislation states that having accepted a petition to initiate bankruptcy procedures, the court might refer the petitioner to a mediation procedure. This approach can involve debtors, creditors, banks and the mediation centre in the whole process. This legislation seeks a compromise between the survival of financially distressed companies and macroeconomic stability.

The Serbian legal framework allows entrepreneurs to go into mediation as a pre-bankruptcy alternative to settle debts. However, bankruptcy proceedings need to be initiated first. Then, the creditors or the bankruptcy administration, with the consent of the creditors' committee, may propose resolving a dispute through mediation, which cannot take more than 30 days.

Some of the economies opt for having a more strictly regulated approach to the out-of-court settlement alternatives. North Macedonia offers two schemes that provide protection from creditors. First, the distressed business is protected by the Law on Out-of-Court Settlement, which grants a preventive concordat period of 120 days, during which the debtor has the time to draft and negotiate a restructuring plan with creditors. This pre-bankruptcy measure can have one of three outcomes:

1. If all the creditors approve the debtor's plan, it leads to an effective new debt settlement.
2. If creditors holding more than 51% of the total debt approve the debtor's plan, it will allow for a fast-track in-court bankruptcy reorganisation.
3. If only those creditors holding less than 51% of the total debt approve the debtor's plan, it leads straight to simple in-court bankruptcy liquidation.

Second, SMEs encountering financial difficulties in North Macedonia are also protected by the Law on Bankruptcy, which provides them with three more options for reorganisation: 1) debtor-initiated bankruptcy reorganisation via a short-track procedure of 60 days; 2) regular creditor-initiated in-court bankruptcy reorganisation; and 3) the bankruptcy administrator's proposal for a reorganisation plan, with the consent of the creditors.

Albania's regulations offer SMEs the option of a reorganisation plan which needs to be reviewed and voted on by the creditors' board. Out-of-court procedures can start when this plan is approved by a court judgment. Importantly, SMEs are liquidated if their reorganisation proposals are rejected. Turkey has recently introduced the concordat regime, which gives the debtor a maximum of two years' protection following the acceptance of the reorganisation plan by the creditors' board and a final validation from the insolvency officer.

In Kosovo, the law states that the reorganisation process may take different forms, such as debt forgiveness, debt rescheduling, debt-equity conversions or the sale of the business or parts of it.

Insolvency regimes have been strengthened in most of the economies

Insolvency laws lay out the necessary legislative framework to give certainty over how insolvency proceedings are to be dealt with. They ensure that the liquidation of assets and distribution of the proceeds are done in a fair and orderly way among creditors. By doing so, they allow for better financial inclusion, and reduce the cost of obtaining credit (World Bank, 2018[22]). Moreover, insolvency laws offer legal protection to

viable businesses by allowing them to negotiate arrangements with their creditors. Therefore, as the European Commission (EC) recommendation of March 2014[8] also stresses, having clear, simple and non-rigid insolvency laws are crucial for improving the business environment and supporting businesses' long-term survival.

Since 2016, the WBT economies have made a number of amendments to their insolvency laws (Table 2.5). Kosovo has made significant changes to its insolvency regime. In 2016, the government simplified the process of insolvency by introducing a legal framework for corporate insolvency. It also allowed debtors and creditors to benefit from liquidation and reorganisation procedures (World Bank, 2017[2]). Another exemplary development occurred in North Macedonia, where the government has reformed the voting procedures for reorganisation plans and allowed more participation by creditors in insolvency proceedings (World Bank, 2017[2]).

Overall, the reforms have improved the economies' legal frameworks to protect the interests of both debtors and creditors, as the Montenegrin case shows (Box 2.4).

Table 2.5. An overview of insolvency laws adopted or amended in the WBT since 2016

	Date	Main changes	Future foreseen additions
Albania	2017	Expansion of the circle of monitoring entities, changes in the order of secured creditors priorities, penalties and cross-border insolvency.	Amendment of out-of-court settlements.
Bosnia and Herzegovina	2016(RS)	Shortens the deadlines for the completion of bankruptcy proceedings, increases the liability of the bankruptcy trustee in the performance of their duties, possibility of audit of the final accounts of the debtor.	
	2018 (FBiH)	The draft law has been brought into line with RS to harmonise the insolvency regime in the territory.	The new proposal for the Bankruptcy Law is to be sent to the parliamentary to ratify.
Kosovo	2016	Specific and expedited procedures for SMEs, debtors are in possession of their estates and new specific regulation for cross-border insolvency.	
Montenegro	2016	The Law on Changes and Amendments to Bankruptcy Law introduces an additional condition for starting bankruptcy procedures, promotion of reorganisation and faster proceedings.	
North Macedonia	2016	Change of voting procedures for reorganisation plans, greater participation of creditors in the insolvency proceedings.	An EU-funded project analysed the bankruptcy legislation framework in view of the EU legislation framework and provided recommendations for amendments of the current bankruptcy law in November 2017.
Serbia	2017	New Law on Amendments to the Law on Bankruptcy improves the position of secured creditors, allowing them increased control over the bankruptcy proceeding, and providing clarity over unclear provisions.	
Turkey	2018	New amendments on the Law on Bankruptcy Introducing the concordat regime as an alternative way to file for bankruptcy.	

Note: For more information please see the relevant SBA profiles; FBiH – Federation of Bosnia and Herzegovina; RS – the Republika Srpska.

Box 2.4. Montenegro's new insolvency regulations

Montenegro introduced the latest changes to its insolvency laws in 2016, even though the initial 2011 Insolvency Law already closely followed the provisions set out in the United Nations Commission on International Trade's *Legislative Guide on Insolvency Law* (UNCITRAL, 2013[23]).

These amendments have harmonised the laws further with international standards, as well as with commercial law and practices, by promoting the reorganisation of businesses that are in financial difficulties and liquidating non-viable companies. The reorganisation procedure has the dual purpose of ensuring debtors' financial recovery and settling creditors' claims. The procedure includes a reorganisation plan that needs to be submitted to the judiciary body along with the petition to initiate insolvency proceedings. If sent after insolvency proceedings have begun, the reorganisation plan should be delivered within 90 days of the proceedings opening. The reorganisation plan may be submitted by:

- the debtor
- the receiver
- creditors holding at least 30% of the aggregate amount of the secured claims
- creditors holding at least 30% of the aggregate amount of the unsecured claims
- persons owning at least 30% of the share capital of the debtor.

The legislation also contains detailed provisions for the more complex areas of insolvency law, such as the avoidance of transactions or insolvency set-off.

This legislation is an example of good practice as the Insolvency Law also applies to state-owned enterprises which do not receive funding from the budget. Overall, these changes not only bring Montenegro closer to EU regulations, but also make the insolvency regime more efficient. Shorter deadlines and clearer provisions for certain cases make the system more transparent and limit the possibility for different interpretations.

Source: Babić and Branović (2016[24]), *Insolvency / Restructuring in Montenegro*, www.schoenherr.eu/publications/publication-detail/insolvency-restructuring-in-montenegro-1/.

Legal frameworks on secured transactions are in place, but some lack time limits for automatic stay

While a clear legal framework on secured transactions[9] is necessary to protect all parties involved in a transaction and to make transactions more efficient, the law should strike a balance between creditors' rights and debtors' interests when regulating the automatic stay[10] on debt collection. While an automatic stay helps the debtor to recover and allows creditors to collect their claim during the reorganisation process, the EC recommends there should be a time limit (EC, 2014[25]).

Although all the assessed economies have established frameworks to support SMEs and creditors if a company becomes insolvent, the approaches in their regulatory frameworks differ and not all of them fix a time limit for automatic stays.

The legislation covers all aspects of secured transactions in Bosnia and Herzegovina, Serbia, and Turkey. These economies regulate secured creditors' ability to satisfy their secured claim in reorganisation, as well as their right to be paid first out of proceeds from the sale of assets on which they have lien[11] or collateral. The bankruptcy legal framework for secured transactions in these economies also includes restrictions, such as the requirement for creditors' consent to conduct the reorganisation of a debtor's bankruptcy case opened in court, and the appointment of a bankruptcy administrator to replace the company management until the approval of a reorganisation plan. However, none of them has defined a time limit for the automatic stay during the process.

In Albania, the legal framework regulates restrictions such as the requirement for creditor's consent when a borrower files for bankruptcy, or that secured creditors are to be paid first from the liquidation proceeds of a bankrupt firm – it provides a contractual stay of 90 days, binding only on the parties that have agreed to it. However, the regulations do not cover areas such as the seizure of collateral by the secured creditors (after reorganisation) nor on the management of administration of the property awaiting the resolution of the organisation.

In North Macedonia, the regulation specifies several aspects of dealing with secured transactions, but does not legislate on the stay. Secured creditors have the right of a separate settlement out of the bankruptcy proceedings. The judge grants this right if the asset is not subject to a reorganisation plan. With the secured creditors' consent, the collateral on assets subject to reorganisation may be transferred on assets from the estate that are not vital to the debtor's reorganisation. In any event the secured creditors have a right to be paid first from the sale proceeds of the assets over which they have secured right (collateral). The bankrupt debtor's reorganisation plan must be approved by vote by a majority of the creditors.

Monitoring and evaluation of bankruptcy proceedings remain weak in the region

It is crucial for economies to have a well-developed set of performance indicators to better monitor the efficiency of insolvency regimes. The OECD has developed insolvency indicators (see Box 2.5 and also Annex 2.B) to obtain policy indicators that evaluate the differences between countries, to facilitate further research on exit policies and productivity growth.

Despite some examples of positive changes, the monitoring and evaluation of bankruptcy and insolvency procedures are still very weak in the assessed economies. Most of the WBT economies do not collect basic indicators, such as the average time it takes to receive a full discharge from bankruptcy, the number of backlogged court cases related to bankruptcy or the number of years a bankrupt entrepreneur has a negative score after discharge.

Only Albania collects information on the average time taken for an entrepreneur to get a full discharge and the average number of years afterwards that the entrepreneur has a negative score. The ministries of justice in both Serbia and Turkey monitor the size of their court case backlogs every year.

The assessed economies also sporadically monitor the implementation of bankruptcy and insolvency regulation. For example, the Albanian Bankruptcy Supervision Agency monitors bankruptcy administrators' implementation of the bankruptcy laws and

procedures. Montenegro conducts monitoring via the Judicial Council, which publishes yearly reports on its activities and results, including information on insolvency procedures.

Box 2.5. An overview of insolvency indicators

Market imperfections prevent the orderly market exit of firms that are experiencing financial difficulties. To address this, economies need efficient insolvency regimes which are able to restructure viable firms and liquidate non-viable ones; but distinguishing between the two categories can be difficult. Insolvency regimes can be assessed through various indicators which help reveal the pros and cons of specific regimes. The following are the most widely used indicators:

World Bank Doing Business Report

The indicators in the World Bank *Doing Business* Report on resolving insolvency are based on a questionnaire. Respondents provide the estimates for a specific case study for the time the insolvency procedures would take and the cost borne by all parties. The report only refers to corporate insolvency and looks at outcome-based indicators such as the time and cost to close a business. It also assesses the strength of insolvency frameworks; however, it misses some of the policy design features that can be relevant for productivity. The indicators are based on four sub-indices: commencement of proceedings, management of debtors' assets, reorganisation proceedings and a creditors' rights index.

European Commission data

The European Commission data on the different features of insolvency frameworks are based on a survey conducted by the European association of insolvency professionals (INSOL Europe). The collected data are grouped into 12 dimensions and used to create an index of the efficiency of insolvency regimes. However, this indicator is limited in its coverage of both time and countries.

OECD insolvency indicators

The OECD insolvency indicators (see Annex 2.B) are based on a questionnaire that was designed to fill the gaps left by the World Bank and European Commission indicators. They focus on corporate and personal insolvency, taking into account international best practice and the existing literature. The OECD insolvency indicators also take into account various policy design features linked to inefficiencies in the market exit margin. They assess:

- **The treatment of failed entrepreneurs:** measuring opportunities for a fresh start in terms of the time taken for discharge from bankruptcy and exemptions of entrepreneurs' personal assets from insolvency proceedings.
- **Prevention and streamlining**: summarising information on early warning mechanisms, pre-insolvency regimes and special simplified procedures for SMEs.
- **Restructuring tools**: creditors' ability to initiate restructuring.
- **Additional data:** these include the role of courts, provisions distinguishing between honest and fraudulent bankruptcies, and the rights of employees.

The limitation of these indicators is their focus on *ex-post* efficiency incentives. They do not address trade-offs between credit availability and experimentation, or capture the quality of resolution and complementarities with other policies (e.g. judicial efficiency).

Sources: Adalet McGowan and Andrews (2016[26]), "Insolvency regimes and productivity growth: A framework for analysis", http://dx.doi.org/10.1787/5jlv2jqhxgq6-en; OECD (2018[27]), *Economic Policy Reforms 2018: Going for Growth Interim Report*, https://doi.org/10.1787/18132723; World Bank (2018[12]), *Doing Business 2019: Training for Reform*, www.doingbusiness.org.

The way forward for survival and bankruptcy procedures

In order to enhance their legal framework on insolvency regimes, all WBT economies should:

- **Conduct entrepreneurial awareness campaigns about alternative forms of liquidation.** Most of the economies have established out-of-court settlement options as a less expensive and faster way to liquidate than filing for bankruptcy. Settlements through mediation or concordats are less expensive for the state and impose a smaller burden on the judiciary system. However, according to private sector interviews, entrepreneurs know little about the options offered by alternative settlement procedures such as mediation or concordats – and sometimes are not even aware of their existence. Consequently, their use by enterprises remains limited. Promotion campaigns should highlight the benefits of the alternative liquidation methods in terms of cost, time and administrative procedures for enterprises. This could reduce the number of bankruptcy procedures, lessening the administrative burden on courts, and help to overcome the fear of failure among entrepreneurs.
- **Link out-of-court settlement systems to formal bankruptcy proceedings**. The outcomes of out-of-court settlement procedures should automatically trigger formal bankruptcy proceedings if a full agreement between debtor and creditors is not reached. Put differently, if the majority of the creditors are strictly against the debtor's proposed reorganisation plan, then this case should automatically go for liquidation, with an option for debt discharge and restart. In cases where there is partial support for the debtor's proposed reorganisation plan (e.g. more than 50% of creditors), then the company should automatically proceed to reorganisation, with the chance of shortening the formal approval procedures.
- **Reduce the time and cost of bankruptcy by simplifying formal bankruptcy proceedings**. The experiences of high-income OECD economies show that those with simple streamlined procedures have fewer appeals on court verdicts, the average proceedings are quicker, the average cost as a percentage of the bankrupt estate is less than 10% and the overall recovery rate is greater than 60% (OECD, 2018[27]; World Bank, 2018[28]). The frameworks in Finland, the United Kingdom and the United States have separate formal proceedings for liquidation and reorganisation, as well as a variety of preventive measures in place. Slovenia has developed a good process for simplifying the link between out-of-court settlements and formal bankruptcy proceedings (Box 2.6).

- **Maintain the administrative capacities of the bodies implementing the insolvency framework to keep up with framework changes in all WBT economies**. For bankruptcy administrators, bankruptcy judges, appraisers and creditors' associations, governments could consider formal training and limited-duration licensing of implementation bodies to ensure high-quality services. Constant monitoring and audits of their work should provide for higher professional standards and ensure that the quality of their services is maintained.
- **Step up efforts on monitoring and evaluation**. Proper monitoring and evaluation leads to well-informed evidence-based policy making, helping to improve national credit registries. By enhancing co-ordination between the various public institutions**,** such as the ministry of justice and national statistical offices, governments could increase the number of relevant indicators collected and better evaluate the impact of insolvency policies.

Box 2.6. Slovenia's post-crisis insolvency regime

Having joined the EU in 2004, Slovenia adopted a new insolvency law in 2007. However, this coincided with the financial crisis and the newly introduced regulations were not enough to deal with the high number of non-performing loans and failed entrepreneurs. The previous regulations were found to be one of the main causes of creditors' low recovery rates (EBRD, 2014[29]). To improve the situation, the Slovenian government amended the insolvency law in 2013. The main changes included:

- a new pre-insolvency restructuring procedure
- mechanisms to facilitate restructuring.

The restructuring mechanisms included debt-equity swaps, giving priority to restructuring plans proposed by major creditors, and giving shareholders control of business operations. The new system is based on compulsory settlement, simplified compulsory settlement (solely for micro and small enterprises and individual entrepreneurs), pre-insolvency restructuring proceedings, and bankruptcy.

This reform quickly began to have a positive impact on Slovenia's business environment. Within two years of its adoption, the percentage of companies using one or more of the procedures doubled, rising to almost 15% of cases in 2015. Furthermore, the recovery rate of secured creditors increased from 50.1 cents on the dollar in 2013 to 88.2 cents in 2015. The level of entrepreneurship and company formation also increased, having a clear impact on the SME ecosystem in general.

These changes also brought the Slovenian insolvency regime in line with best international practice, with the economy joining the trend of facilitating debt/equity swaps in order to conduct debt restructuring (IMF, 2015[30]).

Sources: EBRD (2014[29]), *Commercial Laws of Slovenia: An Assessment by the EBRD*, www.ebrd.com/documents/legal-reform/slovenia-country-law-assessment.pdf; IMF (2015[30]), "Republic of Slovenia: Selected issues", www.imf.org/external/pubs/ft/scr/2015/cr1542.pdf;https://www.imf.org/external/pubs/ft/scr/2015/cr1542.pdf World Bank (2017[2]), *Doing Business 2018: Reforming to Create Jobs*, www.doingbusiness.org/en/reports/global-reports/doing-business-2018.

Promoting second chance (Sub-dimension 2.3)

According to a report published in 2011 by the European Commission, only 4-6% of bankruptcies are fraudulent (EC, 2011[13]).[12] Despite this relatively low rate, public opinion usually associates business failure with fraud. This leaves many failed entrepreneurs feeling discouraged, suffering from social stigma and facing more obstacles to accessing finance than first-time starters, resulting in difficulties re-entering business and social life (EC, 2016[31]). A culture of fostering second chances for failed entrepreneurs is therefore crucial, since it has a positive impact on the number of entrepreneurs who are willing to start a business (Bezegova et al., 2014[32]).

A second chance policy provides an opportunity for failed honest entrepreneurs to start up businesses again. The policy core is based on the premise that the economy needs entrepreneurs who are willing to undertake a fresh start after failure, generating more jobs and growth. Promoting second chances for previously bankrupt entrepreneurs allows for their quick reintegration into society, and as the evidence shows, they can use their lessons learnt to create businesses which grow faster in terms of jobs and turnover (Bezegova et al., 2014[32]).

Another challenge is that discharge periods and sanctions for failed entrepreneurs are at times so lengthy or strict that bankruptcy effectively bars them from a quick second start, or sometimes even results in a "life sentence" away from business altogether. Even if an entrepreneur can obtain a quick discharge from debts, tailor-made support to help them start a new business is often lacking.

This section measures the extent to which governments promote second chances among failed entrepreneurs who want a fresh start. It investigates national strategies and information campaigns to promote a second chance, and civic consequences imposed on entrepreneurs during the period of bankruptcy.

The scores of the assessed economies show that promoting a second chance is still undeveloped in the region. Despite the lack of an institutional framework, the average score of close to 2 is directly related to the fact that governments do not sanction or impose civic consequences on failed honest entrepreneurs following bankruptcy (Table 2.6).

Table 2.6. Scores for Sub-dimension 2.4: Promoting second chance

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	**WBT average**
Promoting second chance	1.90	1.94	1.90	1.84	1.90	1.84	2.16	**1.93**

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

Formal bankruptcy discharge procedures exist in most economies

Bankruptcy discharge procedures are extremely important as they allow entrepreneurs to reintegrate into the economy. A discharge is a court order that releases the debtor from personal liabilities for certain specific debts covered by the legal framework. According to EU recommendations, discharge processes should be as quick as possible, ideally automatic and take no more than a year, in order to preserve the failed entrepreneur's resources for a possible restart. Nevertheless, it should be noted that

while all the EU Member States allow discharges, it is still not possible to complete legal bankruptcy proceedings within a year in most of them, or to be discharged from bankruptcy within three years. Similarly, most of the EU Member States offer honest entrepreneurs no possibility of an automatic discharge after liquidation (EC, 2018[33]).

In the WBT region, Albania, Bosnia and Herzegovina, Kosovo, Montenegro and Turkey have established formal discharge procedures for entrepreneurs. In Montenegro the law sets a maximum limit of three years to obtain a discharge. However, in North Macedonia there is no discharge from debt rules for natural persons[13] and in Serbia entrepreneurs are liable for all obligations incurred in connection with the pursuit of the business.

Programmes to promote second chance among failed entrepreneurs are still lacking

In the WBT there is a region-wide lack of government-supported programmes both to promote a second chance among entrepreneurs who have gone bankrupt and to fight against the cultural stigma associated with bankruptcy. Information campaigns to raise awareness about second-chance opportunities are almost non-existent in the region, failing to promote second chances. Turkey is the only economy that mentions second chances clearly in its Turkish Entrepreneurship Strategy and Action Plan. The action plan aims to facilitate a second chance for bankrupt entrepreneurs; however, the strategy does not provide details on the specific measures to realise this target.

As for the rest of the assessed economies, although it is usually claimed by governments that their relevant insolvency laws are in line with the Small Business Act principles, their strategies or action plans do not make any direct or clear reference to promoting a second chance. For example, second chance policies in Serbia are briefly mentioned in the SME Development Strategy and Action Plan 2015-2020 in the section on "Relationship between the Strategy and the Act on small-sized enterprises" (Ministry of Economy, 2015[34]). Linked with the second principle of the Small Business Act,[14] the strategy foresees the "improvement of the legal framework for the establishing, the operating and the closing of business entities" without providing any further details. The action plan planned one activity (a promotional campaign) for 2016, but it did not happen. The situation is similar in Montenegro, where the recently adapted Strategy for the Development of Micro, Small and Medium-Sized Enterprises in Montenegro 2018-2020 does not include the second principle of the Small Business Act in its strategic goals. The strategy highlights the importance of second chance policies, which are currently lacking. However, no concrete measures have so far been included in the strategy's action plan.

The lack of specific programmes to promote second chance policies means that entrepreneurs are left alone to interpret insolvency laws and figure out their rights. In some cases, failed business owners can count on technical and emotional support provided by some sporadic initiatives organised by non-government organisations. Box 2.7 illustrates how sharing information and knowledge among entrepreneurs can give them a better chance to restart and use their entrepreneurial potential.

The lack of initiatives promoting second chances among previously bankrupt entrepreneurs is, however, not unique for the Western Balkans and Turkey. Even most EU Member States do not offer tailored support programmes for entrepreneurs looking to start afresh. Instead, governments often direct restarters to general support

programmes, although these are less targeted. Annex 2.C summarises the second chance promotion programmes available in selected EU Member States.

Box 2.7. The Failure Institute – "Understanding businesses through failure"

The Fuckup Night movement was launched in 2012 in Mexico by a group of business colleagues who sought to bring stories of failure, rather than just success, into the limelight. They decided to organise an event at which guests would share their stories of business failure with the public. The initial idea captured significant attention and quickly spread to other cities and countries. To date, Fuckup Nights have active chapters in 93 countries and 304 cities, giving a platform to more than 3 000 stories, and more than 120 000 attendees just in 2018. These events have also taken place in the Western Balkan region, notably in Tirana in Albania, Banja Luka and Sarajevo in Bosnia and Herzegovina, Pristina in Kosovo, and Belgrade in Serbia.

The format of the events allows each speaker to deliver a 7-minute long presentation using 10 images. Speeches are followed by a question-and-answer session. At times, the list of speakers includes representatives of the local administration, ministers, artists and other individuals who wish to share their stories of business and professional failure.

In 2014, the Fuckup Nights initiative took a step further and founded the Failure Institute, focusing on the study of failure. The institute's publications document cases of business failure and aim to support decision makers in making more informed decisions. Its flagship publication, the *Global Failure Index* (GFI), consists of 33 factors that cause businesses to close. While distinguishing between business failure and business closure, the GFI includes information on business profiles, entrepreneurs' profiles, external support and closure details. Today, the publications describe 3 000 failed businesses.

The volume of collected data is still growing, together with the number of attendees at various Fuckup Nights. The platform allows entrepreneurs to share their valuable experience, put it into perspective and fight the stigma which is often associated with business failure.

Sources: Failure Institute (2018[35]), *Global Failure Index*, https://thefailureinstitute.com/global-failure-index/; Crunchbase (2018[36]), *Fuckup Nights*, www.crunchbase.com/organization/fuck-up-nights; Fuckup Nights (2018[37]), *Fuckup Nights website*, https://fuckupnights.com/.

Entrepreneurs still have obstacles to overcome before starting afresh

A second chance for entrepreneurs depends not only on cultural aspects of the economy, but also on the laws regulating the time needed to obtain a discharge (as explained in the previous section), as well as supporting legislation allowing honest entrepreneurs to make a new start. In other words, honest entrepreneurs who have failed need supportive regulations to allow them to make a fresh start.

All the economies have a forgiving approach towards entrepreneurs who have failed: none impose any civic consequences such as the loss of the right to vote or to hold elected office. However, the situation is different when it comes to economic consequences. As discussed in the previous section, in North Macedonia and Serbia the legal framework does not allow an automatic discharge from debt rules, forcing

entrepreneurs to open a court case to obtain a discharge, and consequently creating obstacles to a fresh start. In the entity of the Republika Srpska in Bosnia and Herzegovina, natural or legal persons cannot establish a company or participate in the share of another company until they have settled their debts (e.g. social security contributions) in the register of fines, a measure primarily aimed at protecting workers' rights. These regulatory obstacles and legislative gaps can harm failed entrepreneurs who wish to start again, and prevent them from using the expertise gained through their previous business endeavours.

The way forward for promoting second chance

In order to enhance second chance policies, governments in the region should:

- **Introduce policy measures granting a second chance for honest entrepreneurs.** Governments need to clear the way for entrepreneurs who wish to restart. Introducing automatic debt discharge rules and setting a maximum time limit for the discharge process in the legal framework is essential to build effective second chance policies.
- **Make efforts to reduce the cultural stigma of failure.** Despite the fact that there are no civic consequences for filing for bankruptcy in the WBT region, failed entrepreneurs still suffer from social stigma. To achieve a healthy entrepreneurial culture, the economies should recognise honest bankrupt entrepreneurs as a source of new enterprises and jobs. Therefore, a clear distinction has to be made between measures or regulations that apply to fraudulent bankruptcies and those that apply to honest ones. Such a distinction can be instrumental in changing society's attitude towards debtors. However, amendments in the legal framework alone will not be enough: they should be complemented with initiatives promoting fresh starts and a culture that is receptive and tolerant of failures. To that end, workshops and seminars aimed at sharing the lessons learned from previously bankrupt entrepreneurs can break the stigma surrounding bankruptcy and failure. A notable example is the work of the French organisation, 60 000 Rebonds (Box 2.8).

Box 2.8. 60 000 Rebonds non-profit association: Helping French entrepreneurs rebound from failure

60 000 Rebonds is a French non-profit association that aims to help failed entrepreneurs to "rebound professionally". Philippe Rambaud, a previously failed entrepreneur himself, founded the association in 2012. Having undergone liquidation, and experienced financial and professional trauma, Rambaud decided to act in order to help other post-liquidation entrepreneurs.

The association offers free support services on a voluntary basis, which can be initiated up to 24 months after the company's liquidation procedure. The support is available to all entrepreneurs, regardless of the sector they used to work in, who show a substantial determination to rebound, and have the capacity to engage in a process of personal and professional growth. The support programme consists of 3 main levers:

- Executive coaching
- Mentoring
- Co-development workshops

After passing initial interview and being enrolled into the programme, the entrepreneur receives seven coaching sessions. These sessions help the entrepreneur to regain self-confidence, make the difference between personal talents/vulnerabilities vs venture failure, accept the company's liquidation and find new professional perspectives. At the same time, the entrepreneur is assigned a mentor: an entrepreneur/manager who helps the participant to rebound by helping to determine the direction of new professional engagements and co-ordinating exchanges with experts throughout the process. Participants can also count on the support of co-development workshop, made up of volunteers who help develop new professional projects. Additionally, participants can take part in conference workshops to gain new competences and develop new skills. Finally, the association co-ordinates a network, which sets up exchanges between entrepreneurs who share similar experiences.

The organisation currently operates in 2 French cities and helps around 600 entrepreneurs on an annual basis, free of charge. Based on the beneficiaries' feedback, the programme is considered to be effective in helping entrepreneurs regain confidence, and grow into more professional leaders in order to rebound and reintegrate into the market.

Source: 60 000 Rebonds (2018[38]), *60 000 Rebonds website*, https://60000rebonds.com/.

Conclusions

Overall, all the economies have taken steps to strengthen their legal frameworks for insolvency. All the insolvency legislation covers the legal framework on secured transactions and provides alternative methods of dispute settlement between debtors and creditors. The region is making slow but steady progress in reducing the time and cost of insolvency procedures.

However, the assessment also found that preventive measures and second chance mechanisms in the WBT region are still underdeveloped. There is a region-wide lack of institutional measures to prevent the bankruptcy of entrepreneurs, through mechanisms such as early warning systems. The lack of monitoring and evaluation of bankruptcy proceedings also remains an ongoing challenge. Addressing the recommendations put forward in this chapter will help governments increase their institutional capacities as well as the entrepreneurial ecosystem in general.

Notes

[1] The current international consensus on the definition of "honest" versus "dishonest" entrepreneurs presumes that an honest entrepreneur has not conducted voidable fraudulent or preferential transactions or been penalised by tax authorities or charged by a court for criminal activities. An honest failed entrepreneur should get discharged of all possible forms of debt.

[2] Due to divergent approaches across different economies and for better comparability purposes in this chapter, "entrepreneurs" does not only include sole proprietors, self-employed (one-person company) and micro and small enterprises, but all forms of business organisations will be referred to as entrepreneurs.

[3] This assessment is complemented by 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. For Dimension 2, the aim was to discover SMEs' awareness of and satisfaction with current government programmes on bankruptcy, second chance policies and alternative ways to file for bankruptcy.

[4] Because of the limited number of interviews that were conducted, the information provided is not considered to be statistically representative but rather a descriptive, additional source of information, validating and illustrating findings.

[5] 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.

[6] The recovery rate is recorded as cents on the dollar recovered by secured creditors through judicial reorganisation, liquidation or debt enforcement proceedings.

[7] 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.

[8] The objective of the 2014 Commission recommendation is to ensure that viable enterprises in financial difficulties, wherever they are located in the Union, have access to national insolvency frameworks which enable them to restructure at an early stage with a view to preventing their insolvency, and therefore maximise the total value to creditors, employees, owners and the economy as a whole. The recommendation also aims at giving honest bankrupt entrepreneurs a second chance across the Union (EC, 2014[25]).

[9] In a secure transaction, a creditor and a debtor make a security agreement that the creditor (the secured party) may take specific collateral owned by the debtor if there is a payment default. The secured transaction is governed by the law, which in theory enumerates the order of secured parties. It also provides the secured party with the assurance that if the debtor goes bankrupt, the secured creditor may be able to recover the value of the claim by taking possession of specified collateral, instead of receiving only a portion of the debtor's property after it is divided among all the creditors.

[10] An automatic stay is the time granted to the debtor to prevent creditors from taking action to collect pre-bankruptcy debts, continuing any pending legal proceeding or initiating new legal proceedings against the debtor. The aim is to give the debtor time to achieve the goal of bankruptcy, which is to pay creditors in an orderly and timely manner.

[11] A lien is a legal claim or a right against property. The lien provides security to somebody, who can take property or take other legal action to satisfy debts and other obligations.

[12] The term "fraudulent bankruptcies" refers to dishonest entrepreneurs. The fraud can take different forms, such as a debtor concealing assets to avoid having to forfeit them, or an individual intentionally filing false or incomplete forms. Including false information on a bankruptcy form may also constitute perjury, such as an individual filing multiple times using

either false information or real information in several jurisdictions or an individual bribing a court-appointed trustee.

[13] A natural person is a human being in legal terms, as opposed to an artificial or legal person like a company.

[14] For the complete list of SBA principles see Chapter 2: Policy framework and assessment process

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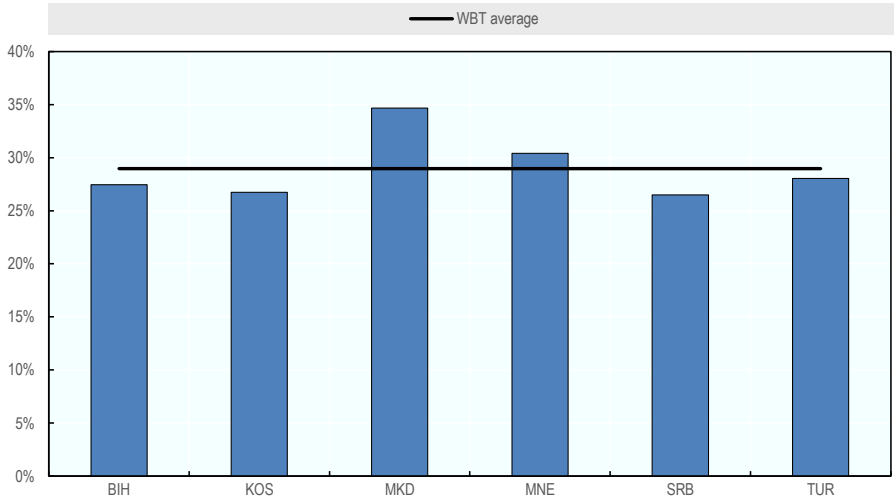
Annex 2.A. An overview of entrepreneurial perception and attitude in the Western Balkans and Turkey

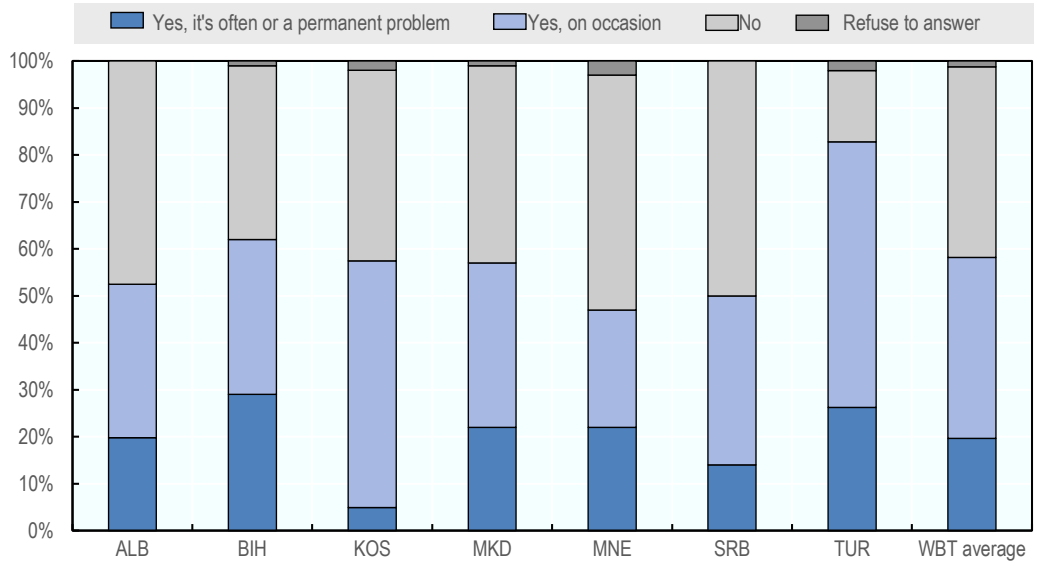
Figure 2.A.1. Fear of failure among entrepreneurs in the WBT region before starting a business



Note: No data available for Albania. The average fear of failure from the last ten years are taken into account depending on data availability. Latest available data for each economy Bosnia and Herzegovina (2017), North Macedonia (2016), Turkey (2016), Kosovo (2014), Montenegro (2010) and Serbia (2008).
Source: OECD calculation based on Global Entrepreneurship Monitoring data (GEM, 2018[11]).

StatLink http://dx.doi.org/10.1787/888933937375

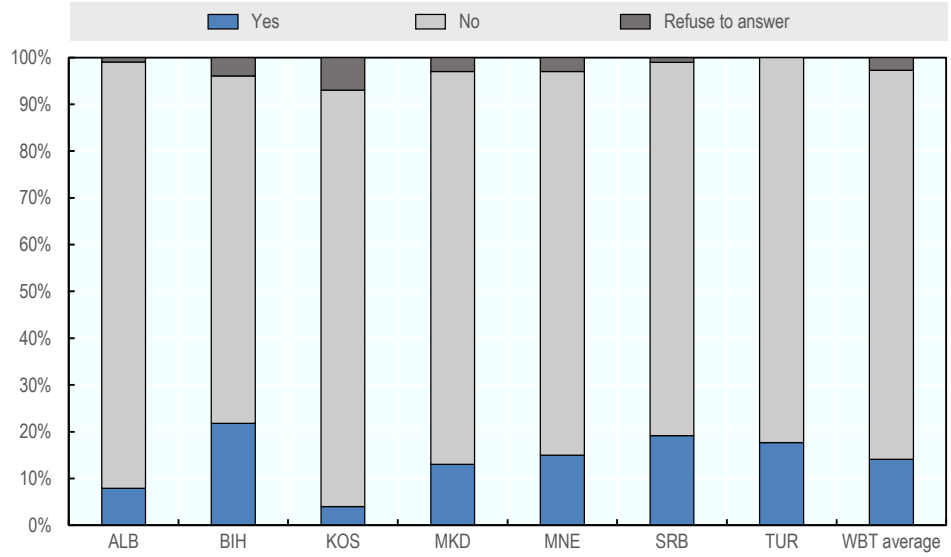
Figure 2.A.2. Has the problem of late payment by other private companies caused your business to experience cash-flow problems? (2017)



Source: OECD calculations based on Balkan Barometer 2017 data (RCC, 2017[10]).

StatLink http://dx.doi.org/10.1787/888933937394

Figure 2.A.3. Have you had to launch a court action to resolve an overdue payment issue (either as a result of your or another company's responsibility)? (2017)

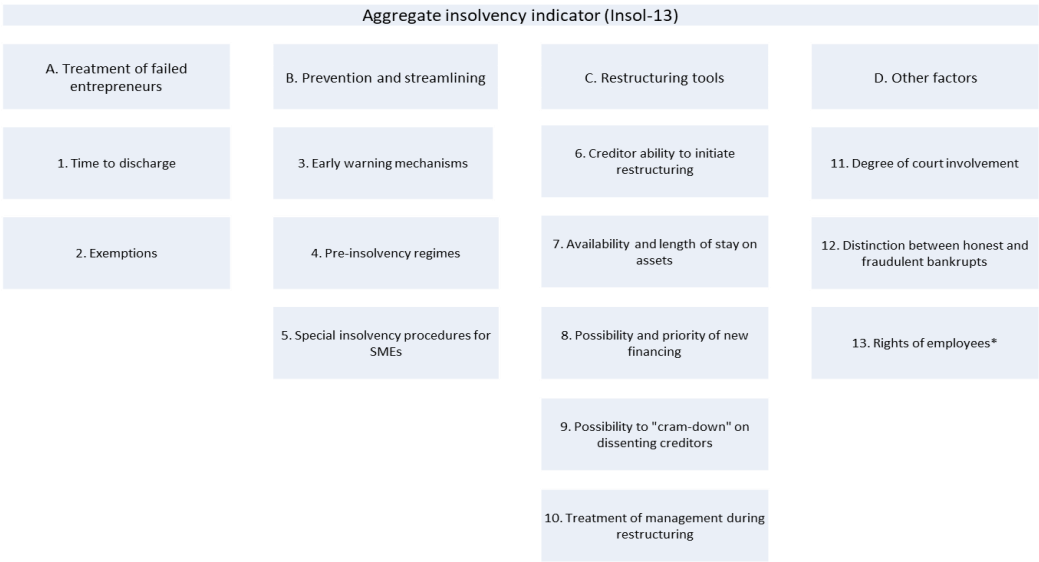


Source: OECD calculations based on Balkan Barometer 2017 data (RCC, 2017[10]).

StatLink http://dx.doi.org/10.1787/888933937413

Annex 2.B. The structure of the OECD insolvency indicators

Figure 2.B.1. The structure of the OECD insolvency indicators



Note: A cram-down is the imposition of a bankruptcy reorganisation plan by a court despite any objections by certain classes of creditors. In this specific case the indicator looks at whether the possibility of cram-down on dissenting creditors exists. If a cram-down is possible, dissenting creditors might not receive under liquidation as much as they should receive (at least) under the restructuring plan.
Source: OECD (2018[27]), *Economic Policy Reforms 2018: Going for Growth Interim Report*, http://dx.doi.org/10.1787/growth-2018-en

Annex 2.C. An overview of second chance programmes in selected EU Member States

Table 2.C.1 summarises the various measures adopted by some of the EU Member States for ensuring a second chance for failed entrepreneurs. It appears that most of the countries have a forgiving approach when it comes to access to finance for restarters. Germany applies the highest number of measures, at five, followed by France and Lithuania (three measures each). In Germany, the Federal Ministry of Economics offers guidelines to restarters. In Lithuania, the National Business Promotion agency is organising an awareness-raising campaign and some seminars presenting second chance success stories to help the public to perceive failure and restarting as a common event which can happen to all entrepreneurs (Bezegova et al., 2014[32]).

Table 2.C.1. An overview of second chance programmes in 14 EU Member States

	Belgium	France	Germany	Iceland	Ireland	Lithuania	Luxembourg	Malta	Netherlands	Portugal	Slovenia	Spain	Sweden	United Kingdom
Equal access to start-up finance	✓	✓	✓	✓		✓		✓	✓	✓		✓	✓	
Assistance with access to finance					✓									
Public support measures			✓			✓						✓	✓	
Guidelines for restarters			✓											
Awareness-raising campaigns		✓	✓			✓								
Individual can start a new company even while in bankruptcy proceedings								✓			✓			✓
Second chance mentoring	✓		✓				✓							

Source: Adapted from Bezegova et al. (2014[32]), *Bankruptcy and Second Chance for Honest Bankrupt Entrepreneurs*, https://publications.europa.eu/en/publication-detail/-/publication/24f281f2-9b0a-44d0-8681-af8bd7657747.

Chapter 3. Institutional and regulatory framework for SME policy making (Dimension 3) in the Western Balkans and Turkey

This chapter assesses the quality of policy-making frameworks for small and medium-sized enterprises (SMEs) in the Western Balkans and Turkey. It starts by providing an overview of the assessment framework, then analyses the three sub-dimensions of Dimension 3: 1) institutional framework, which looks at the quality of the institutional framework as a basis for SME policy making; 2) legislative simplification and regulatory impact assessment, which examines whether regulatory review mechanisms are in place to assess the impact of regulations on SMEs; and 3) public-private consultations (PPCs), which evaluates how frequent and transparent PPCs are for SME policy making and the extent of the private sector involvement. Each sub-dimension concludes with key recommendations for helping to build advanced institutional and regulatory frameworks in the WBT economies, which will better address the needs of SMEs.

Key findings

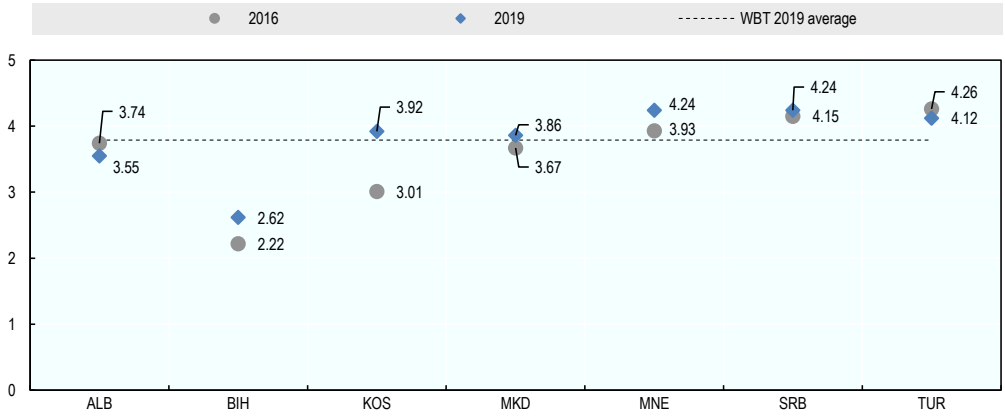
- **Institutional frameworks for SME policies have been established in most of the Western Balkan and Turkey (WBT) economies**. The economies have well-developed SME strategies in place, they are implementing these strategies according to plan and most of the economies are monitoring them regularly. However, there is virtually no comprehensive evaluation of the effectiveness and cost efficiency of policy measures in the region.
- **The economies have introduced measures aiming to combat the informal economy, but a whole-of-government approach is still needed.** These measures are mostly being introduced by tax authorities, ministries of finance or employment agencies, with virtually no co-ordinated efforts by SME policy implementation bodies.
- **All WBT economies have undertaken regulatory reform efforts to review, simplify or eliminate legislation,** but the scope of reform varies across the region. Monitoring remains weak, as there are no data on the proportion of primary and subordinate legislation that has been reviewed and eliminated.
- **Regulatory impact analysis (RIA) has become a mandatory part of the policy-making system for the entire region.** However, the RIA process is unevenly institutionalised and not consistently practised.
- **Despite a formal requirement to conduct public-private consultations (PPCs) prior to all major regulations in most of the region, the quality of the PPC process is uneven,** varying across institutions. The majority of government acts are still adopted through an "urgent" procedure that bypasses any consultation.
- **A few economies are taking proactive steps to increase SME participation in PPCs –** notably by establishing councils and associations for SMEs, which aim to ensure the full participation of SME representatives in consultations on important business-related initiatives.
- **Most of the economies have introduced a single government portal to list all ongoing PPCs** and make the views of participants in the consultation process available to the public. However, there are few control mechanisms or co-ordinating institutions to ensure these portals are regularly updated and consistently used.

Comparison with the 2016 assessment scores

Overall, the WBT economies' average score in this dimension on institutional and regulatory framework for SME policy making stands at 3.79. Compared to the score of 3.57 in the 2016 assessment, this indicates continuous, albeit slow, progress in this area. Like the previous assessment, the most advanced economies are Montenegro, Serbia and Turkey (Figure 3.1). The biggest improvement was made by Kosovo.[*]

[*] 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 3.1. Overall scores for Dimension 3 (2016 and 2019)



Note: Scores for 2019 are not directly comparable to the 2016 scores due to a methodological change increasing the focus on 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 region overall has made incremental progress between the two assessments, as confirmed by the continuous, if moderate, implementation of recommendations in the last SME Policy Index (Table 3.1).

Table 3.1. Implementation of the SME Policy Index 2016 recommendations for Dimension 3

Overall 2016 recommendations	SME Policy Index 2019	
	Main developments during the assessment period	Regional progress status
Ensure the implementation of dedicated SME strategies and action plans remains on track and develop policy monitoring and evaluation mechanisms in order to better monitor policy implementation and measure the impact of SME policies on the ground.	Most economies have established an advanced institutional framework for SME policy making: they have a well-developed SME strategy in place, they are implementing strategies according to plan and carrying out regular monitoring. The new SME strategies have been adopted in Montenegro and the Republic of North Macedonia. However, there has been no impact assessment of policies yet.	Moderate
Develop specific measures to address the informal economy in order to ease the transition of SMEs to the formal sector.	Efforts to fight the informal economy are mostly unaligned with the goals of the SME strategy, and limited to horizontal measures to reduce the costs of formalisation. Measures to combat informality have been introduced by the tax authorities, ministries of finance or employment agencies and target SMEs indirectly. North Macedonia is the only WBT economy to have introduced measures to combat the informal economy directly in its new SME Strategy (2018-2023).	Moderate
Address existing gaps in the availability and quality of SME statistical data and deepen the collection of business demographic data.	There have been some improvements between the two assessments in the amount of SME-related data collected. Major improvements were recorded in Kosovo and Montenegro, both in enhancing their data and increasing their indicators on SMEs. However, despite progress in most economies, key SME-specific data on innovation, access to finance, public procurement and SME greening are still not being collected.	Moderate

Improve the actual implementation of RIA to make sure that SME aspects are considered throughout the regulatory guillotine process.	The RIA process is still unevenly institutionalised and not consistently practised in the region, even though RIAs for major regulations are formally required in all seven WBT economies. Kosovo has updated its *Draft Manual for Conducting RIA*, and a cost-benefit analysis of new legislation has become a mandatory part of the RIA process. Albania introduced a requirement to conduct RIA for major regulations in 2018. Bosnia and Herzegovina formally introduced RIA into the policy development process at state level in 2017, but it has not yet been implemented.	Moderate
Increase the frequency and transparency of public-private consultations and strengthen SME participation to ensure that policy development is inclusive and meets private sector needs.	Most of the economies have strengthened the legal framework for PPCs. Some economies have taken proactive measures to increase SME participation in PPCs – Kosovo and Bosnia and Herzegovina have introduced a single government portal with a mandate to list all of the ongoing PPCs and make the views of participants in the consultation process available to the public. However, challenges like the urgent adoption of legislation without PPCs persist.	Moderate

Introduction

The institutional and regulatory framework for SME policy making corresponds to the overarching principle of the Small Business Act: "think small first" (EC, 2008[1]). This requires governments to take into account the costs and benefits of new legislation for small and medium-sized enterprises (SMEs) in the initial phase of policy development. In other words, rules and regulations that have an impact on the private sector need to be devised with consideration for the needs of SMEs.

A comprehensive and coherent SME policy framework has various direct benefits for SMEs: more secure business operations, less unfair competition, enhanced productivity, and more investment in research and development and in human resources (EC, 2007[2]). Indirect benefits for SMEs and the economy as a whole include the realisation of SMEs' economic potential; a better business environment that benefits the entire business population regardless of size; improved skills for the working population; and better policies and practices at national, regional and local levels (EC, 2007[2]). An adequate regulatory framework thus helps SMEs to realise their innovative and competitive potential.

SMEs make up the vast majority of businesses and can be an important engine of economic growth and employment. But policy makers aiming to create a vibrant private sector need to bear in mind that SMEs are more at risk of incurring higher costs than larger enterprises when complying with administrative requirements. Therefore a one-size-fits-all approach cannot always be used, as business regulation has a greater impact on SMEs than on the large companies. As a European Union (EU) study has shown, SMEs are more affected by the costs of regulatory compliance than larger companies: while a large enterprise spends on average EUR 1 per employee to comply with a regulatory duty, a medium-sized firm spends approximately EUR 4, and a small one spends EUR 10 (EC, 2007[2]). This is mainly due to the fact that: 1) administrative costs for SMEs tend to be the same or similar to those of large companies – hence affecting SMEs disproportionately; 2) for the same reason, the costs of legal uncertainty are proportionately higher for SMEs than for large companies; and 3) while large companies can more easily afford to hire experts to efficiently and effectively support them in complying with regulatory requirements, for SMEs it is often the entrepreneurs who deal with regulations, diverting their valuable resources away from other business operations (EC, 2017[3]).

To adequately address SMEs' needs, any policy approach must take these challenges into full consideration. An institutional and regulatory framework needs to be adapted to incorporate SMEs' needs in order to facilitate their creation and growth.

Assessment framework

Structure

This chapter examines the quality of the SME policy framework by assessing how SME-friendly the institutional foundation for doing business is, whether SME needs are well reflected in existing and new laws and regulations, and if consultations take place on SME-related topics with the private sector. The analysis revolves around the following three sub-dimensions:

- **Sub-dimension 3.1: Institutional framework** examines how strong and business-enabling the institutional framework for SME policy making is. In

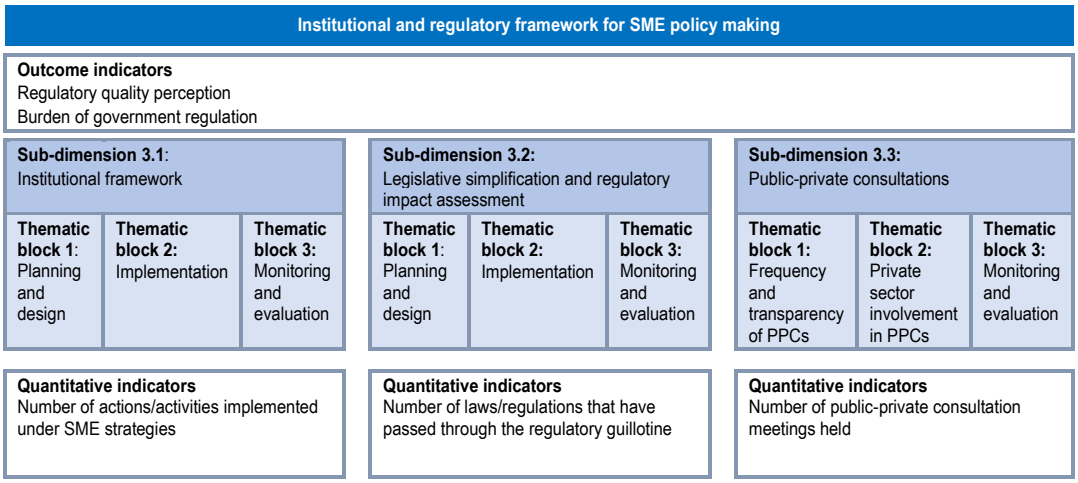
particular, it looks at a set of inter-related institutional mechanisms that are required to create a favourable business environment.

- **Sub-dimension 3.2: Legislative simplification and regulatory impact analysis** looks at whether a regulatory guillotine process exists; if there are frameworks to simplify and review business legislation (primary and subordinate), with a specific focus on SMEs (the SME test); and whether redundant business legislation is systematically eliminated.
- **Sub-dimension 3.3: Public-private consultations** assesses the frequency and transparency of consultations between the public and private sector. It asks whether there is a formal requirement to conduct PPCs, what form they are conducted in and how regularly they take place.

The assessment was carried out by collecting qualitative data with the help of questionnaires filled out by government officials and local experts, as well as face-to-face interviews with SME owners and managers (see Annex C). Another integral part of the assessment was compiling quantitative data on certain indicators provided by the economies' statistical offices, environmental protection agencies and standardisation institutions.

Figure 3.2 shows how the sub-dimensions and their constituent indicators make up the assessment framework for this dimension. For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

Figure 3.2. Assessment framework for Dimension 3: Institutional and regulatory framework for SME policy making



Note: The outcome indicators serve to demonstrate the extent to which the policies implemented by the government bring about the intended results, and they have not been taken into consideration in the scoring. By contrast, quantitative indicators, as a proxy for the implementation of the polices, affect the overall scores.

Key methodological changes to the assessment framework

Since the 2016 report (OECD, 2016[4]) the assessment framework for Dimension 3 has been updated and slightly expanded to better capture the changes that the economies have undergone (Table 3.2).

For the first time it measures actions taken to combat the informal economy, with a view to supporting SME formalisation. It also pays more attention to the monitoring and evaluation part of legislative simplification and regulatory impact analysis, by including new questions on RIA quality control and the existence and effectiveness of the institution overseeing RIA implementation. Finally, in calculating the scores, more emphasis has been put on implementing policy frameworks. For more information on the methodology, see the Policy Framework and Assessment Process chapter and Annex A.

Table 3.2. Key changes in the composition of Dimension 3

Sub-dimensions	Key changes since the 2016 assessment
Sub-dimension 3.1 – Institutional framework	More emphasis on the informal economy.
Sub-dimension 3.2 – Legislative simplification and regulatory impact analysis	More emphasis on implementation and monitoring and evaluation.
Sub-dimensions 3.1 and 3.2	The weights of the thematic blocks in the overall scores have been altered. Greater focus has been placed on implementation (5% increase in the allocated weight).

Analysis

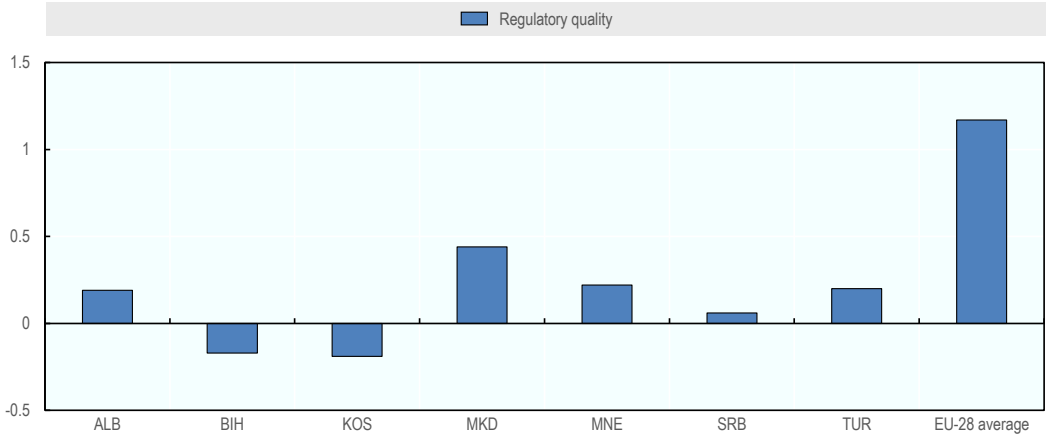
Performance in institutional and regulatory framework for SME policy making

Outcome indicators play a key role in examining the effects of policies, and they provide crucial information for policy makers to judge the effectiveness of existing policies and the need for new ones. Put differently, they help policy makers track whether policies are achieving the desired outcome. The outcome indicators chosen for this dimension (see Figure 3.2) are designed to assess the Western Balkan economies and Turkey's performance in providing an institutional and regulatory framework that meets SMEs' needs.

Despite the ongoing development of institutional frameworks and the simplification of business legislation, the private sector in the Western Balkan and Turkey region still perceives the institutional and regulatory framework to be of poor quality. According to surveys conducted with the private sector, it seems that regulatory quality, measured as the perception of businesses and other stakeholders of the ability of the government to formulate and implement sound SME policies and regulations, is well below the EU average (Figure 3.3).

Regulatory quality is one of six governance dimensions in the Worldwide Governance Indicators (WGI) project. The WGI compile and summarise information from over 30 data sources that report the views and experiences of citizens, entrepreneurs, and experts in the public, private and non-government sectors from around the world, on the quality of various aspects of governance.[1]

Figure 3.3. Worldwide Governance Indicators: Regulatory quality in the Western Balkans and Turkey region (2016)

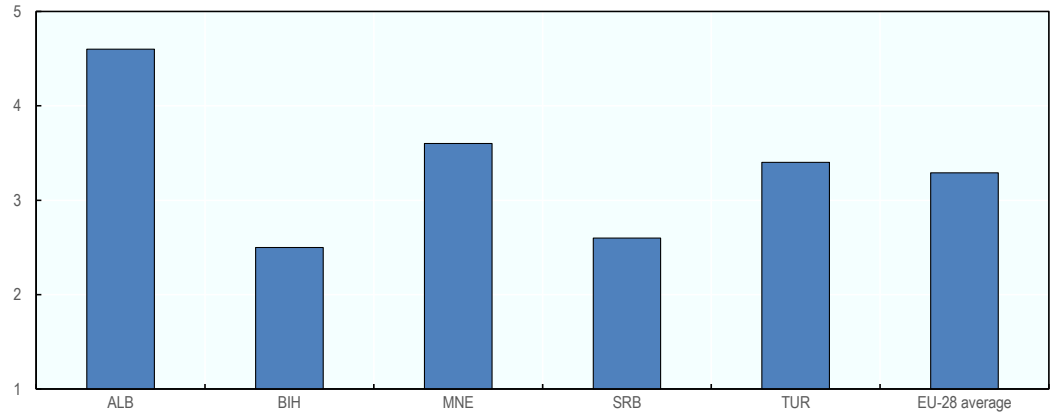


Note: Data ranged from approximately -2.5 (weak) to +2.5 (strong) governance performance. Last available data are from 2016.
Source: World Bank (2018[5]), *Worldwide Governance Indicators*, http://info.worldbank.org/governance/wgi/index.aspx#home.

StatLink http://dx.doi.org/10.1787/888933937432

In terms of perceptions of the regulatory burden on businesses in the region, the situation looks brighter. As Figure 3.4 shows, Albania, Montenegro and Turkey even outperformed their peers in the EU. However, the data need to be interpreted with caution; the findings are based on survey responses from enterprises of all sizes, including large companies.

Figure 3.4. Global Competitiveness Index 2017-2018: Burden of government regulation in the Western Balkans and Turkey region (2017)



Note: The indicator is based on businesses' answers to this survey question: "In your country, how burdensome is it for companies to comply with public administration requirements (e.g. permits, regulations, reporting)?" (1 = extremely burdensome; 7 = not burdensome at all). The 2017 edition captured the views of 14 375 business executives in over 148 economies between February and June 2017. Following the data editing process, a total of 12 775 responses from 133 economies were retained. No data for Kosovo and North Macedonia.

Source: WEF (2018[6]), *Global Competitiveness Index 2017-2018: Burden of Government Regulation*, http://reports.weforum.org/global-competitiveness-index-2017-2018/competitiveness-rankings/#series=EOSQ048.

StatLink http://dx.doi.org/10.1787/888933937451

Institutional framework (Sub-dimension 3.1)

Having a well-developed SME strategy encompassing a set of policy priorities and measures with well-defined targets is a cornerstone of SME support initiatives – and a key precondition for creating a favourable business environment.

This section assesses the quality of the institutional framework as a basis for SME policy making in its planning, implementation, and monitoring and evaluation phase (Table 3.3). Since policy making is only effective if it is based on solid evidence, the section also looks at the quality of data collection and how well aligned the data definitions are with those used in the EU. Due to the specific inter-disciplinary nature of SME development policies and the various institutions involved in their design, implementation and monitoring, this section closely examines the quality of inter-governmental co-ordination, particularly when it comes to measures to combat the informal economy.

Table 3.3. Scores for Sub-dimension 3.1: Institutional framework

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT averages
Planning and design	4.17	2.79	3.71	4.09	4.43	4.73	4.47	**4.06**
Implementation	4.13	3.09	4.53	3.73	4.27	3.93	4.73	**4.06**
Monitoring and evaluation	4.14	2.94	3.67	3.00	4.43	4.71	4.52	**3.92**
Weighted average	**4.15**	**2.97**	**4.11**	**3.69**	**4.35**	**4.33**	**4.61**	**4.03**

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

The WBT economies perform well in this sub-dimension. An average score of 4.03 indicates an advanced level of policy design and implementation. Compared to the previous assessment, Kosovo is the economy that progressed most (from 3.43 in 2016), mainly due to a continuous forward-looking SME-related framework with timely implementation, as well as monitoring mechanisms that allow for corrections and improvements.

Institutional SME policy-making frameworks are mostly comprehensive with a good record of implementation

Most economies in the region have established a well-developed strategic framework for SME policies. In 2018, Kosovo, North Macedonia and Montenegro developed new SME strategies containing clear, measurable and time-bound targets, and which are fully embedded in the national strategic frameworks. These strategies were built on previous SME strategies, and are in accordance with the SBA principles.

However, there have been delays in adopting these strategies, causing SME policy implementation to stagnate at times. It took Montenegro three years to adopt its new strategy (in July 2018). Nevertheless, SME support activities were carried out as part of

the accompanying action plan spanning 2015-2018. In North Macedonia, the latest SME strategy was developed in 2016 – three years after the previous one had expired – but it took two years to fully adopt.[2] Kosovo's new SME strategy had not been adopted at the time of writing.

In the rest of the region, SME policies are well developed and being implemented according to plan. For example, Serbia has a well-developed SME strategy in place and renewed its commitment to improving the business environment in this assessment cycle by declaring 2016 the Year of Entrepreneurship. During that year Serbia launched 33 SME support programmes with a total budget of more than EUR 130 million. Following its success, the initiative has been expanded and renamed the Decade of Entrepreneurship.

SME policy implementation is ensured by dedicated SME institutions in each economy. Kosovo's SME implementation agency, the Kosovo Investment and Enterprise Support Agency (KIESA), has been significantly reinforced since the last assessment; it had a budget increase of 40% and a staff increase of 20% between 2017 and 2018. Montenegro's SME development agency, the Directorate for SME Development under the Ministry of Economy, was restructured at the beginning of 2018 to become the Directorate for Investments, Development of Small and Medium-Sized Enterprises and Management of EU Funds. The restructuring aimed to enhance its capacity both in terms of policy development and execution. Turkey's SME Development and Support Organisation (KOSGEB) is a good example of a well-resourced SME agency covering a wide range of SME supporting projects and programmes, and has regional offices in all of Turkey's 81 provinces. The Serbian Ministry of Economy is in charge of SME policy making and implementation, which it carries out in co-operation with various agencies, mainly the Serbian Development Agency (RAS). By contrast (and similar to the previous assessment) SME agencies in Albania, North Macedonia and the entity of the Republika Srpska in Bosnia and Herzegovina[3] still need to be better resourced, especially financially. An over-reliance on donor funds causes delays to reforms, impeding the full realisation of planned activities. Bosnia and Herzegovina has no public agency to co-ordinate SME policy implementation and SME-related activities at the state level, as SME policies fall under the competence of the entities (for more information, see Annex B).

In most of the economies, SME policy implementation is monitored regularly, normally once a year. In Turkey, monitoring is performed twice a year, while in Serbia, the Ministry of Economy reports quarterly to the Council for SMEs, Entrepreneurship and Competitiveness. As an advisory body, the council was established during the previous assessment cycle; however, it only became operational in November 2017. In Kosovo, implementation of the SME strategy has been monitored by the European Integration and Policy Coordination Department within the Ministry of Finance, whereas KIESA has been reporting directly to the Minister of Trade and Industry. North Macedonia's new SME strategy puts particular emphasis on monitoring; the government plans to establish a body for monitoring the policies and measures defined in the SME strategy, composed of relevant ministries, state and public institutions, business associations and employers' organisations. However, it does not specify if this body will be in charge of producing annual reports or if the Ministry of Economy will undertake this task, as it has before.

There have been some delays in publishing regular reports on SME strategy implementation in the region. And while economies throughout the region regularly

conduct monitoring, they need to step up their evaluation efforts, which are largely non-existent.

SME definitions are aligned with the EU ones and consistently used

All the economies have consistent SME definitions in place that are fully aligned with the EU definitions: turnover and total assets criteria are adapted to the specific contexts of each economy.

Bosnia and Herzegovina still has three SME definitions in use: one in each entity and one in Brčko District.[4] Each entity has two definitions of SMEs: one in the Law on Accounting and Auditing for accounting purposes, and another in the Law on Fostering Small Business Development for the purposes of providing financial support to SMEs. The definition for accounting purposes is the same in both entities and distinguishes between small, medium-sized and large companies. The Law on Accounting and Auditing provides clear criteria for micro enterprises in the Republika Srpska (RS), whereas the Federation of Bosnia and Herzegovina (FBiH) does not define them separately. Since the last assessment, RS has decreased the turnover and balance sheet thresholds in its second SME definition so as to harmonise it with the first one, which has made the two entities' definitions according to both laws more comparable and coherent.

In 2018, Turkey amended its definition of SMEs, increasing the upper limit of annual net sales or any of the financial balance sheet items to TRY 125 million (Turkish lira; approximately EUR 16 million) annually from the previous TRY 40 million (EUR 5 million). This has resulted in about 9 000 additional enterprises qualifying as SMEs, i.e. those employing fewer than 250 employees, leaving only approximately 10 000 enterprises classified as large enterprises. According to the government, the main objective of amending the SME definition was to increase the number of enterprises that are eligible to apply for incentives so that those enterprises with higher technology levels and export capacity could also benefit from public support. However, applying a wide SME definition could potentially skew the allocation of Turkey's public funding in favour of larger SMEs over the long term. As stated in the European Commission's (EC) Inception Impact Assessment,[5] larger enterprises are better positioned to take advantage of any support available due to their stronger market position and management structures (EC, 2017[7]). Therefore, if the distribution of funds to each size of enterprise is not systematically monitored, micro and small enterprises could be placed at a disadvantage.

Similar considerations are also at the forefront of the EC's agenda. The EC is currently evaluating the SME definition with an aim to revise some aspects of it. As part of this initiative, an online three-month (February to May 2018) public consultation with all interested actors was conducted in order to gather feedback on the quality and the impact of the SME definition. A concern expressed by some stakeholders is that any expansion of the definition threshold could hamper financial support reaching those enterprises that are most in need of it (UEAPME, 2017[8]).

SME data collection could be further improved

SME policy making is becoming more evidence-based throughout the region. SME-related data are being collected regularly and certain improvements have been registered since the last assessment with regard to the amount of data collected. Progress is also being made in terms of quality and availability of SME-specific data. However, some gaps in data collection still persist (Table 3.4).

Although all economies collect key business demographics indicators by enterprise size class, and most collect them by sector as well, the key SME-specific data on innovation, access to finance, public procurement and SME greening are largely missing throughout the region. In addition, it seems that no particular attention is being paid to collecting data on high-growth enterprises, e.g. the share of "gazelles" as measured by employment growth. The limited availability and quality of these SME statistics points to weak monitoring of SME policy actions and exacerbates the challenge of developing evidence-based policy measures. This also hints at relatively weak inter-institutional co-ordination in the region.

Table 3.4. Statistics collected in the WBT economies

Economy	Publicly available key SME statistics
Albania	• Number of enterprises by size class and sector • Employment by size class of enterprises and sector • Value added by size class of enterprises and sector • Number of women-owned enterprises by size class • Share of exports by size class of enterprises
Bosnia and Herzegovina	• Number of enterprises by size class and sector • Employment by size class of enterprises and sector • Value added by size class of enterprises and sector • Share of exports by size class of enterprises (only at the entity level)
Kosovo	• Number of enterprises by size class and sector • Employment by size class of enterprises and sector • Value added by size class of enterprises and sector • Share of exports by size class of enterprises • Number of women-owned enterprises by size class and sector • Enterprise birth, death and churn rate by size class • Share of 1-, 2-, 3-, 4- and 5-year-old enterprises by size class
North Macedonia	• Number of enterprises by size class and sector • Employment by size class of enterprises and sector • Value added by size class of enterprises and sector • Share of exports by size class of enterprises
Montenegro	• Number of enterprises by size class and sector • Employment by size class of enterprises and sector • Value added by size class of enterprises • Share of exports by size class of enterprises • Number of women-owned enterprises by size class • Enterprise birth and death rate by size class • Share of less than 1-year-old enterprises by size class • Share of 1-, 2-, 3-, 4- and 5-year-old enterprises by size class • Share of enterprises older than 5 years and younger than 10 years by size class • Employment share of 0-3 year-old enterprises by size class
Serbia	• Number of enterprises by size class and sector • Employment by size class of enterprises and sector • Value added by size class of enterprises and sector • Share of exports by size class of enterprises • Enterprise birth and death rate by size class • Share of less than 1-year-old enterprises by size class • Share of 1-, 2-, 3-, 4- and 5-year-old enterprises by size class • Share of enterprises older than 5 years and younger than 10 years by size class
Turkey	• Number of enterprises by size class and sector • Employment by size class of enterprises and sector

- Value added by size class of enterprises and sector
- Share of exports by size class of enterprises
- Enterprise birth and death rate by size class

Measures to address the informal economy lack co-ordination

Unfair competition from the informal economy represents one of the most serious perceived obstacles for doing business in the WBT region, and is a particular burden for smaller, local, market- and service-oriented businesses (EBRD, 2014[9]). This is especially the case in Albania, Kosovo and North Macedonia (Ibid.). In particular, more than 15% of all surveyed firms cited it as the number one obstacle, and more than one-quarter deem it a major or very severe obstacle (EBRD, 2014[9]; OECD, 2018[10]).

Given the strong link between informal practices and SME policies, it is important to approach the issue from a holistic perspective, achieving the appropriate alignment between horizontal measures and those set in the SME strategy. In the WBT economies, however, measures that aim at formalising businesses are often not aligned with the goals of the SME strategy and are limited to horizontal measures to decrease the costs of formalisation. There are both corrective and stimulative measures, and these are part of national programmes aimed at reducing the informal economy across all sectors. For instance, the Albanian government has a campaign to combat the informal economy which involves strengthening administrative measures and sanctions against informal businesses. In Serbia, a National Programme to Combat the Grey Economy was adopted in 2015, and 2017 and 2018 were declared years for fighting the informal economy. The focus of the programme is on reforming the fiscal system, improving companies' and citizens' overall awareness of the importance of combatting the grey economy, and reducing administrative and parafiscal burdens on businesses. Although this final objective is well harmonised with the SME strategy goals, no link between the two documents' objectives and the related measures has so far been made.

North Macedonia is the only WBT economy that has introduced measures to combat the informal economy in its new SME strategy. The main focus is on raising awareness of the harmful nature of the informal economy. The government plans to design and roll out awareness and information campaigns in 2018 and 2019 on the benefits of formalisation, and to facilitate business registration and obtaining necessary permits and licences. In addition to these measures, in March 2018 the government adopted a new strategy – Formalisation of the Informal Economy 2018-2022 – and tasked the Ministry of Labour and Social Policy with implementing it. An action plan for 2018-20 has been prepared and adopted, containing 29 measures in total. A new co-ordination body will co-ordinate the implementation process. The ministry will prepare joint annual progress reports with the co-ordination body. The measures are mostly incentives involving financial support programmes that aim to formalise informal businesses.

Raising awareness of the importance of reducing the informal economy is one of the key components of the Turkish Action Plan for Reducing the Informal Economy (2014-2018) – as part of the National Tenth Development Plan. In addition to this, policy makers in Turkey have expanded the financial incentives offered to formal businesses, including substantial social security contribution cuts for newly hired workers and corporate tax allowances for up to 55% of eligible investment costs (OECD, 2018[10]). Kosovo set similar targets in its National Strategy for the Prevention of and the Fight against Informal Economy, Money Laundering and Terrorist Financing (2014-2018): increased awareness on the harmful nature of the informal economy and sanctions against tax

evasion. Punitive measures concerning the grey economy are in place in Montenegro, such as increased tax inspections, more rigid controls and penalties.

The way forward for the institutional framework

The Western Balkan economies and Turkey exhibit an increasingly sophisticated institutional framework for SME policy making. In order to further strengthen the effectiveness of the SME policies, the governments should:

- **Widen SME data collection and address existing gaps in the availability and quality of SME statistical data.** Although data gathering has improved in this assessment cycle, certain gaps remain which hamper the effective monitoring and evaluation of SME policy measures and suggest weak inter-institutional co-ordination in the region. In particular, key SME-specific data on innovation, access to finance, public procurement and SME greening are largely missing throughout the region. WBT governments are advised to enhance capacity-building efforts targeting their statistical agencies and other institutions that gather SME-specific data so as to increase the level of detail of statistics and improve data availability. Governments could improve their inter-institutional co-ordination on SME-specific data collection, for instance by creating a unit or appointing a co-ordinator, preferably within the national statistical office, to control the collection process and ensure data are available and accessible.
- **Take a bottom-up approach to undertaking changes to SME definitions**. Although the definition of SMEs seems mainly relevant for statistical purposes, its real importance lies in assessing SMEs' broader contribution to the economy, and subsequently in devising strategies and support programmes for them. The criteria currently used in the Western Balkans and Turkey have undergone several revisions in the last decade, mainly with the objective of aligning with the EU definition so as to harmonise data collection. These revisions are primarily related to financial thresholds (balance sheet and turnover), by adapting them to the inflation rate and exchange rate fluctuations. Yet less consideration in the region has been given to broader impact of changing these definitions on SMEs and the public support programmes targeted at them. It is therefore advisable to consult a wide range of stakeholders before making even small adjustments to the SME definition. This would allow an assessment of the potential impact on SMEs in terms of practical difficulties and administrative burdens, as well as on beneficiaries of existing support programmes.

Legislative simplification and regulatory impact assessment (Sub-dimension 3.2)

Regulatory reform is an indispensable part of creating a more favourable business environment, requiring all existing and new laws and regulations to be examined through the lens of the private sector in order to systematically determine their costs, benefits and social impacts. Regulatory reviews also contribute to significant cost savings to SMEs by decreasing the administrative burden. An effective regulatory review and RIA process can help policy makers ensure that legislation and regulations are SME friendly, and that government initiatives successfully address businesses' needs.

This section examines efforts to review, simplify and eliminate redundant, burdensome or simply outdated business-related legislation. It then considers whether *ex-ante*

mechanisms are in place to assess the impact of new regulations on SMEs (RIA), and whether SME tests are embedded into its methodology. The evaluation covers all the stages of policy development: planning, implementation, and monitoring and evaluation (Table 3.5).

Table 3.5. Scores for Sub-dimension 3.2: Legislative simplification and regulatory impact analysis

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	3.24	2.24	4.20	5.00	4.60	4.20	4.49	**4.00**
Implementation	2.76	2.10	2.83	3.40	4.00	4.09	3.60	**3.25**
Monitoring and evaluation	1.51	1.71	3.27	4.20	4.47	4.20	3.25	**3.23**
Weighted average	**2.65**	**2.06**	**3.33**	**4.04**	**4.27**	**4.15**	**3.80**	**3.47**

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

As shown in the table, the average score for the region is 3.47, compared to 3.31 in 2016, which underlines the slow progress made in this area. As in the previous assessment, the top performers remain North Macedonia, Montenegro and Serbia due to their continuous and comprehensive legislative simplification actions and RIA processes. The economy that has progressed most is Kosovo, due to its intensified efforts regarding both regulatory guillotines and regulatory impact assessment, mainly through activities under the new Better Regulation Strategy.

All the economies have made regulatory reform efforts to simplify legislation

Regulatory reviews are an essential pillar of SME strategies across the WBT region. The scope of the regulatory reform implementation efforts in the region, however, differs across economies. As with other policy aspects concerning the institutional and regulatory framework, monitoring and evaluation of regulatory review activities remains an outstanding issue for the majority of economies. There is no regular tracking of the scope of the reviewed and simplified legislation and there are regular reporting delays.

Legislative simplification is systematically undertaken in Albania, Kosovo, Montenegro, North Macedonia and Serbia. In North Macedonia, a regulatory guillotine has been applied since 2006 and the efforts to review and simplify business-related legislation and regulations have resulted in improving the business environment. It has carried out the second largest number of business regulation reforms (41) of the top 20 countries in the World Bank's *Doing Business* list (World Bank, 2017[11]).

Since the previous assessment, Kosovo has strengthened efforts to review primary and subordinate business-related legislation through the updated Better Regulation Strategy 2.0 (2017-2021), with more than 60% of the primary business-related legislation reviewed since it began. Serbia's Strategy for Regulatory Reform 2016-2020 is the key strategic document for legislative simplification. By September 2018 this process had identified around 2 000 pieces of business-related legislation for simplification; these will be held in a unique and centralised database of all business-related legislation in order to track the implementation of regulatory reform (Box 3.1).

Larger-scale reviews of legislation have also been carried out in Montenegro. Since the beginning of the reform implementation in 2009 until the end of the third quarter of 2017, 1 246 of 1 446 recommendations stemming from the regulatory guillotine process – i.e. around 90% of them – were completed. A similar comprehensive regulatory reform was undertaken in Albania, where the emphasis was placed especially on simplifying the registration process and streamlining permits and licences. Most notably, fees have been eliminated for all the procedures carried out at the electronic service window of the National Business Centre, which serves as the Albanian one-stop shop.

Box 3.1. Serbia's legislative reviews under the regulatory reform strategy

The Strategy for Regulatory Reform 2016-2020 is the key strategic document in the area of legislative simplification. This document establishes the strategic guidelines over the coming five years for creating a more efficient and effective public administration, maximising the benefits for citizens and businesses. The strategy is also aimed at implementing the Public Administration Reform Strategy, thereby completing the overall reform process in this field.

The overall goal of the strategy is to create a system for managing public policies and legislative processes based on facts and data and the principles of good regulatory practice. The four specific objectives of the strategy are: 1) improving the public policy management system; 2) improving the legislative processes and quality of regulations; 3) simplifying administrative procedures; and 4) improving the role of citizens and the economy in the system of managing public policies.

As part of this process, a review of all legislation is currently in progress. So far, about 2 000 pieces of business-related legislation have been found in 600 different documents. The final result will be a unique and centralised database of all business-related legislation. In this context, the government recently signed an agreement with the International Finance Corporation to implement a Business Environment Improvement Project until 2021. The aim of the agreement is to reduce the administrative procedures that business entities face through the analysis of 1 750 administrative procedures related to doing business and providing suggestions for their simplification, optimisation or abolition. One of the goals is to enable 100 procedures to be carried out electronically.

The project is expected to realise savings of at least USD 8 million for the business sector and increase competition by removing at least two anti-competition practices in selected fields. Creating a better business environment will help to increase in investment, including direct foreign investment, and strengthen competitiveness, employment and the standard of living.

Source: CORD (2018[12]), *Business Environment Improvement Project 2018-2021*, http://cordmagazine.com/events/after-work/improvement-business-environment-serbia/.

In Turkey, the legislative simplification measures were included in the Action Plan of the Programme for Reducing the Informal Economy (2014-2018), as well as in the actions undertaken by the Prime Minister's Office. In particular, in 2014, the Office of the Prime Minister launched the Reduction of Bureaucracy and Simplification of Legislation Initiative (BAMS). As a result of BAMS, 348 amendments have been made to business-

related regulations, 3 148 documents have been eliminated from various application processes and a number of business-related services have been moved to an electronic medium. During the assessment period, the efforts under the BAMS initiative mainly concentrated on digitalising public services at the national and local level with a view to reducing the administrative burden on businesses.

In Bosnia and Herzegovina, legislative simplification is being undertaken at the entity level. Implementation has been particularly successful in the Republika Srpska, where a regulatory guillotine has been continuously performed since 2009, eliminating 25% of unnecessary formal procedures for businesses and 60% of redundant inspection procedures. In the FBiH over the same period, the application of a regulatory guillotine has led to the simplification of 65% of all business permits identified for simplification, with significant savings for the private sector. However, since the last assessment the intensity of the reviews and simplification efforts has declined, as most actions happened in the first five years of the implementation of the regulatory guillotine in both entities.

Regulatory impact analyses are not consistently institutionalised or practised

Regulatory impact analysis for major regulations is formally required in all seven WBT economies. Montenegro, North Macedonia and Serbia are the best performers since their policy-making systems include elements of full RIAs, with an SME test becoming part of their methodology (introduced in Serbia during 2018 and planned as part of the new SME strategies in Montenegro and North Macedonia), as well as quality control of impact assessments. In these three economies RIAs are also supported by clear guidelines and published on line. Nevertheless, all three economies could further improve their implementation of RIA (OECD/SIGMA, 2017[13]; OECD/SIGMA, 2017[14]; OECD/SIGMA, 2017[15]). Namely, in North Macedonia, despite the fact that the regulations oblige line ministries to perform *ex-ante* policy analysis, RIAs are often not performed, and the expected financial impacts are not properly calculated (OECD/SIGMA, 2017[13]). In all three economies, the institutions in charge of RIA quality control lack the mandate to perform the task effectively. They do not have the formal right to return RIAs to line ministries, or require that they improve their justification for and analysis of a proposal, before it can be sent for adoption by the government (OECD/SIGMA, 2017[13]). In Montenegro, however, the responsible institution – the Ministry of Finance – has a full mandate to provide a negative opinion if the analysis does not meet the requirements. According to the ministry's own report, this right is actually used very rarely, as 91% of draft laws get a positive opinion.

The rest of the economies have undertaken some actions on RIA, but need to do more with regard to both design and implementation. Kosovo has intensified efforts to improve RIA practices through its Better Regulation Strategy 2.0 (2017-2021). In particular, it has updated its *Draft Manual for Conducting RIA*, with the main novelty being a cost-benefit analysis of new legislation; this is now a mandatory part of the RIA process. However, as underlined by the OECD (2018[16]), only a minority of draft laws are accompanied by the mandated background analytical document.

In Albania, following unsuccessful attempts between 2009 and 2014, a requirement to conduct RIA for major regulations was introduced in April 2018. To start the RIA implementation, the Albanian Council of Ministers selected two laws for which the full RIA was practised. In 2018, a total of 11 RIAs were carried out. In Turkey, a full RIA is formally required for business-related legislation whose probable annual effects are above TRY 30 million (EUR 5.1 million). A partial assessment is required for draft legislation

which falls below this threshold. However, as a previous OECD study has shown, in practice RIA is not conducted regularly, and even those draft laws with expected effects larger than TRY 30 million lack appropriate impact analyses (OECD/SIGMA, 2017[17]). The same study also showed that there was no evidence of a systematic review of policy proposals against set government priorities or of the quality of RIA performed by the initiating ministry (OECD/SIGMA, 2017[17]). During the reference period the RIA thresholds were changed. They had been set at TRY 10 million (EUR 1.7 million), before they were raised to the current level in 2016. This change is expected to reduce the already relatively low frequency of RIAs in Turkey.

In Bosnia and Herzegovina, regulatory impact analysis was formally introduced into the policy development process at the state level in July 2017, but has not yet been implemented. At the entity level, there has been a requirement to conduct RIA since 2014 in the FBiH and since 2015 in the RS. Both entities provide clear and comprehensive RIA guidelines, including examples of RIA files, and are available on line (OECD/SIGMA, 2017[18]). The quality of the RIA process is, however, not satisfactory. In the FBiH, only 27% of draft laws were actually supported by RIA or another type of analysis in 2017 (Ibid.). In the RS, the responsible institution for RIA, the Ministry of Economic Relations and Regional Co-operation, does not have a formal right to return low-quality RIAs to the originating ministry. On a positive note, the RS administration did produce RIAs for all regulations stipulated by law in 2017. However, these were mostly "short" RIAs, which offered only limited policy analysis (OECD/SIGMA, 2017[18]).

The way forward for legislative simplification and regulatory impact analysis

In order to improve legislative simplification processes and make RIAs more effective, policy makers in the WBT economies should:

- **Establish mechanisms to closely examine the effects of policies on the SME community.** Any backward- or forward-looking assessment of policies should analyse whether SMEs are disproportionately affected or disadvantaged compared to large companies. If so, alternative mechanisms or flexibilities in approach that might help SMEs to comply should be considered when reviewing the policy initiative (EC, 2017[19]). The SME test, developed by the EC, is a practical example of how to undertake a forward-looking impact assessment for SMEs (Box 3.2). The EC actively encourages EU countries and other EU institutions in the policy-making process to systematically apply the SME test. Although SME tests are embedded in policy frameworks in most of the WBT economies, they need to be better implemented, and the technical capacity of public officials undertaking them needs to be enhanced.
- **Ensure that regulatory impact analysis findings have binding consequences.** Across the WBT region, when governments prepare RIA reports on proposed legislations, there is no legal obligation for the institution which proposed it to comply with the RIA and introduce mitigating measures. This makes RIA a box-ticking exercise, since the findings do not result in tangible modifications of the proposed legislation. In order to make the assessment process as effective as possible and decrease the potential disproportionate regulatory burden on SMEs, a legally binding mechanism for implementing RIA findings is needed. For example, in 2014 the UK government introduced a Small and Micro Business Assessment (SaMBA), which is applied to major regulatory proposals and requires impact assessments to analyse the potential impact of the proposed

regulation on small and micro businesses. Part of the Regulatory Policy Committee's "fit for purpose" rating of impact assessments includes an evaluation and analysis of the adequacy of the SaMBA. If any disproportionate burdens are discovered by the SaMBA, small businesses must be exempt from regulations, or steps to mitigate any disproportionate impact need to be taken. The default assumption under SaMBA is that there will be a legislative exemption for small and micro businesses where a large part of the intended benefits of the measure can be achieved without including them. This way, micro and small enterprises can be confident that they will not bear disproportionate regulatory burdens as a result of new regulation (EC, 2014[20]).[6]

- **Systematically conduct, in co-operation with the business sector, the regulatory review and simplification process and monitor it regularly.** Economies should renew business regulations in close dialogue with the business community by identifying those areas that businesses perceive as the most burdensome, and propose measures to simplify them (Box 3.3). The economies should ensure that the process of simplifying legislation is continuous and systematic, following an annual plan and programme; when modifications arrive unexpectedly, this imposes an unnecessary additional burden on SMEs. Data on the proportion of business-related legislation that has been reviewed should be collected in a systematic manner and regular monitoring of the effects of these actions on the business environment should be regularly undertaken. This will ensure effective implementation. Corrective action should be introduced if needed.

Box 3.2. The SME test: How to measure the impact of regulations on SMEs

For each policy option, the cost and benefit distribution of the proposals on a given size of business (differentiating between micro, small, medium-sized and large enterprises) should be analysed qualitatively and, if possible and proportionate, quantitatively. A one-size-fits-all approach for SMEs has so far not proved effective or efficient, since the impact on micro enterprises is likely to differ substantially from the impact on medium-sized ones. Therefore, where relevant and feasible, costs and benefits accruing to each size class of SMEs should be presented and analysed separately. It is equally important to assess the impacts of SME-specific or mitigating measures, where they already exist. Quantifying costs and benefits is often difficult and evidence sources should be used to the maximum, such as studies, stakeholder consultations and calls for evidence.

SMEs need to be taken into consideration in each analytical step of better policy making. The SME test has four steps: 1) identifying affected businesses; 2) consulting SME stakeholders; 3) measuring the impact on SMEs; and 4) assessing alternative mechanisms and mitigating measures.

Any measure is likely to have direct and indirect impacts on SMEs – both positive and negative. The direct benefits, such as improved working conditions, increased competition and so on should (at some stage) be reflected in reduced costs to SMEs. Yet these benefits may be offset by various regulatory costs, some of which may be disproportionately felt by SMEs:

- **Compliance costs** – created by the obligation to pay fees or duties, and costs created by the obligation to adapt the nature of the product/service and/or

production/service delivery process to meet economic, social or environmental standards (e.g. the purchase of new equipment, training of staff, additional investments).

- **Administrative costs** – created by the obligation to provide information on the activities or products of the company including one-off and recurring administrative costs (e.g. resources to acquire or provide information). This type of cost can be expressed in working hours to make comparisons across EU Member States easier.

The cost and impact identified for SMEs should be compared with those of large enterprises. This can be done by dividing the overall costs identified by the number of people employed to obtain the average cost per employee. Possible impacts on barriers to entry, competition in the market and market structure, as well as on innovation should also be considered.

Source: EC (2017[19]), Better Regulation Tool Box: Tool #22. The "SME Test", https://ec.europa.eu/info/sites/info/files/file_import/better-regulation-toolbox-22_en_0.pdf

Box 3.3. Denmark's Business Forum for Better Regulation

The Business Forum for Better Regulation was launched by the Danish Minister for Business and Growth in 2012. Its objective is to ensure that business regulation is renewed in close dialogue with the business community by identifying those areas that businesses perceive as the most burdensome, and propose simplification measures. The measures might cover changing rules, introducing new processes or shortening processing times. The forum's definition of "burden" is broad; besides administrative burdens it includes compliance costs and adaptation costs (the "one-off" costs of adapting to new and changed regulation).

Members of the Business Forum comprise industry and labour organisations, businesses and experts on simplification. They are invited by the Ministry for Business and Growth either in their personal capacity or as a representative of an organisation. Forum meetings are held three times a year to decide which proposals to send to government. So far, proposals have covered 13 themes, ranging from the employment of foreign workers to barriers to growth. Interested parties may also submit proposals for potential simplifications through the forum's website. All information on meetings and the resulting initiatives is available online.

Proposals from the Business Forum are subject to a "comply or explain" principle, meaning that the government must either implement the proposed initiatives or justify why they are not implemented. As of October 2016, 603 proposals had been sent to the government, of which so far 191 have been fully and 189 partially implemented. The value of the accumulated annual burden reduction of some initiatives has been estimated at DKK 790 million (Danish krones; EUR 106 million). Information on the progress of implementing all the proposals is available on the forum's website. The results are updated three times a year. The Business Forum publishes annual reports on its activities, while the Danish Minister for Business and Growth sends annual reports on its activities to the Danish parliament.

Sources: OECD (2017[21]), OECD Best Practice Principles on Stakeholder Engagement in Regulatory Policy; Business Forum for Better Regulation (2018[22]), Business Forum for Better Regulation website,

www.enklereregler.dk

Public-private consultations (Sub-dimension 3.3)

Effective public-private consultations (PPCs) lead to improved SME policy making, as they bring private sector expertise, perspective and ideas into policy design and implementation. Engaging SMEs in the regulatory process helps increase the transparency and openness of the process, ensuring that SME needs are properly addressed and that the regulation serves their interests (OECD, 2017[21]). Increased transparency and stronger engagement by the private sector leads in turn to a greater acceptance of government programmes and projects and enhances trust in government institutions (OECD, 2018[16]). Since SMEs are usually less organised and not always members of the business associations which are regularly included in PPCs, it is vital for effective SME policy making to ensure that SMEs' voices are also heard in this process and their needs are tackled appropriately. It is also important to highlight that consultations with the private sector should take place within a formal structure and at all stages of policy making, from preliminary discussions on potential legislation to monitoring and evaluation of a given policy (OECD, 2016[4]).

This section evaluates PPCs through three thematic blocks. First, it considers the frequency and transparency of PPCs for SME policy making. Second, it analyses to what extent and through what mechanisms private sector representatives (in particular of SMEs) are involved in PPCs, and whether their feedback is taken into account. It also looks at how easy it is for SMEs to find relevant PPCs, for instance through central online portals. Finally, it examines whether regular monitoring and independent reviews of PPCs are undertaken to improve the consultation process (Table 3.6).

Table 3.6. Scores for Sub-dimension 3.3: Public-private consultations

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Frequency and transparency of PPCs	3.44	2.84	4.38	4.42	4.29	4.36	3.27	**3.86**
Private sector involvement in PPCs	4.50	3.09	4.40	4.50	4.68	4.33	4.33	**4.26**
Monitoring and evaluation	2.33	1.67	3.67	1.67	2.33	3.67	3.77	**2.73**
Weighted average	**3.64**	**2.71**	**4.25**	**3.90**	**4.05**	**4.21**	**3.79**	**3.79**

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

In this assessment, the regional average for public-private consultations is 3.79, indicating that policy frameworks are in place, and there is some concrete evidence that effective policies for PPCs are being implemented. Kosovo, Serbia, and Montenegro are the regional leaders in this policy area.

PPCs are still not carried out consistently, despite formal requirements to do so

The WBT governments have continued their efforts to institutionalise consultations with SMEs. With the exception of Turkey, all the economies have legal and regulatory frameworks in place that define the general principles and procedures for conducting PPCs (OECD, 2018[16]). In Turkey's RIA Guide, consultation with all related stakeholders is encouraged, but not mandatory.

All business-related legislation in the region (both primary and subordinate) is subject to consultation. In Kosovo, Montenegro, North Macedonia and Serbia, some other relevant documents are open for consultation as well, such as RIA reports or certain strategies. According to the OECD (2018[16]), nearly all the economies require ministries to report the outcomes of consultations and to publish reports on them, including suggestions that were accepted and those that were not, and, if not, specifying the reasons. Despite the formal requirement to conduct PPCs, however, the quality of the consultation process differs greatly from economy to economy and from ministry to ministry. One positive example of consulting with key stakeholders is the way that the SME development strategies have been adopted across the entire region. Public-private consultations were uniformly held prior to their adoption, the private sector had enough time to provide comments, and almost all the PPC outcome reports were published.

Although there is a formal requirement to conduct PPCs for major regulations, it is common practice throughout the region to adopt most government acts through an urgent procedure. If a piece of legislation is pronounced "urgent", then no consultations are conducted. For instance, the latest data on this subject, published in the Regulatory Index of Serbia for 2017/2018, show that 60% of laws relevant for business did not go through a public hearing in 2017, 90% were made by urgent procedures and half of the draft laws were not available on the relevant ministries' websites (USAID/NALED/URP, 2018[23]). Table 3.7 presents the share of laws adopted via an urgent procedure in the WBT economies in 2016.

Table 3.7. Share of laws adopted through a shortened procedure circumventing PPCs in the WBT region (2016)

WBT economy	% of laws
Albania	5
Bosnia and Herzegovina	58
Kosovo	19
Montenegro	9
North Macedonia	70
Serbia	65
Turkey	83

Sources: OECD/SIGMA (2017[18]) *Monitoring Report: The Principles of Public Administration: Bosnia and Herzegovina 2017*, www.sigmaweb.org/publications/Monitoring-Report-2017-Bosnia-and-Herzegovina.pdf; OECD/SIGMA (2017[15]) *Monitoring Report: The Priniciples of Public Administration: Serbia*, www.sigmaweb.org/publications/Monitoring-Report-2017-Serbia.pdf; OECD/SIGMA (2017[24]) *Monitoring Report: The Principles of Public Administration: Kosovo**, http://sigmaweb.org/publications/Monitoring-Report-2017-Kosovo.pdf; OECD/SIGMA (2017[13]) *Monitoring Report: The Principles of Public Administration: The Former Yugoslav Republic of Macedonia*, http://www.sigmaweb.org/publications/Monitoring-Report-2017-the-former-Yugoslav-Republic-of-Macedonia.pdf; OECD/SIGMA (2017[14]), *Monitoring Report: The Principles of Public Administration: Montenegro*, *www.sigmaweb.org/publications/Monitoring-Report-2017-Montenegro.pdf*.

More councils have been set up to facilitate consultations, but not all are effective

A number of councils have been formed in the WBT region to serve as forums for consultations and to institutionalise the process. Nevertheless, the quality of their work varies significantly across the region. In Albania, Kosovo and North Macedonia, councils established as designated bodies to deal with recommendations from the private sector do not seem to function regularly. For example, there are no formal records of the activities of the Albanian National Economic Council, such as the number of consultations held in previous years or the level of private sector participation.

In North Macedonia the National Entrepreneurship and Competitiveness Council, established as a tripartite public-private-civil society body, had its most recent formal activity in December 2016. North Macedonia's new SME strategy envisages introducing a National SME Association – a body whose aim is to represent the interests of SMEs in policy making, implementation and evaluation. The association will take over the role of the National Council for Entrepreneurship and Competitiveness – however, it is not clear whether this council will continue to exist (Ministry of the Economy, 2018[25]).

Kosovo's National Council for Economic Development, reintroduced in 2015, has yet to become operational; as in Albania, there are no records of its activities. After holding seven meetings, it ceased to convene in December 2016.

On a positive note, Montenegro formed the Council for Competitiveness in 2017 – a body consisting of government, business sector and academia representatives and chaired by the Prime Minister. The council is a successor to the previous Council for Improvement of Business Environment and Regulatory Reform, and aims to ensure solid regulatory reform and greater involvement of all interested parties in developing business-related legislation. It meets regularly, and reports on its activities and meeting outcomes are publicly available.

Serbia formed the Council for SMEs, Entrepreneurship and Competitiveness in 2015, but it has been mostly inactive since the beginning of 2018. Turkey also has councils to facilitate consultations with interested parties. For instance, the Entrepreneurship Council, established in 2012, consists of public, private and academia representatives and is chaired by the Minister of Trade. It meets at least once a year to develop entrepreneurship through different initiatives. Turkey also has committees consisting of representatives of private sector associations and businesses. The Ministry of Industry and Technology works with several technical committees, which are consulted prior to adopting technical legislation or sectoral strategies. There is no state-wide council in Bosnia and Herzegovina, though there is a council in the Republika Srpska.

The private sector mostly participates in PPCs via business associations

Throughout the region, participation in PPCs is open to all interested participants. SMEs mostly take part in consultations through business associations, namely chambers of commerce. SMEs have a formal right to contribute to meeting agendas and usually have enough time to provide their feedback on the piece of legislation that is subject to consultation – except for cases of urgent adoption of legislation. Through the business associations, SMEs can even formally call for exceptional consultative meetings if deemed necessary, although this is rarely observed in practice. For instance, in the Republika Srpska, the business community took the initiative to propose certain measures to the government to improve the business environment. These proposals were taken into

full consideration when developing the Republika Srpska's Economic Reform Programme 2017-2019.

In most of the economies, the private sector is systematically informed in advance that a consultation is to take place. However, since this tends to be done through business associations and SMEs are not always members, SME participation in PPCs is often limited. Public-private consultation calls do not reach SMEs as there are rarely mechanisms in place to do so.

To overcome this challenge, the economies are taking some proactive measures to improve their outreach. The Serbian Chamber of Commerce has established a Council for SMEs that gathers SME representatives, even those that are not chamber members, and ensures their full participation in consultations on important business-related initiatives. The Government of Montenegro organised a Business Caravan while it was developing the new MSME strategy. The caravan visited a number of municipalities in Montenegro, providing an opportunity for SME representatives to share their views on the draft strategy and voice their needs and potential concerns (see Box 3.4). In North Macedonia, one of the main objectives of the new SME strategy is to strengthen consultation and dialogue mechanisms with the private sector. It places special emphasis on enhancing private sector participation in policy development – particularly including female entrepreneurs in consultation processes and ensuring that micro enterprises' voices are heard. The National SME Association (see the section above) could play a decisive role in ensuring that this objective is achieved, by focusing on micro and small enterprises in particular.

Box 3.4. Montenegro's Business Caravan – reaching out to SMEs for a better business environment

Preparations for the new MSME Development Strategy in Montenegro started with a "Business Caravan" in March 2017. The Business Caravan was a set of meetings with private sector representatives, organised by the Ministry of Economy in co-operation with the United Nations Development Programme, which aimed to gather SMEs' insights into the quality of the current SME support programmes and government measures. Over the course of 15 months, the government (led by the Minister of Economy herself) held meetings in 14 Montenegrin municipalities with private sector representatives to discuss SME policies' strong and weak points and potential avenues for improvement.

One of the main catalysts for the caravan was SMEs' weak participation in support programmes and public-private consultations in general. The Business Caravan is a mechanism to reach out to SMEs and contact them directly. Local SMEs were contacted through local municipality offices and the SME response to these meetings was substantial. The presence of ministers in the meetings added weight to discussions and encouraged entrepreneurs' active participation, who shared their opinions, suggestions and observations.

The SMEs' feedback was methodically collected and analysed by experts from the Ministry of Economy, which took the lead in drafting the new SME development strategy. It produced a report with an overview of the suggestions that were accepted and included in the strategy, as well as those that were not, with a clear explanation for the decision.

Sources: Data provided by the Government of Montenegro as part of the SBA Assessment; Vijesti (2017[26])

Babić: Biznis karavan daje rezultate (Babić: Business Caravan gives results), www.vijesti.me/vijesti/babic-biznis-karavan-daje-rezultat.

Most economies have introduced centralised online PPC platforms, but they are underused

All the economies except Turkey have introduced a single government portal to list all ongoing PPCs in one place, and to make the views of participants in the consultation process public.

The most recent is in Kosovo, where a new web portal for written public consultations was launched in early 2017; this has improved line ministries' consistency in the way they conduct written public consultations. Likewise, Bosnia and Herzegovina has introduced a centralised e-consultation portal since the last assessment, which lists all PPCs – although only those concerning institutions at the state level. The number of institutions that use the e-consultation portal has increased – from 25 in 2016 to 37 in 2017 and to 39 in 2018 (Council of Ministers BiH, 2018[27]).

However, no economy uses its portal consistently. Although each institution proposing a new piece of legislation is obliged to publish information on the PPC process on their dedicated website and the centralised government portal, in practice this is rarely done. It is left up to the discretion of each institution whether to advertise the existence of these drafts or not. Throughout the region there are no control mechanisms or co-ordinating institutions to ensure regular updates and consistent use of the portals.

Systematic efforts to improve PPCs' quality and effectiveness are generally lacking

No government in the WBT region monitors public-private consultations in a systematic manner. In other words, there are no bodies that oversee the implementation of consultations and check them for quality. Some initiatives in this direction have been introduced in Kosovo, where the Office for Good Governance was created in 2017 within the Office of the Prime Minister to monitor the execution and outcomes of the public-private consultation process (OECD, 2018[16]). The first monitoring report was prepared in May 2018 (Box 3.5). However, while the office is tasked with preparing an annual report on the public consultation process, it does not consistently check whether draft proposals comply with public consultation requirements before the proposals are submitted to the government for decisions.

Box 3.5. Monitoring PPCs in Kosovo

Kosovo's first annual report on the public-private consultation process presents the results for 2017. Based on the Minimum Standards for the Public Consultation Process (Regulation No. 05/2016), the report was prepared by the Office for Good Governance in co-operation with all the institutions involved in the legislative development process.

In 2017, the Office for Good Governance established co-ordination structures involving public consultation co-ordinators in each ministry. It also carried out capacity-building activities, such as two rounds of on-the-job training on PPCs, using the electronic PPC

platform and numerous information workshops. Introducing the electronic public consultation platform was one of the most important steps the government has taken to facilitate PPCs.

As shown in the report, 221 documents (90% of the total) approved by the government were open for PPC through the online PPC platform in 2017. These included 40 draft laws, 46 draft regulations, 92 draft administrative instructions, 25 concept papers, 9 draft strategies and a few minor proposals. In addition to the portal, which was the most common PPC tool used, other tools included e-mail communication (used during consultation of 90 proposals), workshops with stakeholders (30 proposals) and public meetings (9 proposals).

It is also estimated that 116 (or 52%) documents consulted on have met the minimum standards set by regulation. The public consultation processes had 2 104 participants, who made 1 119 comments, in meetings, groups or in writing. A total of 535 or 48% of the comments were taken into account, 183 (16%) were partially taken into account and 401 (36%) of the comments were not taken into account by the institutions.

Source: Government of Kosovo (2018[28]), *Annual Report on Public Consultations 2017*, http://konsultimet.rks-gov.net/Storage/Docs/Doc-5b6d8625e8a92.pdf.

The way forward for public-private consultations

In order to facilitate public-private dialogue and ensure SME involvement in PPCs, policy makers in the WBT economies should:

- **Improve PPC implementation and ensure that SMEs' voices are also heard in this process.** Public-private consultations should be conducted for all major legislation, and economies should avoid circumventing them through an urgent procedure. This will allow the interested parties enough time to provide their views on the draft legislation, enhancing the quality of the proposals. Although the private sector participates in the PPCs through business associations, SMEs are not always members of these organisations, and chambers of commerce tend to be more vocal about the needs of large firms. This is why governments need to find a way to reach out to SMEs through online tools (Box 3.6) or even directly, as in the case of Montenegro (Box 3.4).

Box 3.6. Using ICT tools to foster PPCs – the Slovak Republic's consultation portal

In the Slovak Republic, public consultations are required for every legislative proposal submitted to the government. All legislative drafts and their accompanying impact assessments are automatically published on the government portal at the same time as they enter the inter-ministerial comment procedure. The portal provides a single access point to comment on legislative proposals and non-legislative drafts (e.g. concept notes, green or white papers). It seeks to ensure easier orientation and search in legislative materials to facilitate the evaluation of the inter-ministerial consultation process, and to support compliance with legislative rules and time limits.

Both public authorities and members of the general public can provide comments on the legislative drafts and the accompanying material. All comments submitted are visible on the website. The deadline for comments is usually 15 working days. The general public can also access all final legislation through the government portal. Written comments can be submitted by members of the general public either as individual comments or as "collective comments", to which individuals or organisations can signal their support. Whenever a comment receives support from 500 individuals or organisations, ministries are obliged to provide written feedback on the comment, either taking it into consideration in the legislative proposal or explaining why it has not been taken into account. The feedback provided is then part of the dossier submitted to the government for discussion.

Virtually all legislative proposals are adjusted following the consultation process. The number of comments received varies significantly for different legislative proposals. Accompanying impact assessments of the legislative proposal are also updated on the basis of the comments received. Following the consultation process, a summary of comments received together with the reasoning for their consideration or non-consideration is published on the portal for all consultations.

Source: OECD (2017[21]), *OECD Best Practice Principles on Stakeholder Engagement in Regulatory Policy (draft)*, www.oecd.org/gov/regulatory-policy/public-consultation-best-practice-principles-on-stakeholder-engagement.htm; Ministry of Justice (2018[29]), SLOV-LEX, www.slov-lex.sk.

Conclusions

Overall, institutional and regulatory frameworks in the region are becoming increasingly well developed, while paying special attention to SMEs. Institutional frameworks for SME policies have been established in most of the WBT economies. Well-developed SME strategies are in place, they are being implemented according to plan and monitoring is mostly taking place regularly. However, a comprehensive evaluation of the effectiveness and cost efficiency of policy measures is largely non-existent in the region. And while measures to combat the informal economy have been introduced, they remain disconnected from SME strategies.

All WBT economies have taken some steps to review, simplify or eliminate legislation. However, the scope of regulatory reform varies across the WBT economies and monitoring remains weak. Since 2016, regulatory impact analysis has been a mandatory part of the policy-making system in the entire region. Nevertheless, even though RIAs for major regulations are formally required, the RIA process is unevenly institutionalised and not consistently practised.

Public-private consultations are formally required prior to all major regulations in most of the region, but the quality of the PPC process remains uneven across different institutions. Progress has been observed in SME participation in PPCs and most WBT economies have introduced a single government portal listing all ongoing PPCs in one place. However, control mechanisms or co-ordinating institutions that would ensure regular updates and consistent use of the portals are still largely missing.

The recommendations put forward in this chapter address policy reform priorities for building advanced institutional and regulatory frameworks in the WBT economies. They

aim to improve the reliability of SME policies and ensure that they address the needs of SMEs.

Notes

[1] The WGI draw on four different types of source data: 1) surveys of households and firms, including the Afrobarometer surveys, Gallup World Poll, and Global Competitiveness Report survey; 2) commercial business information providers, including the Economist Intelligence Unit, Global Insight and Political Risk Services; 3) NGOs, including Global Integrity, Freedom House and Reporters Without Borders; and 4) public sector organisations, including the Country Policy and Institutional Assessments by the World Bank and regional development banks, the European Bank of Reconstruction and Development Transition Report and the French Ministry of Finance Institutional Profiles Database.

[2] For North Macedonia's new strategies in full, see Ministry of the Economy (2018[25]).

[3] 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.

[4] For more details on the SME definitions in Bosnia and Herzegovina please see the chapter on *Small Business Act Profile: Bosnia and Herzegovina*.

[5] The European Commission is currently evaluating the EU SME definition to: 1) ensure that available support and special measures to reduce the administrative burden focus on those enterprises most in need; 2) increase business predictability and legal certainty for enterprises by making the SME definition clearer and leave less room for interpretation; and 3) create a level playing field for EU-based SMEs within the Internal Market by fostering equal treatment for SMEs throughout the EU in terms of their access to public support and finance (EC, 2017[7]). On 8 June 2017, the Commission published an Inception Impact Assessment on the revision of the EU SME definition. Several months later, as part of this initiative, an online three-month public consultation with all interested actors was conducted to gather feedback on the quality and the impact of the SME definition.

[6] For more information on the Small and Micro Business Assessment see Regulatory Policy Committee (2014[37]).

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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.

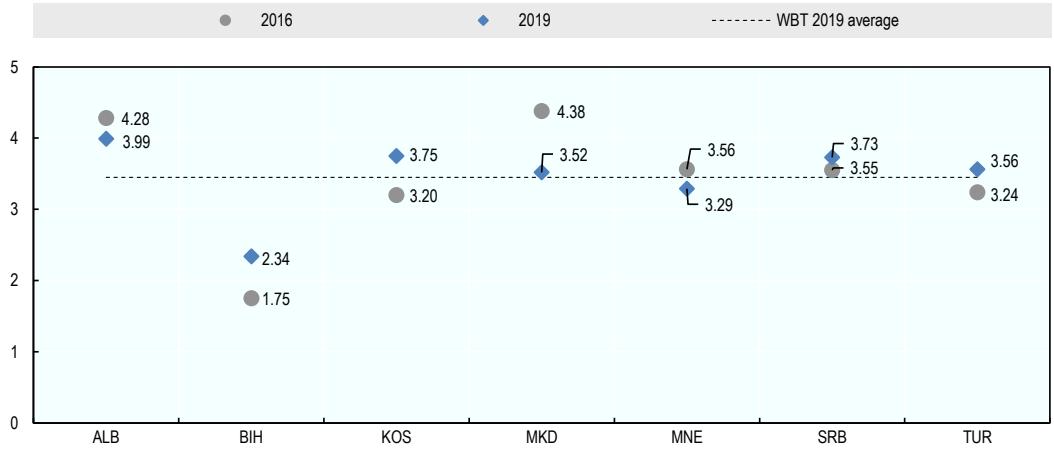
Comparison with the 2016 assessment scores

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	- 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	- 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 Regulation[2] (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

Deepen efforts to review and streamline licence procedures and system	- 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.	Limited
Introduce or extend online reporting of enterprise statistics	- 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.	Limited
Promote e-government services to SMEs	- All governments systematically promote e-services to all business when new services are available.	Advanced

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

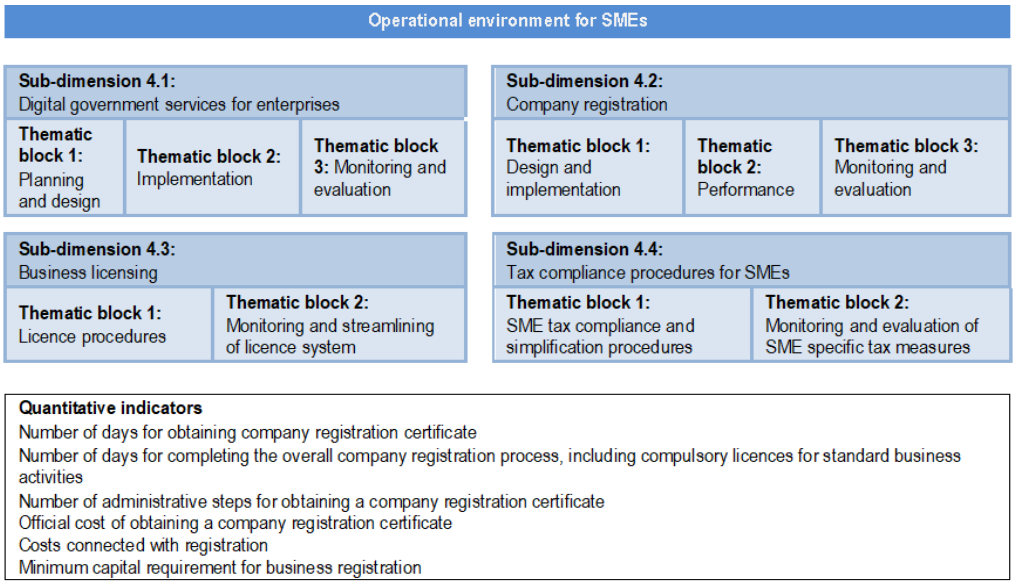
While Dimension 3 (institutional and regulatory framework for SME policy making) looks at the importance of a policy framework that considers the needs and best interests of SMEs, Dimension 4 focuses on the operational environment in which SMEs operate. This dimension is designed around four sub-dimensions:

- **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 OECD *Recommendation on Digital Government Strategies*.
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, Inđija, 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.
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 Survey[4] (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-tee/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	10	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)

% of income per capita

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.

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 network[8] 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	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Income tax	Presumptive tax regime						✓	✓
	Simplified accounting rules			✓				✓
	Other simplification measures	✓	✓**		✓			
VAT	Registration/collection threshold below which small businesses are not obliged to register for and remit VAT	✓	✓	✓	✓	✓	✓	✓
Other simplified measures	Tax incentive scheme for SMEs*			✓	✓	✓	✓	✓

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 businesses[9] 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 activates. 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 business[13] 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.

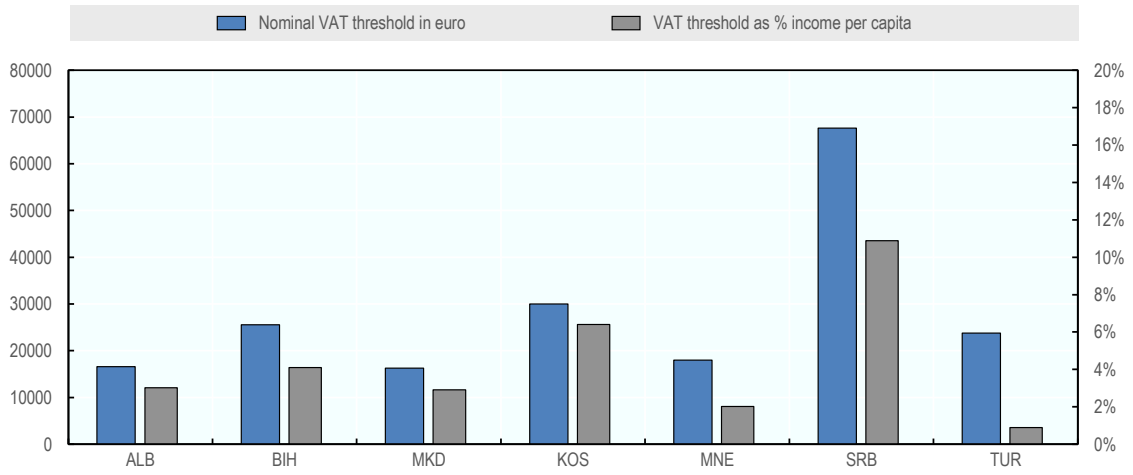
VAT registration and collection thresholds exist throughout the regions

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

Yearly, % GNI per capita



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://pscsrpska.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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Chapter 5. Support services for SMEs (Dimension 5a) in the Western Balkans and Turkey

This chapter assesses the policies in the Western Balkans and Turkey that provide small and medium-sized enterprises (SMEs) with access to business support services (BSSs). It starts by providing an overview of the assessment framework and progress since the last assessment in 2016. It then analyses the two sub-dimensions of Dimension 5a: 1) BSSs provided by the government, assessing the BSS policy framework, the extent and types of services provided by public institutions, how information about them is disseminated, and how this provision is monitored and its effectiveness evaluated; and 2) government initiatives to stimulate private BSSs, including the planning, implementation, monitoring and evaluation of policies to encourage the uptake of privately provided support services, particularly co-financing schemes. Each sub-dimension concludes with key recommendations to help ensure that SMEs have access to and benefit from a wide range of support services.

Key findings

This fifth SME Policy Index assessment finds that the economies of the Western Balkans and Turkey (WBT) have all progressed in the provision of business support services (BSSs) to small and medium-sized enterprises (SMEs). In particular, this assessment finds that:

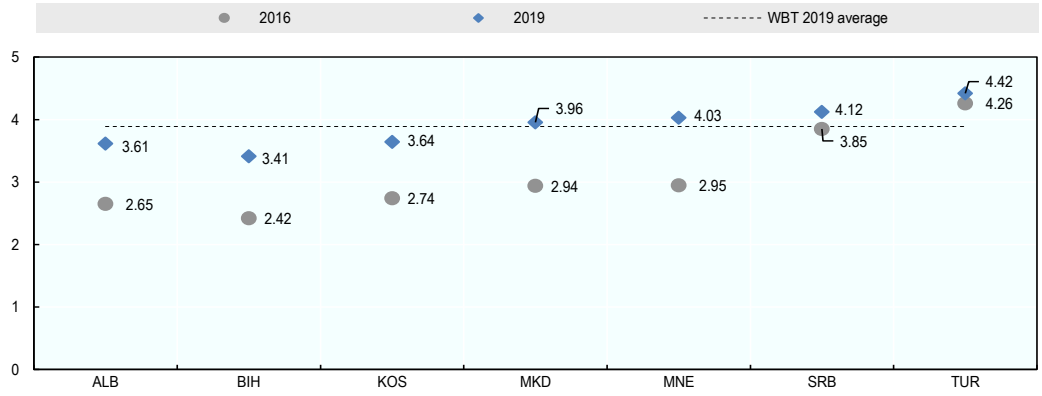
- **All WBT governments acknowledge the importance of BSSs**, and have included specific steps to boost BSS provision through both public institutions and private providers in their relevant SME policy frameworks.
- **Few economies have conducted extensive stakeholder or training needs analyses to adapt their BSS provision to SMEs' requirements.** The exceptions are Serbia, Kosovo* and Turkey, which have undertaken noteworthy efforts in this regard.
- **SMEs in all the WBT economies have access to BSSs provided by public institutions.** However, during the assessment period this did not always include training or mentoring directly delivered to SMEs by dedicated public SME institutions.
- **The provision of BSSs through private sector providers is also supported by all the WBT governments**, which all offer co-financing mechanisms characterised by well-defined structures and clear eligibility criteria. However, most of the WBT economies lack quality-assurance mechanisms for these services.
- **BSS provision is monitored by the SME agency or relevant public institution in all WBT economies**, but only a few have modified their programmes based on the monitoring results.
- **In-depth independent evaluations of BSSs are almost entirely lacking in the region.** Only the Albanian Investment Development Agency (AIDA) has had its co-financing schemes evaluated by independent experts.
- **All the WBT economies offer online information about the BSSs available.** However, only the Republic of North Macedonia, the entity of the Republika Srpska in Bosnia and Herzegovina, Serbia, and Turkey have established dedicated portals combining information on all of the BSSs available from all government institutions.
- **Online databases showcasing private sector consultants are rare in the region,** although the relevant public institutions all provide information about their co-financing schemes.

Comparison with the 2016 assessment scores

Looking at the WBT economies' weighted scores for Dimension 5a overall, the region has made clear progress since the last assessment (see Figure 5.1).

* 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 5.1. Overall scores for Dimension 5a (2016 and 2019)



Note: Scores for 2019 are not directly comparable to the 2016 scores due to a methodological change increasing the focus on 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

Table 5.1. summarises to what extent the WBT economies have implemented the recommendations of the 2016 SME Policy Index. For the region overall, the degree to which the three recommendations have been implemented ranges from limited to moderate. Five of the economies have introduced initiatives to match the supply of services to demand, albeit to different extents. Four have strengthened the monitoring and evaluation of the effectiveness of their support schemes. All of the WBT economies implement co-financing schemes for private sector BSSs, an important element in encouraging the development of a sustainable and diversified market of private sector providers.

Table 5.1. Implementation of the SME Policy Index 2016 recommendations for Dimension 5a

Overall 2016 recommendations	SME Policy Index 2019	
	Main developments during the assessment period	Regional progress status
Better match the supply and demand of services	- Serbia and Kosovo have analysed SME training needs. - Turkey has conducted Internet-based surveys among SMEs to improve the BSS provision included in its *2016-2020 Strategic Plan* and *SME Strategy and Action Plan 2015-2018.* - Montenegro, North Macedonia and Turkey's SME policy frameworks have benefitted from some BSS market research.	Limited
Monitor and evaluate the effectiveness of support schemes and mechanisms	- Montenegro, Serbia and Turkey have made changes to their programmes based on their monitoring results. - In Albania, AIDA has had an independent evaluation of its co-financing schemes resulting in targeted recommendations on how to improve their implementation.	Limited
Encourage the development of a sustainable and diversified market of private sector providers	- All the WBT economies implement co-financing schemes for private sector BSS providers.	Moderate

Introduction

Business support services (BSSs)[1] – ranging from general information and advice to training, mentoring and technical services – seek to increase entrepreneurs' knowledge and skills, thus providing a tool to boost SME productivity. SME productivity has attracted much interest among scholars. More than 700 articles were published on the topic in the field of business and economies between 1997 and 2017 (OECD, 2017[1]).[2] According to the 50 most-cited of these articles, the most frequently reported determinants of SME productivity were "managerial skills and formal management practices, including some practices closely affecting the development of workforce skills (e.g. workforce training and human resource management practices)" (OECD, 2017[1]).

Empirical studies have supported the variety of benefits that BSSs (e.g. in the form of expert advice or training) can provide to SMEs. For example, BSSs not only have a positive impact on productivity, but also on employment generation, exports and investment (Cravo and Piza, 2016[2]). Similarly, off-the-job training is found to be significantly associated with increased turnover and a decline in business closures (Bryson and Forth, 2016[3]). While entrepreneurs can also acquire skills through informal training in the form of on-the-job training by more experienced staff, off-the-job training that takes employees away from their normal work duties has proven more effective in increasing businesses' productivity and survival rates (OECD, 2017[1]).

BSSs are more important for SMEs than for larger companies because SMEs generally deliver in-house training less frequently (Colombo, Croce and Grilli, 2013[4]; Woo Lee, 2016[5]; OECD, 2017[1]).

The European Union also acknowledges the importance of BSSs for SMEs' growth. Principle V of the *Small Business Act for Europe* invites Member States to:

- encourage constructive dialogue and mutual understanding between SMEs and large buyers through activities such as information, training, monitoring and exchange of good practice
- refocus state aid policy to better address SMEs' needs, including the design of better targeted measures (EC, 2008[6])

In fact, governments and development organisations have invested significant financial resources in BSS delivery with the goal of freeing SMEs from institutional constraints, allowing them to increase productivity and to reach their full potential (Cravo and Piza, 2016[2]; Beck, Demirguc-Kunt and Levine, 2005[7]).

However, despite the potential benefits for SMEs, and governments' efforts to provide them, SMEs' uptake of BSSs has often not realised its full potential. This has been due to lack of information on BSS availability and their benefits, excessive and uncoordinated supply of information, the prioritisation of short-term goals, and the high financial costs of training (Braidford and Stone, 2016[8]; Stone, 2012[9]).

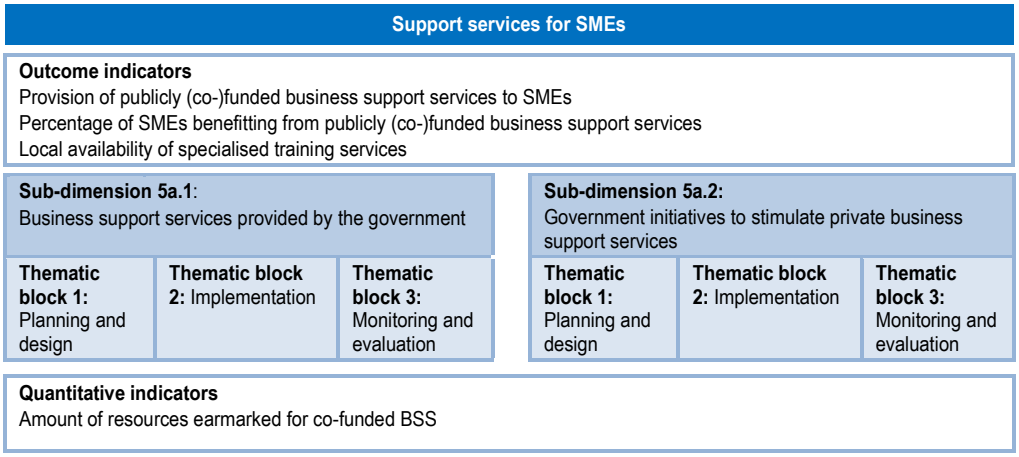
Assessment framework

Structure

This chapter assesses policies to foster business support services for SMEs in the Western Balkans and Turkey through the following two sub-dimensions (see Figure 5.2):

- **Sub-dimension 5a.1: Business support services provided by the government** focuses on three thematic blocks. The first thematic block evaluates whether the government has developed a strategic approach to the provision of BSSs by public providers and if it is included in the economy's wider SME policy framework (e.g. the national SME strategy or equivalent document). The second thematic block assesses the extent to which public institutions provide different types of BSSs, and if they are tailored to the specific needs of different SME segments (e.g. start-ups). This block also focuses on the means used by the government to raise SMEs' awareness about the BSSs it provides. Finally, the third thematic block assesses how far BSSs provided by the government are regularly monitored and their impact on SMEs' performance evaluated.
- **Sub-dimension 5a.2: Government initiatives to stimulate private business support services** evaluates government initiatives aimed at stimulating private BSSs. It largely mirrors the thematic block structure of the first sub-dimension, but rather than focusing on the provision of BSSs by public institutions, it looks at how public policy supports SMEs' uptake of BSSs from private providers.

Figure 5.2. Assessment framework for Dimension 5a: Support services for SMEs



Note: The outcome indicators serve to demonstrate the extent to which the policies implemented by the government bring about the intended results, and they have not been taken into consideration in the scoring. By contrast, quantitative indicators, as a proxy for the implementation of the polices, affect the overall scores.

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 undertaken with the owners and managers of SMEs.[3] Alongside these qualitative inputs, quantitative data on certain indicators – provided by the economies' statistical offices, relevant ministries and SME agencies – formed an integral part of this assessment. For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

Key methodological changes to the assessment framework

Compared to other dimensions in this report, the assessment framework of Dimension 5a did not significantly differ from the previous assessment published in 2016. However, in order to increase the emphasis on effective implementation, the weight of this thematic

block has been increased to 50% of each overall sub-dimension score, while planning and design accounts for 30%, and monitoring and evaluation 20%.

Some minor aspects of the questionnaire have also been changed since the previous assessment. The planning and design blocks in the 2019 assessment no longer evaluate if economies' strategy documents associated with BSS provision include both measurable targets and the expected impact of measures, but only if they include measurable targets. Similarly, the monitoring and evaluation blocks no longer assess if surveys are used to collect information on SME use and satisfaction with BSSs, but simply if there are any formal mechanisms for SMEs to provide feedback on the BSSs they used. This meant the questionnaire could be streamlined and accommodate a more diverse set of answers.

Other sources of information

The assessment was enriched by data from the World Economic Forum's *Global Competitiveness Index* (WEF, 2018[10]) on the local availability of specialised training services.

Analysis

Performance in business support services for SMEs

Outcome indicators play a key role in examining the effects of policies, and they provide crucial information for policy makers to judge the effectiveness of existing policies and the need for new ones. Put differently, they help policy makers track whether policies are achieving the desired outcome. The three outcome indicators chosen for this dimension (see Figure 5.2) are designed to assess the Western Balkan economies and Turkey's performance in providing and funding business support services. Due to the lack of comparable data on other key outcome indicators, the availability and uptake of BSSs by SMEs are used to assess BSS performance in the region.

Public institutions in all seven economies support the provision of BSSs to SMEs, although SMEs benefit from a wider variety of services in some economies than in others. In 2017, SMEs in Bosnia and Herzegovina (in the entity of the Republika Srpska[4]), Montenegro, North Macedonia, Serbia and Turkey not only benefitted from publicly funded or co-funded support in the form of general information (on relevant legislation for starting a business, how to develop a business plan, what non-financial BSSs are available, etc.), but also from training, mentoring and consulting (Table 5.2).

Table 5.2. Provision of publicly (co-)funded business support services to SMEs (2017)

Number of SMEs/entrepreneurs benefitting by service category

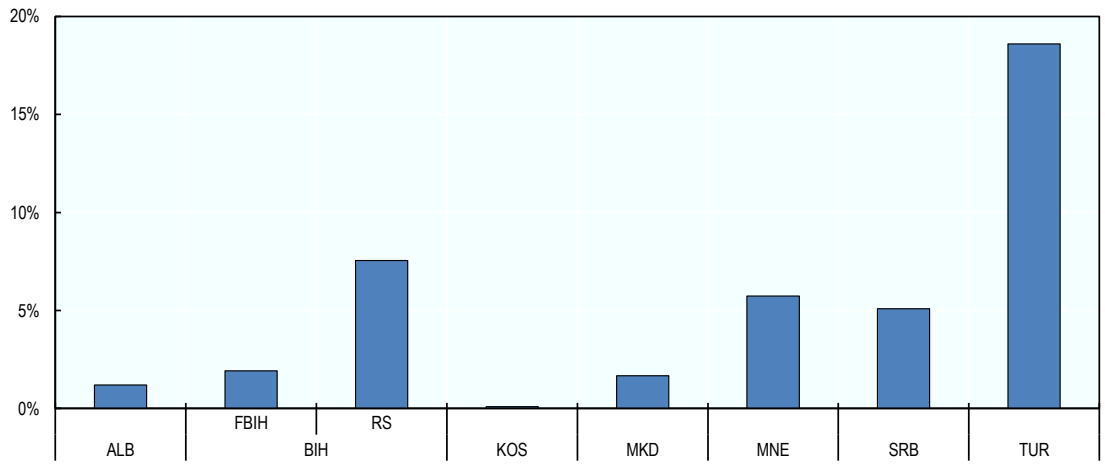
	ALB	BIH		KOS	MKD	MNE	SRB	TUR
		FBiH	*RS*					
General information	530	387	682	37	512	1 081	13 264	366 259
Training	0	0	40	0	385	626	3 480	204 296
Mentoring and consulting	0	0	0	0	22	28	1 420	240
Total	530	387	722	37	919	1 735	18 164	570 795

Sources: Statistical offices, ministries and SME agencies of the six Western Balkan economies and Turkey.

Dividing the number of SMEs using BSSs by the total number of SMEs in the economy gives the uptake of BSSs among SMEs. Figure 5.3 shows the wide variation in SMEs' uptake of publicly funded and co-funded BSSs across the WBT, with Turkey having a much higher share than the others. Whereas 18.6% of SMEs in Turkey used a publicly funded or co-funded BSS in 2017, only 3.3% of SMEs did so in the Western Balkan economies on average.

Figure 5.3. SMEs' uptake of BSSs (2017)

% of SMEs/entrepreneurs benefitting from publicly (co-)funded business support services

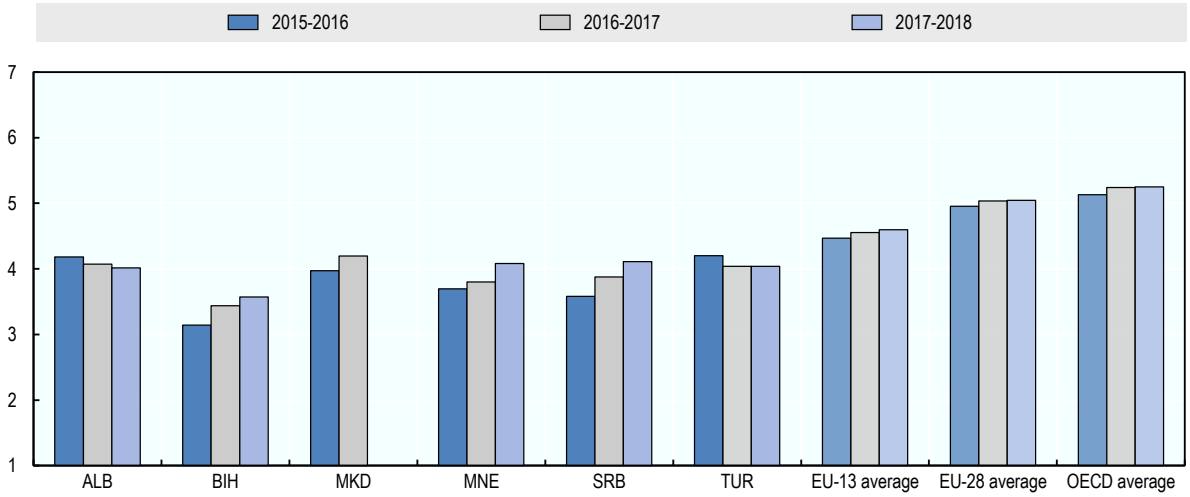


Note: Data for the total number of SMEs (denominator) as of 2016 for Albania and Kosovo. Data on the number of SMEs for the Republika Srpska and the Federation of Bosnia and Herzegovina do not include unincorporated enterprises.
Sources: Statistical offices, ministries and SME agencies of the six Western Balkan economies and Turkey.

StatLink http://dx.doi.org/10.1787/888933937527

The availability of high-quality professional public and private training services was also evaluated in the World Economic Forum's *Executive Opinion Survey*. This survey asked private sector representatives to evaluate the availability of BSSs in their economy on a scale from one to seven (WEF, 2018[10]). While the survey measures perceptions rather than actual availability, it acts as a useful proxy to gauge respondents' evaluation of the availability of local specialised training services. Figure 5.4 shows the scores for the five Western Balkan economies and Turkey for which data are available. In the 2017-18 edition, Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, Serbia and Turkey all scored below the EU and OECD averages. However, with the exception of Albania, they had all improved their score compared to previous surveys.

Figure 5.4. Local availability of specialised training services (2015-18)
Score 1 (low) to 7 (high)



Note: Data for Kosovo not available. Data for North Macedonia for 2017-18 not available. Survey question: In your country, how available are high-quality, professional training services? [1 = not available at all; 7 = widely available]. EU-13, EU-28 and OECD averages calculated as simple average. EU-13 – Bulgaria, Croatia, Cyprus**, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic 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: WEF (2018[10]), *The Global Competitiveness Index 2007-2017: Downloads*, http://reports.weforum.org/global-competitiveness-index-2017-2018/downloads/.

StatLink http://dx.doi.org/10.1787/888933937546

These three output indicators suggest all seven economies still have some room for improvement in making BSSs available to SMEs. The figures on the share of SMEs using publicly funded and co-funded BSSs show that Turkey was most successful at stimulating SMEs' use of BSSs (Figure 5.3).

Business support services provided by the government (Sub-dimension 5a.1)

Business support services are crucial to the "entry, survival, productivity, competitiveness, and growth of SMEs by helping them to solve key challenges in the areas of management and technical skills, access to markets, new or improved technologies and products, and appropriate financing mechanisms" (OECD, 2018[11]).

Despite their importance, private sector BSSs are often out of reach for micro and small enterprises, which are generally not able to afford private consultancy fees or cannot justify the cost of such an investment (OECD, 2018[11]). This means a purely market-based system can lead to the underuse of BSSs, which in turn leads to lower growth and efficiency among SMEs on average (Braidford and Stone, 2016[8]). Thus, BSSs provided

by public institutions are an important means of ensuring SMEs have access to crucial information, advice, training and mentoring.

This section assesses BSSs provided by the governments in the WBT region based on three thematic blocks. First, it looks at how these services are planned and designed – whether they have a relevant strategy document, accompanied by a suitable action plan, and how far those strategies are based on an analysis of SMEs' needs. Second, it considers implementation – the public institution responsible for providing BSSs, the range of services they offer and the provision of information on public services. Finally, it examines the monitoring and evaluation of publicly provided BSSs and to what extent that feeds back into policy design.

The WBT economies showed the weakest performance in monitoring and evaluating their BSSs, compared to their planning, design and implementation activities (Table 5.3).

Table 5.3. Scores for Sub-dimension 5a.1: Business support services provided by the government

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	3.67	3.07	4.56	3.22	3.96	4.26	4.11	3.84
Implementation	2.79	3.26	2.79	3.95	4.05	4.37	4.58	3.68
Monitoring and evaluation	2.60	2.12	2.92	2.92	3.08	4.36	4.36	3.19
Weighted average	**3.01**	**2.98**	**3.35**	**3.52**	**3.83**	**4.33**	**4.39**	**3.63**

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

All the economies have included business support services in their SME policy frameworks

All the WBT governments have acknowledged the importance of BSSs and included specific actions to boost their provision in their relevant SME policy frameworks (the national SME strategy or equivalent document), listed in Table 5.4.

Table 5.4. Main strategy documents for BSS provision to SMEs in the Western Balkans and Turkey

Economy		Main current strategy document	Period covered by strategy
ALB		Business and Investment Development Strategy	2014-20
BIH	*FBiH*	Development of SMEs in the Federation of Bosnia and Herzegovina	2009-18
	RS	Strategy for the Development of SMEs	2016-20
KOS		Private Sector Development Strategy	2013-17[1]
MKD		National SME Strategy	2018-23
MNE		Strategy for the Development of MSMEs	2018-22
SRB		SME Development Strategy	2015-20
TUR		SME Strategy	2015-18

Note: [1]A new Private Sector Development Strategy covering the period 2018-2022 was drafted and sent for public hearing in late 2018.

The relevant strategy documents in all seven economies are accompanied by an action plan, although Serbia's latest action plan expired in 2016 and has not yet been renewed, which might be a challenge to the strategy's implementation and effective monitoring.

Measurable BSS targets in the action plan facilitate the monitoring and evaluation process, and allow policies to be adjusted if necessary. Albania, Bosnia and Herzegovina (in the Federation of Bosnia and Herzegovina only), Kosovo, Montenegro, Serbia (until 2016) and Turkey include measurable targets in their respective action plans.

For example, the action plan for Montenegro's strategy for micro, small and medium-sized enterprises (MSMEs) foresees the implementation of a mentoring programme. This measure is associated with a target (increased number of trained mentors by 30%), a 2017 baseline value (21 mentors trained to provide mentoring services), and a projection for 2020 (more than 45 mentors trained to provide mentoring services). Similarly, Kosovo's Private Sector Development Strategy (still a draft at the time of writing) includes a baseline and targets for specific measures (e.g. "deliver at least 10 training modules on financial literacy per year"). Albania's Business Investment Development Strategy also has an action plan with an implementation timeline and measurable targets. For example, the strategy states the objective of training about 2 000 young potential entrepreneurs in how to start a business by the end of the implementation period (2020).

In the Federation of Bosnia and Herzegovina, the 2016-18 action plan for its 2009-18 SME strategy document also includes measurable targets for each action. For example, the strategy foresees strengthening the visibility of BSSs through promotional events and the media to inform more SMEs about available services. For this measure, the action plan aims for a 10% increase by 2018 in SMEs applying for BSSs delivered by the Federal Ministry of Development, Entrepreneurship and Crafts (FMRPO). The action plans accompanying the newly adopted SME strategy of North Macedonia and the Republika Srpska's 2016-20 SME development strategy include dedicated actions to improve BSS provision. However, although these actions are associated with monitoring indicators, they do not include measurable targets. For example, the action plan of the Republika Srpska's 2016-20 SME development strategy foresees the Republic Agency for the Development of Small and Medium Enterprises (RARS) establishing a mentoring system. This action is associated with monitoring indicators such as "trained mentors" or "supported SMEs", but it does not specify how many mentors should be trained or how many SMEs supported by 2020.

Not all the strategies are based on proper training needs analysis

Tailoring BSS provision to both SMEs' needs (the demand side), and to the existing BSS market (the supply side), is essential if the effectiveness of government-provided support is to be maximised. In many WBT economies, chambers of commerce or the public employment agencies have captured SMEs' training needs to some extent, for example through employers' surveys, but fully fledged training needs analyses conducted by the public institution with responsibility for SMEs in order to improve the BSS offer are rare.

In Turkey, at the time of writing, two major strategy documents frame BSS provision: the Entrepreneurship Strategy 2015-2018 and the SME Strategy 2015-2018. Both were built on the overall 2023 vision for Turkey and its 10th Development Plan and both strategies were elaborated with dedicated working groups from the Small and Medium Enterprises Development Organization of Turkey (KOSGEB), which followed ISO 9000 standards, thus assuring stakeholder input. In particular, during the preparation of the SME Strategy, the KOSGEB Working Group conducted an Internet-based survey of 3 697 SMEs, which

helped to identify challenges and priorities for the design of BSSs. KOSGEB's actions are based on its 2016-2020 Strategic Plan, which also benefitted from a stakeholder analysis conducted via an Internet-based survey with 864 respondents, of which 728 were SMEs and provided information on KOSGEB's BSSs. Together with interviews of SMEs, both initiatives helped to map Turkey's BSS supply and demand.

In Serbia, the Development Agency of Serbia (RAS) conducted a training needs analysis of SMEs in 2016. RAS surveyed 159 micro, 112 small and 14 medium-sized enterprises. Similarly, the Kosovo Investment and Enterprise Support Agency (KIESA) funded a training needs analysis in 2017. This analysis was based on a survey of 600 micro, 150 small, and 50 medium-sized enterprises. Although these studies' findings have not yet resulted in any changes to the BSS provision by KIESA or RAS, the analysis has the potential to help them and other relevant institutions in Kosovo and Serbia to tailor their BSS supply better to SMEs' needs in the future.

In Montenegro and North Macedonia, the SME policy framework has benefitted from some market research into the supply of BSSs to SMEs. Montenegro's Ministry of Economy, in co-operation with the United Nations Industrial Development Organization (UNIDO), mapped BSS providers in 2017 and created a spreadsheet containing information on more than 300 BSS providers (both public and private). The spreadsheet is available online on the ministry's website (Ministry of Economy of Montenegro, 2017[12]). Following the expiry of its previous five-year national SME strategy in 2013, North Macedonia eventually adopted the National Small and Medium Enterprise Strategy 2018-2023. The preparation of the strategy benefitted from the support of the International Labour Organisation, which conducted a national SME survey in 2018, and from a report by the State Audit Office, which included recommendations for BSS provision. It also includes a brief recap of the BSS market.

In Albania, the Business and Investment Development Strategy 2014-2020 is based on an assessment of the existing situation including the main challenges faced by potential entrepreneurs starting a business. Over this assessment period, however, the relevant public institutions in Bosnia and Herzegovina have not conducted any training needs analyses.

Public institutions differ in the range and scope of services they offer

Business support services cover a wide range of activities designed to improve the beneficiary's performance, including providing general information on business topics; training, mentoring and consulting; and services tailored to SMEs.

Public institutions provide BSSs to SMEs in all the WBT economies, which all have one dedicated institution responsible for BSS provision to SMEs (Table 5.5). Other public institutions (economy and agriculture ministries, public employment agencies, etc.) also provide BSSs, some of which may be sector specific.

Table 5.5. Dedicated institutions responsible for BSS provision in the WBT economies

Economy		Dedicated institution responsible for BSS provision
ALB		– Albanian Investment Development Agency
BIH	*FBiH*	– Federal Ministry of Development, Entrepreneurship and Crafts
	RS	– Republic Agency for the development of Small and Medium Enterprises
KOS		– Kosovo Investment and Enterprise Support Agency
MKD		– Agency for the Promotion of Entrepreneurship
MNE		– Ministry of Economy - Directorate for Investments, Development of Small and Medium Enterprises and Management of EU Funds
SRB		– Development Agency of Serbia
TUR		– The Small and Medium Enterprises Development Organization of Turkey

General information on business topics (such as relevant legislation or how to create a business plan) is uniformly provided on the relevant public institutions' websites in the WBT economies. However, as Table 5.2 shows, only SMEs in Bosnia and Herzegovina (in the Republika Srpska), Montenegro, North Macedonia, Serbia, and Turkey accessed training or mentoring and consulting in 2017.

Turkey has a well-developed and extensive landscape of public BSSs for SMEs. The provision of BSSs through the public sector has a wide geographical reach and is varied, providing different forms of support for SMEs in different sectors and at different stages of their development. In addition to private sector providers and chambers of commerce, SMEs in Turkey benefitted from 14 public institutions providing more than 90 financial and non-financial support programmes in 2018. KOSGEB is Turkey's dedicated public institution for the provision of BSS to SMEs, while other major public BSS providers include the Ministry of Industry and Technology, the Ministry of Trade, the Scientific and Technological Research Council of Turkey (TÜBİTAK), Turkey's 26 development agencies, and its Enterprise Development Centres. In addition to its headquarters in Ankara, KOSGEB is present in all of Turkey's 81 provinces, with a total of 173 physical offices. For example, with its Applied Entrepreneurship training, KOSGEB provides, free of charge, a minimum of 46 hours of theoretical training and 24 hours of workshops on subjects such as business plan development, market analysis and entrepreneurial skills. This training has a strong geographical reach since it is carried out by different institutions and organisations (municipalities, professional associations, higher education institutions, development agencies, etc.) across Turkey. Beneficiaries who complete the training are also eligible to apply for KOSGEB's New Entrepreneur Support programme (see section on co-financing below).

In 2016, Serbia established the Development Agency of Serbia (RAS), replacing the Serbia Investment and Export Promotion Agency and National Agency for Regional Development. Serbia has made much progress in increasing the reach of its BSSs. While there were only two accredited regional development agencies (RDAs) in 2012 (OECD et al., 2016[13]), today 16 RDAs provide BSSs to SMEs throughout Serbia. These accredited agencies implement the "standardised set of services" programme through which they provide SMEs with information, training, advisory services and mentoring, and promote entrepreneurship. The mentoring support provided within the standardised set of services programme is particularly noteworthy. Since 2016, this free-of-charge programme is open to SMEs or co-operatives which have been operating for up to three years or are at a critical time for their further development or survival in the market (see Box 5.1). The programme's methodology was conceived by RAS in collaboration with the Japan International Cooperation Agency (JICA).[5]

The Agency for the Promotion of Entrepreneurship (APPRM) is the main public institution in charge of providing BSSs to SMEs in North Macedonia. It also co-ordinates BSS delivery through North Macedonia's seven regional entrepreneurship centres. APPRM organises one-day workshops for SMEs with the general aim of improving their competitiveness. It also organises one-day training courses on management practices and business plan preparation to high school and university students. In Montenegro, the Directorate for Investments, Development of Small and Medium Enterprises and Management of EU Funds (the Directorate) was set up in January 2018 as a result of a larger restructuring process with the objective of providing SMEs with a one-stop shop for BSS provision. The Directorate provides training and mentoring to SMEs. Completing this training is a prerequisite for accessing loans from the Montenegrin Investment Development Fund (IRF) under the Support to Entrepreneurship Development programme. In the Republika Srpska in Bosnia and Herzegovina, the Republic Agency for the Development of Small and Medium Enterprises (RARS) delivers occasional one-day training courses on developing a business plan.

Bosnia and Herzegovina and Montenegro also benefitted from the first phase of JICA's Establishment and Promotion of Mentoring Service for SMEs in the Western Balkans project, which ran between 2013 and 2016. Since then, the Ministry of Economy of Montenegro has also been providing mentoring services to SMEs. In Bosnia and Herzegovina, 16 mentors were trained at the Sarajevo Economic Region Development Agency (SERDA) and about 100 SMEs have benefitted from its mentoring support over the last three years (SERDA, 2018[14]). In 2018, in the Federation of Bosnia and Herzegovina, the FMRPO published a call for interest in this free-of-charge mentoring programme on its website, while in the Republika Srpska, RARS has been in the process of training future mentors. North Macedonia joined these economies in the second phase of the JICA project, which runs from 2017 to 2020. In 2018, APPRM published on its website the first call for interest in this free-of-charge mentoring programme. In all these economies, the mentoring support follows the same methodology implemented by RAS in Serbia (see Box 5.1).

Box 5.1. The standardised mentoring service provided by the Development Agency of Serbia

Background

The Development Agency of Serbia's (RAS) mentoring programme is designed to provide timely, continuous mentoring support to SMEs and start-ups with growth potential at crucial stages of their business paths. The programme began in 2005 using a business support methodology developed by the National Agency for Regional Development in co-operation with the Japan International Cooperation Agency (JICA). In 2008, following a three-year pilot period that saw positive results, RAS standardised the programme and has run it ever since.

Programme activities

The mentoring programme has a sequence of four main steps: 1) diagnosis; 2) analysis and action plan (proposing measures to improve the business); 3) intervention (implementing the proposed measures; and 4) evaluation and tracking.

The programme allocates an expert mentor to spend a certain number of hours (from 25 to 50 hours per beneficiary) at the beneficiary's premises. The mentor and the SME's

director jointly conduct a diagnosis to understand the business's operations, the reasons for any current problems or obstacles to further development, and the areas with the most growth potential. Based on the factors identified, the mentor and the beneficiary prepare a plan/development project. The business support plan could potentially relate to any functional area of the enterprise, including organisational structure; human resources management, financial management, logistics and distribution, production-technological processes, intellectual property and quality systems. Depending on the need, the mentor could also refer the SME to more specialised consulting services.

Impact

- 2005-06: 37 civil servants received certified training by JICA
- 2006-09: more than 700 businesses supported
- 2011-12: 268 SMEs supported
- 2013-14: 213 SMEs supported
- 2015-16: 204 SMEs supported
- 2017: 253 SMEs supported.

Results and feedback from SMEs (up to 2015)

- 99% of beneficiaries completed the entire programme
- 92% of beneficiaries felt there was a positive impact on some aspect of their business
- 95.2% of beneficiaries accepted almost all the proposed measures to improve their business.

It is also worth noting that the programme gave a significant number of RAS personnel the opportunity to upgrade their skills and knowledge. This professional development has had a positive impact on the RAS and, in turn, enabled the agency to provide long-term support to the national SME base via the same trained civil servants.

The programme also helped to raise awareness among Serbian SMEs on the importance and benefits of expert advisory support and non-financial business support schemes.

Sources: RAS (2017[15]), *Create Life: Public Call for the Implementation of Standardised Mentoring Service*, http://ras.gov.rs/en/sme-development/public-calls/create-life-public-call-for-the-implementation-of-standardised-mentoring-service; information collected over the course of this assessment.

KIESA in Kosovo and AIDA in Albania do not directly deliver or organise training for SMEs. While KIESA provides a co-financing voucher scheme for SMEs to use with private consultants, SMEs in Albania can receive funds for training from one of AIDA's four operational funds (see Sub-dimension 5a.2 below). The Federation of Bosnia and Herzegovina has no public agency at the entity level to provide training or mentoring to SMEs. This function is carried out by the Federal Ministry of Development, Entrepreneurship and Crafts (FMRPO) and regional development agencies (such as SERDA for example). While the FMRPO did not directly deliver training to SMEs in 2017, it provided information on relevant legislation and offers co-financing schemes (see Sub-dimension 5a.2 below). As mentioned above, it will provide mentoring services to SMEs in the future.

All the WBT economies provide some dedicated support to start-ups, but this is delivered through different channels and takes different forms. In the Republika Srpska, Montenegro, North Macedonia, Serbia and Turkey, the public SME agency (or the Directorate in Montenegro) directly delivers relevant training for start-ups free of charge. Albania, Kosovo and the Federation of Bosnia and Herzegovina do not deliver relevant training for start-ups directly via the public SME agency (or the FMRPO in the case of the Federation of Bosnia and Herzegovina), but start-ups can apply for co-financing of training and equipment under dedicated grant schemes. The SME agencies in Serbia and Turkey also provide co-financing support to start-ups for equipment. Business incubators can be found in all WBT economies (see Chapter 10 on innovation policy for SMEs).

Providing SMEs with easily accessible and centralised information about the government BSSs available remains an area for improvement in most WBT economies. Private sector interviews conducted for this assessment[6] demonstrated that many SMEs across the WBT economies were not always aware of the BSSs that their respective governments provided. In all the economies, information on the available BSSs can be found on line but the information is often scattered between the different institutions providing support to SMEs, rather than all being on the SME agency's website (or the website of the main institution providing BSSs). The exceptions are North Macedonia, the Republika Srpska in Bosnia and Herzegovina, Serbia and Turkey, which have all established dedicated web pages providing a single source of information on BSSs available from all government institutions. According to data provided by KOSGEB for this assessment, at the time of writing its database held the details of more than 1.4 million SMEs – about 45% of all Turkish SMEs – which had either been informed about or applied for KOSGEB's BSSs.

Government services are monitored internally, but the results are not widely used to improve provision

While government-provided BSSs are monitored by the SME agency or relevant public institution in all WBT economies, only Montenegro, Serbia and Turkey have adjusted their programmes based on the monitoring results. In all WBT economies, the SME agencies, or relevant public institutions leading the provision of BSSs, compile annual performance reports. These reports are publicly available in all the economies except Albania, and Bosnia and Herzegovina. In Kosovo, KIESA submits its annual report to the Ministry of Trade and Industry, which feeds the relevant information and data into annual government reports.

Only Serbia and Turkey collect comprehensive feedback from SMEs on the effectiveness and quality of public BSSs. In Montenegro, the Directorate uses surveys to collect feedback from participants in mentoring sessions, but not from SMEs which received other services. AIDA in Albania and KIESA in Kosovo use surveys to collect SMEs' feedback on their co-financing schemes, although neither agency used the findings to adapt its BSSs. SMEs in the Federation of Bosnia and Herzegovina which benefitted from co-financing under the Strengthening the Competitiveness of SME scheme need to report on the use of the grants, but are not asked how satisfied they are with the scheme in general. In North Macedonia and the Republika Srpska in Bosnia and Herzegovina, there are no formal mechanisms to collect feedback comprehensively from public BSS beneficiaries, or to use this information to adapt BSS provision accordingly.

The WBT economies' BSS provision in general, and particularly their co-financed BSSs, undergoes financial auditing by the state institutions. For example, since its adoption in 2003, Turkey's Public Financial Management and Control Law has regulated the

financial auditing practices for public institutions, among other things. Following this law, KOSGEB's BSS provision is regularly audited internally by KOSGEB's monitoring unit, while Turkey's State Aids Monitoring and Supervision Board audits the programmes externally.

However, while financial auditing is a prerequisite for assuring that public resources are being spent to meet governments' objectives, it is no substitute for a fully fledged independent review of a service's delivery and its impact. None of the seven WBT economies have given their publicly provided BSSs the opportunity to benefit from an in-depth review conducted by an independent entity – i.e. by an institution not responsible for the design or implementation of the services. Only Albania has benefitted from an independent review conducted by independent experts and supported by the Gesellschaft für Internationale Zusammenarbeit (GIZ), but this review dealt exclusively with the support funds (co-financing) provided by AIDA (see the monitoring and evaluation of Sub-dimension 5a.2 below). In Turkey, impact assessment studies of some of KOSGEB's programmes are undertaken, but only KOSGEB's Design Support was evaluated during the assessment period (Box 5.2).

Box 5.2. Impact assessment of KOSGEB's Design Support

In contrast to the rest of the region, Turkey has an impact assessment body – although its investigations into KOSGEB's programmes have been limited in extent. The Department of Impact Assessment under the Ministry of Industry and Technology undertakes impact assessment studies for a number of entities including KOSGEB. A recent assessment completed in 2018 focused on KOSGEB's Design Support programme.

The programme

KOSGEB's Design Support is provided under KOSGEB's General Support Programme. It aims to improve SMEs with access to KOSGEB support schemes, help upgrade the quality and efficiency of their products, incentivise their business development activities to enhance competitiveness, and facilitate their promotion and marketing activities to increase their market shares both domestically and globally. Between 2011 and 2017, the number of enterprises benefitting from Design Support increased from 10 to 91, while the amount of funds provided increased from TRY 16 800 (EUR 6 462) to TRY 241 955 (EUR 57 610).

Assessment findings and recommendations

The impact assessment analysed KOSGEB's Design Support against criteria recommended by the OECD and the EC, i.e. the programme's relevance, effectiveness, efficiency, impact and sustainability. The main findings and recommendations of the assessment were as follows:

- The majority of enterprises would still implement their design projects even if the support programme was discontinued.
- Most of the Design Support was used for firm-level product design rather than design efforts to enhance the firms' competitive edge.
- For the future of the programme, it is important to determine the specific areas in which firms need support in their design projects.
- The Design Support Programme should be better promoted, and preferably as a

stand-alone programme rather than as part of the General Support Programme.

- An efficient monitoring and guidance mechanism should be established to ensure the successful implementation and termination of projects. Monitoring reports should be provided regularly to the beneficiary as feedback.
- *Ex-ante*, interim and *ex-post* evaluations should be made, on the basis of which adjustments should be made and new programmes be designed as necessary.

Sources: Information received from the Industry and Productivity General Directorate, Ministry of Industry and Technology of Turkey.

The way forward for business support services provided by the government

While all the WBT economies have made progress in the government provision of BSSs, policy makers could consider the following recommendations to further improve their programmes' performance:

- **Analyse the need for and supply of BSSs more effectively and regularly** to fill the gaps in BSS provision, better target the support provided and create more effective BSS provision systems. This should be done in co-operation with chambers of commerce or SME associations. The responsible institutions should make sure that BSS programmes and initiatives are tailored to the characteristics and dynamics of micro and SME beneficiaries, as well as to the industry sector they belong to, their stage of development and their actual experience in the market.
- **Strengthen the monitoring and evaluation** of BSSs provided through the government. This is of paramount importance for increasing the effectiveness of BSS initiatives, related public sector programmes, and public budget allocation and spending. The OECD Framework for the Evaluation of SME and Entrepreneurship Programmes and Policies provides a tool to guide policy makers (see Box 5.3). In addition, capacity building initiatives and training programmes for public sector advisers and managers to further strengthen their existing expertise in SME development would have a positive impact on future BSS design, thus helping to better match supply and demand.
- **Provide easier access to information on BSSs** to stimulate SMEs' uptake of support. Due to the large number of support agencies and business associations, the provision of information on BSSs is at times confusing and fragmented. Policy makers in the WBT economies should increase co-ordination among the various information channels and develop a common communication strategy. Ideally, information on BSSs should be provided centrally through a single portal.

Box 5.3. Effective monitoring of SME and entrepreneurship programmes and policies

The OECD Framework for the Evaluation of SME and Entrepreneurship Policies and Programmes provides a six-step approach to effective monitoring (Table 5.6).

Table 5.6. The six steps to approaching monitoring and evaluation

Monitoring	
Step I	Take up of schemes
Step II	Recipients' opinions
Step III	Recipients' views of the difference made by the assistance
Impact assessment and evaluation (note that these are not necessarily sequential)	
Step IV	Comparing the performance of assisted firms with "typical" firms
Step V	Comparing with "match" firms
Step VI	Taking account of selection bias

Source: OECD (2008[16]), *OECD Framework for the Evaluation of SME and Entrepreneurship Policies and Programmes*, http://dx.doi.org/10.1787/9789264040090-en.

In general, the following elements should be ensured for effective monitoring of SME policy and programmes:

- **Clear policy objectives:** in practice many policies have only vague objectives, which makes evaluation difficult, particularly in cases where there are multiple objectives.
- **A complete overview of the full policy mix:** it is important to have a clear understanding of the policy levers implemented and the possible interactions of the potential outcomes of different policies, as some instruments may be complementary on the one hand or may undermine one another on the other hand.
- **Good data:** poor data quality is sometimes the main reason why studies fail to find any statistically significant effect of evaluated policies. More and better measures can not only widen the scope of the evaluation, but also improve its precision.
- **Widening the focus beyond outcome:** There are several other variables for policy makers to consider that could play an important role in explaining the BSSs' effectiveness. These include the eligibility criteria, the targeted sample, the spatial unit of reference (e.g. regions or municipalities), and how agents are informed about the policy.
- **A commitment to evaluation as an integral part of the policy-making process:** a monitoring and evaluation culture should permeate all stages of policy design, implementation, and reform.

Source: Extracted from OECD (2018[17]), "Monitoring and evaluation of SME and entrepreneurship programmes", www.oecd.org/cfe/smes/ministerial/documents/2018-SME-Ministerial-Conference-Parallel-Session-6.pdf.

Government initiatives to stimulate private business support services (Sub-dimension 5a.2)

BSSs provided by the government can be pivotal in enabling SMEs, particularly micro and small enterprises, to take advantage of crucial support that they otherwise would not be able to access either because of an underdeveloped private BSS market (on the supply side) or limited resources (on the demand side). Economies with insufficient BSS supply, especially in areas deemed to be less profitable by the private sector, and with low

demand for BSSs, therefore benefit substantially from government intervention (OECD, 2018[11]).

However, "international experiences suggest that private institutions can have more credibility with SMEs and may be more responsive to the market" (OECD, 2018[11]). Governments intervening too strongly in BSS provision can distort markets by crowding out private sector providers (OECD, 2018[11]). According to international donor agencies, sustainable business support services are best achieved when delivered by the private sector on a user-pay basis (Committee of Donor Agencies for Small Enterprise Development, 2001[18]). However, the government can facilitate demand – for example by providing information such as on relevant legislation and BSS providers (OECD, 2018[11]) – or targeted financial incentives such as co-financing mechanisms or vouchers for purchasing private services (OECD et al., 2016[13]). In addition, governments should regulate the BSS market, e.g. through quality standards and certification (OECD et al., 2016[13]).

This section assesses government initiatives to stimulate private BSS development in the WBT region, again in three thematic blocks. First, it considers how these services are planned and designed, with appropriate strategy documents and action plans. Second, it looks at implementation, with a particular focus on co-financing schemes – but also whether there are any quality-control mechanisms for private providers and sources of information on BSSs. Finally, it examines whether programmes to stimulate private BSS development are regularly monitored and evaluated, including independent evaluation by external experts.

Overall, the WBT economies' implementation performance is weakest compared to both planning and design, and monitoring and evaluation (Table 5.7).

Table 5.7. Scores for Sub-dimension 5a.2: Government initiatives to stimulate private business support services

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	5.00	4.43	5.00	3.86	5.00	4.43	5.00	**4.67**
Implementation	3.43	3.64	3.29	4.86	3.86	3.57	4.29	**3.85**
Monitoring and evaluation	5.00	3.50	4.00	4.00	4.00	4.00	4.00	**4.07**
Weighted average	**4.21**	**3.85**	**3.94**	**4.39**	**4.23**	**3.91**	**4.44**	**4.14**

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

All SME strategy documents include measures to encourage private service provision

Measures to stimulate the provision of BSSs by private sector providers (such as co-financing schemes or vouchers) are included in the SME strategies and/or relevant strategy documents in all WBT economies.

Albania, Kosovo (draft at the time of writing), Montenegro and Turkey all have relevant strategy documents with an action plan detailing implementation timelines and including measurable targets, thus facilitating effective monitoring. In addition, the action plan of

the strategy for the Development of Small and Medium Enterprises in the Federation of Bosnia and Herzegovina 2016-2018 also includes measurable targets.

North Macedonia, the Republika Srpska in Bosnia and Herzegovina, and Serbia are trailing behind the rest of the region. While North Macedonia's Competitiveness Strategy 2016-2020 and newly adopted SME Strategy include an action plan with monitoring indicators, they do not provide measurable targets. Likewise, the action plan of the SME Development Strategy of the Republika Srpska 2016-2020 includes monitoring indicators, but not measurable targets. As already mentioned above, the most recent action plan for Serbia's SME Development Strategy 2015-2020 expired in 2016 and has not yet been renewed.

Co-financing schemes for private business support services are available across the region

All WBT governments support BSS provision through private sector providers (i.e. via a co-financing scheme for consultancy services or training), and they have all mobilised a budget for initiatives to stimulate BSS provision by the private sector.

In developing economies, "private sector [BSS] providers often depend on donor support to deliver [BSSs], however, when the project ends, so does the [BSS], which results in discontinuity in [BSS provision] to entrepreneurs and SMEs" (OECD, 2018[11]). Ensuring that co-financing schemes for private sector BSS provision do not rely too heavily on donor support can mitigate this risk. In Albania and the Federation of Bosnia and Herzegovina, the funds allocated to stimulating private sector BSSs are relatively equally balanced between the government and donors. In Kosovo, Serbia and the Republika Srpska in Bosnia and Herzegovina, the funds also benefit to some extent from donor support. Initiatives for stimulating private sector BSSs are fully government funded in Montenegro, North Macedonia and Turkey.

All the WBT economies have operational co-financing mechanisms, which usually have clearly defined structures and eligibility criteria. For example, in Albania, AIDA details the eligibility criteria, the co-financing mechanism and the payment methods for each of the four operational funds it managed in 2018: 1) the Competitiveness Fund; 2) the Fund for Start-up Enterprises; 3) the Creative Economy Fund; and 4) the Innovation Fund. All of the funds have a co-financing mechanism with a clearly defined structure.[7] For example, an SME accepted by the Fund for Start-up Enterprises, which had a budget of ALL 10 million (Albanian lek; approximately EUR 77 760) in 2018, can be co-financed for up to 70% of acceptable costs up to a limit of ALL 500 000 (EUR 3 888). Admissible costs include: 1) investment in equipment and technology for promoting a product or service; 2) marketing and product promotion; 3) qualifications and training in entrepreneurship skills; 4) web design and publishing promotional material; and 5) attendance at trade fairs or exhibitions in Albania or abroad as a visitor or exhibitor. An SME accepted by the fund receives 50% of the funding at project approval and 50% upon completion of the project against invoices of expenses.

In Turkey, KOSGEB operates co-financing schemes under its General Support and New Entrepreneur Support programmes. For example, under the General Support programme SMEs can benefit for three years from co-financing for 15 types of support, including consultancy support, and training support. Each type of support has an upper limit: consultancy support is limited to TRY 22 500 (around EUR 5 360), while the upper limit for training support is fixed at TRY 20 000 (around EUR 4 760). The co-financing rate for all types of support is fixed at 50%, 60% or 70% of admissible costs, depending on

the region the SME is registered in, with more support given to SMEs in less developed regions, mostly in Turkey's eastern and south-eastern provinces. Similarly, the co-financing rate under KOSGEB's New Entrepreneur Support programme depends on the region the SME operates in. KOSGEB also provides more favourable co-financing rates for women entrepreneurs, disabled entrepreneurs and other specific or more vulnerable categories.

In Kosovo, KIESA operated two voucher schemes in 2017, one for consultancy services and one for product certification. The total amount allocated to both voucher schemes in 2017 was EUR 50 000 (EUR 25 000 for consultancy vouchers and EUR 25 000 for production certification vouchers). The consultancy voucher covers 50% of the cost up to the maximum subsidy amount of EUR 50 per day. The beneficiary is required to cover the consulting costs in full and is reimbursed after project completion. Consultancy support is limited to a maximum of 12 days: up to 10 days for consultancy, 1 day for evaluation (diagnosis) of the beneficiary enterprise status and 1 day for concluding reporting. KIESA co-finances product certification in the construction, metal processing, and wood and furniture processing sectors. Product certification is co-financed at a rate of 75% with an upper limit of EUR 10 000. Beside these schemes, KIESA launched a new co-financing scheme in 2018, which co-finances SMEs' purchases of machinery for production purposes by up to 75%. The budget for this scheme was EUR 1.5 million in 2018 and 36 SMEs had already benefitted from it at the time of writing.

In Serbia, under the Create Life programme, start-ups can benefit from a dedicated start-up programme, implemented by RAS in co-operation with accredited RDAs. The programme consists of two stages. In the first stage, start-ups must complete training before being eligible to apply for the second stage, which provides co-financing for the purchase of fixed assets, adaptation and/or reconstruction of business premises, supplies, and raw materials. In 2017, the total available funds for the programme amounted to RSD 120 million (Serbian dinars; approximately EUR 988 500). Start-ups can benefit from up to RSD 1 million (approximately EUR 8 240) and the programme co-finances 70% of eligible project costs for production and processing activities and 50% of eligible project costs for services.

In Bosnia and Herzegovina, as noted above, BSS programmes are designed and implemented at the entity level. In the Federation of Bosnia and Herzegovina, under the Strengthening Competitiveness of SMEs programme the FMRPO provides co-financing of 50% of eligible costs to SMEs in three areas: 1) technological improvement, improvement of product quality and standardisation of business and production processes; 2) training; and 3) market access and product promotion. In 2017 the budget for the first area was BAM 1.2 million (Bosnia and Herzegovina convertible marks; around EUR 612 250), BAM 250 000 (around EUR 127 560) of which was funded by the EU; BAM 500 000 (EUR 255 100) for the second area, with BAM 200 000 (around EUR 102 100) financed by the EU; and BAM 300 000 (EUR 153 100) for the third area. The upper limits for support are fixed at BAM 38 000 (EUR 19 400) for the first area, BAM 17 000 (EUR 8 675) for the second area and BAM 10 000 (EUR 5 110) for the third area. Entrepreneurs under the age of 35 and women entrepreneurs have preferential access to this programme. In the Republika Srpska, RARS provides co-financing for consultancy support within the Consultant Network programme, covering 50% of eligible costs. The total amount allocated to this programme in 2018 was BAM 38 000 (EUR 19 400). The upper support limit was fixed at BAM 3 000 (EUR 1 531).

In Montenegro, co-financing is available to SMEs under the nine Business Stimulating programmes. For example, under the Innovation Enhancing in SMEs programme, SMEs in the processing industry which meet certain criteria can receive co-financing for 50% of consultancy costs, up to an upper support limit of EUR 3 500 in 2017. In North Macedonia, the APPRM offers a voucher scheme for consulting services. For 2018, it allocated a total budget of MKD 900 000 (Macedonian denars; around EUR 14 635) to this scheme, which addresses two target groups. It entitles SMEs to co-financing of 50% of consulting costs with an upper support limit of MKD 45 000 (EUR 732). SMEs with innovative projects – i.e. with the potential for developing new products, services or processes – are entitled to up to MKD 90 000 (EUR 1 463).

Quality control mechanisms, such as accreditation procedures for private sector providers, help ensure that the BSSs they deliver are of suitable quality. Despite their use of co-financing schemes, not all of the WBT economies have mechanisms in place to ensure the quality of the services performed. During this assessment period only the relevant public institutions in North Macedonia and Turkey made their co-financing schemes conditional on the use of accredited consultants.

SMEs can find information about private sector consultants from chambers of commerce in all the WBT economies. However, governments, through SME agencies or dedicated public institutions, can play an important role in helping SMEs identify the most suitable private BSS provider, without actually prescribing one particular service provider (Braidford and Stone, 2016[8]). Although the relevant public institutions in all WBT economies provide information on their co-financing schemes, only the Republika Srpska in Bosnia and Herzegovina, Montenegro and North Macedonia provide an online database of private sector consultants.

The relevant public institutions in all WBT economies monitor their co-financing schemes, but only Albania benefitted from an independent evaluation

The relevant public institutions in all the WBT economies monitor the implementation of their co-financing schemes, make information on programme beneficiaries publicly available and collect feedback on beneficiaries' satisfaction levels (though this is not consistently collected in Bosnia and Herzegovina).

However, out of the seven WBT economies, only Albania has had the opportunity to benefit from an independent in-depth evaluation of its co-financing schemes. In 2017, supported by GIZ, independent experts conducted a technical evaluation of all the co-financing support mechanisms for SMEs Albania operated between 2013 and 2017. The resulting 70-page document (Memi and Shkodrani, 2017[19]) includes quantitative data on the uptake of each funding scheme (number of applicants and number of beneficiaries) and evaluates the funds' administration based on two sources of qualitative information: 1) interviews with staff from AIDA and the Ministry of Finance and Economy, who were involved in the funds' management, and interviews with applicants and beneficiaries; as well as 2) a questionnaire distributed to 50 SMEs. Based on the findings and international good practice examples, the evaluation provided general recommendations for all of the funds. It also detailed the strengths and weakness of each fund and for each weakness provided a recommendation on how to improve it.

The way forward for government initiatives to stimulate private business support services

In order to facilitate the growth of a diversified BSS provision market, policy makers in the WBT economies should:

- **Continue supporting the development of a sustainable market of private sector BSS providers**. The relevant public institutions in the WBT economies should keep running their co-financing schemes and, where relevant, gradually reduce their dependency on donor support. They should check that the eligibility criteria for their co-financing schemes are not so strict that they discourage SMEs from applying. Policy makers should also consider creating and regularly updating a database of private sector experts, specialists and consultants which is easily accessible to the public, and promoted among SMEs. Private sector providers included in this "official" database should be required to have a minimum level of experience and qualifications and, ideally, be accredited by recognised professional bodies. This would guarantee the quality of services delivered and would also encourage SMEs to be more enthusiastic in seeking privately delivered BSSs, with benefits for their performance and growth.
- **Boost co-financing scheme uptake by adapting them better to SMEs' needs.** SMEs often do not take advantage of co-financing schemes. Korea's SME Training Consortiums Program assessed SMEs' training needs in order to provide them with tailor-made training, thus increasing programmes' attractiveness and uptake (see Box 5.4).

Box 5.4. The Korean SME Training Consortiums Program

Background

The Korean SME Training Consortiums Program (later the National Human Resources Development Consortiums Program) was developed in response to the Asian financial crisis of 1997. This initiative was developed because small firms were failing to respond to financial incentives offered through a training rebate system.

Only 21% of SMEs, and only 4% of SME employees, were accessing training levy rebates, compared with 78% of larger firms, and 38% of employees of larger firms. Low participation levels among small firms suggested that the financial incentives were often insufficient to convince SMEs to train their workers (Woo Lee, 2016[5]). Larger enterprises often benefit more from a levy system as they have staff members who specialise in identifying training needs and organising training inside and outside the firm. Moreover, procedures to claim training rebates are often time consuming for SMEs.

Programme activities

In 2001, the Government of Korea tested a pilot in-service training project which organised industry and geographically determined groups of SMEs into training consortiums (TCs). The government provided each TC with financial support to hire two training managers, who were tasked with providing TC members with technical and institutional assistance to identify their training needs. Since the 2001 pilot programme, many entities, including employers' associations, large enterprises and training

institutions have participated in the programme.

In particular, local chambers of commerce have assisted groups of 30-50 SMEs in the same geographical area and industry to organise themselves into TCs and have also financed two training managers for each consortium. The training managers have established information networks including websites and email lists, conducted surveys of the training needs of SMEs by interviewing managers and workers, established contracts and collaborations with training institutions to develop curricula, and monitored training activities and conducted evaluation studies upon their completion. Despite some limitations, the pilot project was deemed a success and the government scaled up the initiative.

Obstacles encountered

The project was initiated with the expectation that SME members of each TC would be part of the same sector or industrial association. However, as the number of TCs increased, they lost homogeneity and solidarity among member SMEs. The TCs started including SMEs from multiple industrial sectors, which prevented training managers from effectively organising training courses and arranging specialised training.

Sources: Extracted from OECD (2017[1]) "Enhancing productivity in SMEs: Interim report"; Woo Lee (2016[5]) "Skills training by small and medium-sized enterprises: Innovative cases and the consortium approach in the Republic of Korea", www.adb.org/sites/default/files/publication/188802/adbi-wp579.pdf.

- **Strengthen the monitoring and evaluation** of BSSs provided through co-financing schemes. This will be of paramount importance if the effectiveness of BSS initiatives is to be improved. An interesting example of the importance and benefits that regular monitoring and evaluation bring to the quality of BSSs is Italy's NIBI-Promos training portfolio (Box 5.5). This undergoes regular evaluation by independent external experts, with an obvious positive impact on service quality and effective strategy development and adjustments. It will also be important for WBT governments to cater for the independent and professional monitoring and evaluation of the services provided by private sector suppliers. This would not only ensure a minimum level of service quality and a greater impact on SME productivity, but also encourage SMEs to be more enthusiastic in seeking the benefits of privately delivered BSSs.

Box 5.5. Italy's NIBI-Promos programme: Doing Business Abroad with NIBI

Background

The Nuovo Istituto di Business Internazionale (NIBI) was created in 2009 by the Milan Chamber of Commerce and Promos, a public agency dedicated to supporting SME internationalisation, in order to 1) provide high-level executive education on international business; 2) facilitate stakeholder dialogue, involving chambers of commerce and business associations; and 3) provide a stimulus to positively influence business practices, public policy making and social growth.

Programme activities

Since 2014, NIBI and Promos have been refining the training and support package they offer to Italian SMEs, bringing SMEs, private sector trainers and experts together under

the same roof.

Demand for training is analysed and SMEs' needs assessed on a regular basis thanks to the intelligence gathered through the daily interactions between the chamber's departments, including Promos and NIBI, with SMEs in all sectors of industry present in the region. Additional intelligence comes from information exchanged with chambers of commerce in other cities and regions which also keep in regular contact with their own local SMEs. This data collection exercise is complemented by surveys conducted by the Milan Chamber of Commerce to inform training design and content development.

The design of the training programme starts with the involvement of specialist trainers who develop the content in line with the analysis of these data, benchmarking, survey results and reviews of company profiles. The training programme is shared with participants beforehand through personal meetings or conference calls, which are also used to confirm participants' attendance.

The training programme, designed to suit the needs of SMEs' owners and managers, lasts two months, and it consists of five weekend modules, offered at an average cost of EUR 1 000 (plus value-added tax) for 8 hours of training. The cost covers teaching, facilities, classroom equipment and training materials. Over the 60 hours of the programme, participants familiarise themselves with the main tools and competences required to effectively operate internationally, including a review of the international economic context, business and investment opportunities, adequate marketing and entry strategies, and business culture in selected target markets.

The training programmes, developed in line with international quality standards, provide professional learning experiences. NIBI and Promos have been awarded CISQ-Certiquality accreditation, UNI EN ISO 9001:2008 and the SGQ Certificate.

The delivery has a practical and interactive focus, and is based on presentations, case studies, group work and real-life scenario analysis.

Impact

Over the last nine years, NIBI and Promos have supported over 5 000 managers and professionals from SMEs all over Italy. Participants' learning outcomes from the training are:

- gaining familiarity with international markets, their features, dynamics, and policies
- gaining familiarity with international initiatives that support SMEs' internationalisation (including tenders and calls for projects)
- conducting an international market analysis to identify opportunities for their company
- developing suitable and effective internationalisation strategies.

Participant satisfaction is measured during the training via a satisfaction questionnaire, while a final questionnaire is used to provide feedback on the entire programme. The level of skills increase is assessed via practical exercises during the training programme. An e-learning platform allows participants to assess their knowledge and skills level throughout the course of the programme.

Sources: NIBI (2018[20]), *NIBI website*, http://www.nibi-milano.it; Promos (2018[21]), *Promos website*, www.promos-milano.it; interviews with NIBI representatives.

Conclusions

Overall, the relevant public institutions in all the WBT economies have taken positive steps in this assessment period to improve the provision of business support services to SMEs.

They have all included measures to strengthen BSSs in their wider SME policy framework and have dedicated public institutions which assure their implementation. Some economies have made noteworthy efforts to improve their understanding of SMEs' differentiated needs for services, or have benefitted from in-depth independent assessments of their support. Most WBT economies have made information about BSSs more accessible, notably by establishing a single web portal which centralises information about the BSSs available from different institutions.

However, this assessment also found that SMEs' uptake of support services is still very low in most of the WBT economies. The relevant public institutions in all the economies should focus on the design of their BSS offer and use monitoring results to adjust their plans accordingly. In particular, they should make sure that they regularly assess SMEs' demand for BSSs to ensure that the public offer corresponds to the characteristics and dynamics of their SME base, and that suitable support is available for different sectors and stages of development. Similarly, their BSS programmes should be monitored and evaluated against clear performance indicators, taking into account feedback from beneficiaries. They should also assess beneficiaries' performance after support, by comparing them with a control group.

Addressing the recommendations put forward in this chapter will help the relevant institutions in the WBT economies to increase the return on their BSS programmes in terms of SME survival rates, productivity and employment generation.

Notes

[1] Business support services can be defined as "non-financial services that enable companies to enhance their competitiveness and improve their performance across a wide range of activities. This includes the provision of specialist external advice and expertise to facilitate the enhancement of internal resources and capabilities" (OECD et al., 2016[13]; OECD, 1995[24]).

[2] According to a search conducted by the OECD in the core collection of the Web of Sciences in 2017. For more information on the search parameters, see OECD (2017[1]).

[3] In this SBA assessment cycle, in order to better understand how effective the SME policy implementation is and what its outcomes are, the assessment also included 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. The questions for this dimension aimed to assess the extent to which 1) SMEs had benefited from BSSs which were delivered or co-funded by a public institution; 2) SMEs were aware of publicly (co-) financed BSSs; and 3) BSSs (co-)funded by the government covered the areas needed by SMEs. They also covered SMEs' perceptions of the quality, quantity and accessibility of publicly (co-)funded BSSs. See Annex C for more details.

[4] 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.

[5] In 2013, the Japan International Cooperation Agency (JICA) launched the project on the Establishment and Promotion of Mentoring Service for SMEs in the Western Balkans in

co-operation with the ministries of economy and regional development agencies of Serbia, Bosnia and Herzegovina, and Montenegro. The objective of the project in Serbia has been to improve the mentoring system and to provide mentoring services in the whole of Serbia. The scope of the project in Bosnia and Herzegovina and Montenegro has been to improve the capability of SME support institutions and to promote the development of local SMEs by introducing the mentoring service. The first phase of the project lasted until 2016. In 2017, JICA and the three economies launched the second phase of the project, which runs until 2020. The second phase also includes North Macedonia and seeks to develop or further enhance a mentoring system provided through development agencies in those four countries.

[6] See Annex C for further information on these interviews.

[7] For example, to benefit from the Fund for Support Start-up Enterprises, which had a budget of ALL 10 million (approximately EUR 79 640) in 2018, SMEs need to 1) be registered in the commercial register, for the first two years of activity; 2) be classified as an SME according to Law No. 8957; 3) be registered or have their main place of production within the territory of Albania; 4) have a business plan or a project and be able to duly implement the scheduled activities in timely fashion; 5) create a minimum of 1-3 new jobs in the 12 months from the moment they receive the funds; and 6) be able to finance 50% of all project costs in the application submission phase.

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Chapter 6. Public procurement (Dimension 5b) in the Western Balkans and Turkey

This chapter assesses the systems and procedures required in the Western Balkans and Turkey to facilitate SMEs' access to the public procurement market. It starts by outlining the assessment framework, then presents an analysis of Dimension 5b's three thematic blocks: 1) policy and regulatory framework, which assesses the policy and regulatory framework for public procurement, especially activities and legal provisions that are most relevant to SMEs; 2) implementation, which assesses how public procurement provisions are implemented in practice; and 3) monitoring and evaluation, which assesses whether access to public procurement markets by economic operators is monitored and evaluated, especially for SMEs. The chapter makes specific recommendations for improving SMEs' access to public procurement procedures in the Western Balkans and Turkey.

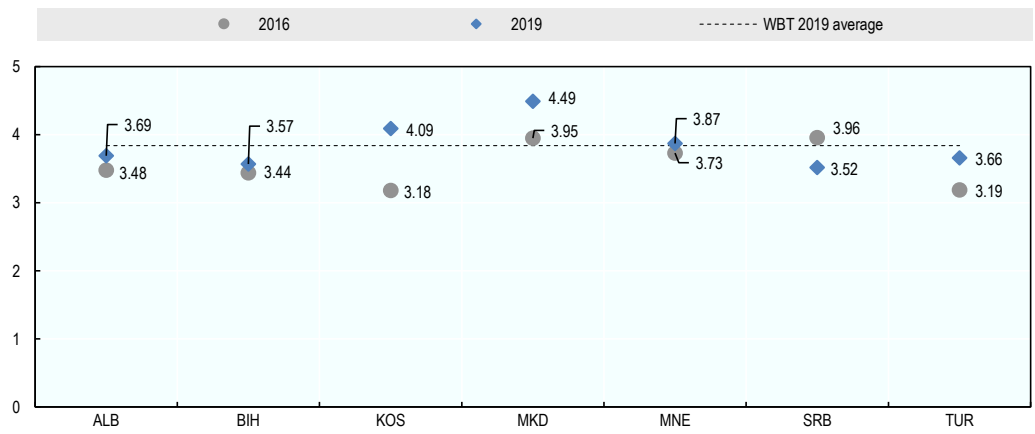
Key findings

- **The assessed economies have made progress, particularly in improving public procurement policy and regulatory frameworks**, but also in implementation, monitoring and evaluation.
- **Some economies have improved their public procurement legislation**, especially provisions relevant to SMEs. They have simplified public procurement procedures by easing documentary evidence requirements and thereby reducing the administrative burden on SMEs, or allowed for the use of non-price criteria for awarding contracts.
- **A few economies still use domestic preferences,** which do not comply with the principle of equal treatment of economic operators.
- **There are still limitations in the areas of subcontracting and joint bidding,** such as requirements that groups of economic operators adopt specific organisational forms.
- **The procurement regulatory framework will be further improved** once new laws are adopted to implement the 2014 EU Directives on public procurement.
- **Not all economies provide sufficient advice, support and training to help SMEs access to public contracts**.
- **None of the economies collect, analyse or publish** enough information on SME participation in public procurement markets.

Comparison with the 2016 assessment scores

While almost all seven assessed economies could improve their scores since the 2016 assessment, Kosovo, North Macedonia and Turkey witnessed the strongest increases (Figure 6.1). With a score above four, North Macedonia and Kosovo performed best in the 2019 assessment.

Figure 6.1. Overall scores for Dimension 5b (2016 and 2019)



Note: Scores for 2019 are not directly comparable to the 2016 scores due to a methodological change increasing the focus on 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

All the recommendations in the SME Policy Index 2016 have either been implemented, or are being implemented, by all the assessed economies (Table 6.1).

Table 6.1. Implementation of the SME Policy Index 2016 recommendations for Dimension 5b

Overall 2016 recommendations	SME Policy Index 2019	
	Main developments during the assessment period	Regional progress status
Further align national legislation with EU rules and international best practice	- All economies regulate public procurement in accordance with the basic standards of EU directives and international best practice. Further alignment is needed with the requirements of the 2014 EU procurement directives.	Moderate
Encourage the division of contracts into lots wherever possible	- All economies already make provisions in their public procurement legislation for contracting authorities to divide public procurement into lots; however, this is not obligatory in any of them, and those contracting authorities who decide not to use lots do not have to justify their decision. Implementing the provisions of the 2014 EU procurement directives will introduce an obligation to substantiate a decision on non-division into lots.	Moderate
Reduce the administrative burden of participating in public procurements	- Economies have diminished the administrative burden of participating in public procurements.	Moderate
Establish an impartial and independent review body where not yet established	- Economies have already established impartial and independent review bodies in accordance with standards required by the EU Remedies Directives.	Moderate
Increase the use of non-price criteria for awarding contracts, to give public buyers best value for money	- Across the region there is a general trend away from applying non-price criteria. However, adopting the new public procurement provisions based on the 2014 EU procurement directives should lead to some progress, as they establish the principle of awarding contracts on the basis of the most economically advantageous offer and encourage the application of non-price criteria.	Moderate
Tackle the problem of late payments to contractors	- All the economies have regulations directly tackling this issue.	Advanced

Introduction

Easy access to public procurement markets can help small and medium-sized enterprises (SMEs) to unlock their potential for job creation, growth and innovation, while having a positive impact on the economy. Greater SME involvement in public procurement also allows contracting authorities to broaden their potential supplier base, securing the positive effects of greater competition for public contracts as a counterbalance to dominant market players (SIGMA/OECD, 2016[1]).

In order to make public procurement of all sizes as accessible as possible to SMEs, in 2008 the European Commission (EC) published the *European Code of Best Practices: Facilitating Access by SMEs to Public Procurement Contracts* (EC, 2008[2]). The code highlights and details a number of practices for tendering within the EU regulatory framework that optimise SME participation and ensure equality of opportunity. It also describes good practices and provides guidance to EU Member States and their contracting authorities in order to fully exploit the potential of the EU public procurement directives[1]. The code aims to provide a level playing field for all economic operators who wish to participate in public tenders.

Public procurement is an area where SMEs face particular difficulties. Procedural rules are often complex and the effort needed to take part seems too great, given the uncertain outcome. While this is a matter of concern for all companies, SMEs are particularly affected. They often lack the resources and know-how to deal with burdensome administrative requirements and cannot afford to spend money and time on a potentially fruitless exercise. As a result, SMEs often shy away from participating in calls for tenders. Even where SMEs are prepared to tender, they are often prevented from doing so by unfavourable conditions. In many cases, the size of the contract is simply too large for a small company to implement, even though SMEs would be capable of offering good value for money otherwise. In other cases, SMEs are excluded by disproportionate qualification or financial requirements which are not justified by the nature and size of the contract in question. Last but not least, where SMEs do manage to get a contract and implement it successfully, late payments – a widespread problem in the public sector – are particularly harmful to them.

Increasing the generally low participation rate of SMEs in public procurement would boost competition and could result in lower prices. SMEs are often particularly innovative and may offer solutions that larger companies cannot provide. The obstacles to participation are not insurmountable; in fact, a few relatively simple legislative changes can greatly improve the situation for SMEs, if they are supported by a favourable mindset. Governments can increase SME participation through a number of measures. In many cases, very large contracts are not justified for goods, services or works, and purchases could take place through a number of smaller contracts or by encouraging subcontracting instead. Legislation may prescribe the division of contracts into lots by default, putting the burden of proof onto the contracting authorities to provide good reasons for any deviation from that rule. Likewise, it would be reasonable and proportionate in most cases to limit tests for the financial ability of tenderers to the minimum necessary and tenderers should be allowed to submit joint bids to meet the requirements together. The administrative burden of submitting a tender can also be reduced, for instance by not requiring supporting documents during the tendering process. SMEs would benefit from electronic procurement, as this would make information more easily available at a lower cost and facilitate the submission of bids. Legislation setting

strict deadlines and penalties for late payment by the public sector is a first step towards avoiding late payments to contractors, though not sufficient on its own.

Assessment framework

Structure

This chapter analyses the policies and tools in place to improve SMEs' access to the public procurement market across the six Western Balkan economies and Turkey. The dimension focuses on the 20 indicators listed in Annex 6.A at the end of this chapter, divided into three thematic blocks: 1) policy and regulatory framework; 2) implementation; and 3) monitoring and evaluation (Figure 6.2).

The indicators assess, among others, the extent to which public authorities take into account SMEs' needs in the procurement process, including division of public procurement into lots, participation of groups of economic operators in public procurement procedures, and qualifications requirements related to and proportionate to the object and value of procurement.

Other indicators measure whether:

- relevant institutions have a specific strategy for supporting SMEs in public procurement
- public procurement is open to foreign enterprises (either SMEs or large enterprises) to ensure a fair level of competition
- information on public procurement is available centrally and free of charge for all participants
- public institutions offer training and a help desk to interested firms
- public institutions use electronic procurement, from providing information on procurement opportunities online, to the electronic submission of tenders
- there is legislation in place imposing strict deadlines for payments from public authorities, and penalties for non-compliance.

Additionally, outcome indicators (see Figure 6.2) were applied in order to check the extent to which the policies implemented by the government are having the intended results. However, these have not been taken into consideration in the scoring because the required information was, in most cases, not provided or not available.

Figure 6.2. Assessment framework for Dimension 5b: Public procurement

Public procurement

Outcome indicators
Share of SMEs in the total value of public contracts awarded
Share of SMEs participating in public tenders
Average delay in payments from public authorities (in days)
Share of SMEs submitting proposals in a public electronic tender system (e-procurement)
Share of contracts awarded to foreign economic operators
Value of contracts awarded to foreign companies as a share of the total value of procurement in the country

Thematic block 1: Policy and regulatory framework	**Thematic block 2**: Implementation	**Thematic block 3**: Monitoring and evaluation

Note: The outcome indicators serve to demonstrate the extent to which the policies implemented by the government bring about the intended results, and they have not been taken into consideration in the scoring.

This assessment, like the one conducted in 2016, is not a comprehensive assessment of public procurement systems in the Western Balkan economies and Turkey (WBT). It only focuses on those elements in the legislative framework and practice in the field of public procurement that are relevant to SMEs. Issues such as the integrity and fairness of public procurement procedures, detecting and combating corruption practices, favouritism, and conflicts of interest are outside its scope. For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A at the end of this report.

Other questions in the questionnaire also sought the following statistical data:

- the share of public procurement divided into lots
- the share of public procurement for which economic operators submitted joint offers (as groups of economic operators or consortia).

The questionnaire asked also whether the economies' relevant institutions collect and analyse the following statistical data:

- the share of public contracts awarded to SMEs
- average payment delays in public procurement
- the share of public contracts awarded to foreign economic operators.

Face-to-face interviews with SMEs and chambers of commerce were part of the assessment framework. The purpose of those interviews was to compare the responses received from governments with the information provided by independent consultants and to get additional information (see Annex C).

Key methodological changes to the assessment framework

Since the questionnaire in 2016, the 2019 assessment has evolved to capture more information on various issues related to SMEs' participation in public procurement procedures (Table 6.2). For example, it includes new questions on the strategy and policy framework for supporting SMEs in public procurement. A few general questions have been broken down to obtain more meaningful information on rules and practices, such as for dividing public procurement into lots; requirements for documentary evidence provided by third parties and self-declarations of economic operators; participation by groups of economic operators (consortia) and potential limitations; requirements for tender securities/guarantees, such as their maximum amounts, forms in which they may or must be submitted and conditions of their return or forfeit; and subcontracting and its potential limitations. Finally, questions about the limitations on foreign companies' participation in public procurement procedures (such as domestic preferences) have been reformulated and/or removed. The total number of indicators has been increased from 7 to 20.

This assessment also put more emphasis on implementing legal provisions and monitoring and evaluating their application. The emphasis on weighting scores has also changed: the weight of implementation was increased from 45 to 50%, while the weight of the policy and regulatory framework was reduced from 35 to 30% (see Annex 6.A).

Table 6.2. Key changes in the composition of Dimension 5b

	Key changes since 2016 assessment
Change 1	This assessment requests more information on general issues of SME participation in public procurement procedures, in particular strategic and policy framework to support SMEs' participation in public procurement
Change 2	Questions on limitations to foreign companies' participation in public procurement procedures were reformulated or removed
Change 3	The number of indicators was increased from 7 to 20
Change 4	The weights of the thematic blocks in the overall scores have been altered. Greater focus has been placed on implementation (5% increase in the allocated weight).

Analysis

Performance in public procurement

Outcome indicators play a key role in examining the effects of policies and they provide crucial information for policy makers to judge the effectiveness of existing policies and the need for new ones. Put differently, they help policy makers track whether policies are achieving the desired outcome. The outcome indicators chosen for this dimension (see Figure 6.2) are designed to assess the Western Balkan economies and Turkey's performance in public procurement and particularly in enabling SMEs to participate in this key market. This analysis section starts by drawing on these indicators to describe the economies' performance.

In OECD countries, public entities and bodies spend large sums of money purchasing goods, services and works. Public procurement represents, on average, 12.0% of the GDP of OECD countries and almost one-third of government expenditure. This share is lower in the WBT economies, according to the data provided by respective central procurement offices in their annual reports. It is estimated that the value of contracts awarded in the Republic of North Macedonia amounted to 10.0% of gross domestic product (GDP) in 2016 (EC, 2008[3]). In Montenegro, public procurement represented 12.33% of GDP (in 2017); but the figures are much lower in Bosnia and Herzegovina (7.84% in 2016, although in 2012 it was 12.95%), Serbia (7.68% in 2017), Kosovo* (7.35% in 2017) and Albania (7.0% in 2017) (Public Procurement Administration of Montenegro, 2018[4]; Public Procurement Agency of Bosnia and Herzegovina, 2017[5]; Public Procurement Office of Serbia, 2017[6]; Public Procurement Regulatory Commission of Kosovo, 2018[7]; Public Procurement Agency of Albania, 2018[8]).

Despite the potential benefits SMEs could gain from public procurement markets, their participation is lower than their overall weight in the economy. In other words, the SME success rate (expressed as the share of contracts won in procurement procedures) is lower than it should be, given the share of SMEs in the economy. For example, in North Macedonia in 2016 there were 6 902 companies registered in the Electronic System of Public Procurement (ESPP, an electronic public procurement portal), of which 2 265 were micro companies and 4 027 SMEs (Public Procurement Bureau, 2017[9]).

* 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.

Micro companies and SMEs therefore together represented more than 91% of all economic operators using the ESPP. Micro, small and medium-sized enterprises combined won the vast majority of contracts (83% of those awarded in 2016), but in terms of the value of contracts won their share of the procurement market was smaller, at 64% (Public Procurement Bureau, 2017[9]).

The assessment results show that all seven economies guarantee a review for aggrieved economic operators by independent procurement review bodies. This is available to economic operators whose interests in specific public procurement contracts were breached by contracting authorities' omissions or actions that were not consistent with the law. Access to those bodies is not hindered by unrealistic time periods for submitting complaints or excessively high costs. Relevant public procurement rules also require review body decisions to be made as quickly and smoothly as possible, and to be enforceable. Table 6.3 presents the scores for the WBT economies for public procurement.

Table 6.3. Scores for Dimension 5b: Public procurement

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Policy and regulatory framework	3.51	2.89	4.76	4.29	4.53	3.59	3.90	**3.92**
Implementation	4.28	4.28	4.28	5.00	3.39	3.57	3.57	**4.05**
Monitoring and evaluation	2.50	2.85	2.67	3.57	4.16	3.39	3.57	**3.24**
Weighted average	**3.69**	**3.57**	**4.09**	**4.49**	**3.87**	**3.52**	**3.66**	**3.84**

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

Policy and regulatory framework (Thematic block 1)

In order to attract SMEs to the public procurement market, the WBT economies need to establish stable and solid legal frameworks for public procurement. Transparent, fair and competitive rules, consistently applied, are essential. Potential bidders need to know what rules to respect, where to find relevant information, what requirements and conditions to fulfil and so on. The purpose of this section is to assess the policy and regulatory framework for public procurement, especially those activities and legal provisions that are most relevant to SMEs. It asks whether the WBT economies have adopted strategic documents on activities specifically for SMEs and whether their public procurement regulations provide solutions relevant to SMEs.

There are multi-year public procurement strategies in all the economies

One key element of the public procurement policy framework is a multi-year strategic document setting out which activities should be undertaken by relevant institutions in order to improve how the system works.

All the assessed economies have adopted multi-year national strategies for developing their public procurement systems. Although none of the economies has a strategy dedicated exclusively to the needs of SMEs in public procurement, most dedicate some of the activities envisaged in their public procurement strategies to SMEs, such as

simplifying (streamlining) contract award procedures, reducing administrative red tape, and providing training and consultation.

For example, in Bosnia and Herzegovina the Public Procurement Strategy states that amendments to the Public Procurement Law (PPL) should pay particular attention to SMEs' situation in the public procurement market. They should also define elements which would improve SMEs' participation in public procurement procedures. In particular, according to the strategy, training on public procurement and developing electronic procurement should take SMEs' specific needs into account.

Foreign bidders do not always have the same access as domestic ones

One of the cornerstones of a public procurement system is the principle of equal treatment for all economic operators which have the capacity and resources to provide goods or perform services for the public administration, regardless of their origin or organisational form.

Most WBT economies provide for equal treatment of foreign companies in public procurement: economic operators enjoy free access to public procurement procedures regardless of the country of their origin, while domestic suppliers are not given privileged treatment. However, Bosnia and Herzegovina, Serbia, and Turkey outline "domestic preferences" in their public procurement provisions, i.e. preferential treatment for offers submitted by domestic economic operators.

In Bosnia and Herzegovina, the PPL makes it mandatory to apply preferences to domestic bidders via a special implementing regulation adopted by the Council of Ministers.[2] Accordingly, prices given in bids submitted by domestic bidders are calculated with an added preference factor: 10% for procurement procedures in the period 2017-18 and 5% until the end of 2019. Only domestic bidders – understood as natural or legal persons resident in Bosnia and Herzegovina, and established in accordance with the economy's binding regulations – have access to this preferential treatment. However, according to the 2013 Stabilisation and Association Agreement (SAA) between Bosnia and Herzegovina and the European Union (EU), companies from the EU not established in Bosnia and Herzegovina should have equal access to the domestic public procurement market no later than five years after the entry into force of the agreement (Article 74, No. 4) (EC, 2015[10]).

Serbia's Public Procurement Law also provides for mandatory domestic preferences. If a contract award is based on the criterion of the most advantageous tender, and tenders were submitted by both domestic and foreign bidders to provide services or perform works, the contracting authority should choose the most advantageous domestic bid. However, the difference in the final sum of weighted points between the most advantageous bids of a foreign and a domestic bidder should not be more than five points in favour of the foreign bidder. If the contracting authority applies the criterion of the lowest offered price, the contracting authority must select the domestic bidder, provided that the price offered is not more than 5% higher than the lowest price offered by a foreign bidder. The new PPL, a draft of which is being processed at the time of writing, will not provide for domestic preferences, ensuring equal treatment of all foreign suppliers. However, until the new PPL is adopted, the current preferences must be applied, in accordance with Serbia's international obligations. Since the 1 September 2018, when the transitional period provided in the SAA between Serbia and the EU expired, tenders submitted by companies from EU countries benefit from the same preferential treatment as Serbian companies, against companies from non-EU countries.

As for Turkey, the PPL stipulates two types of domestic preference: 1) the right to exclude foreign suppliers from public procurement procedures; and 2) a margin of preference in favour of domestic suppliers when evaluating tenders. First, the contracting authorities may decide that foreign economic operators are not allowed to participate in a given procurement procedure (an option left to the discretion of contracting authorities). Second, a price advantage of up to 15% should be given in favour of Turkish bidders in services and works, and to bidders (both domestic and foreign) offering Turkish products in procedures involving the supply of goods. Foreign bidders can also benefit from the price advantage if they obtain a domestic goods certificate for the products they produce in Turkey, or offer products with a domestic goods certificate. For tenders with the same value at the evaluation stage, a preference may be given to the supplier whose offer has more Turkish content. The compulsory domestic preference margin (a price advantage of up to 15%) is applied to goods procurement procedures for medium- and high-technology products. In 2015, the Ministry of Industry and Technology produced a list of these products. The list is updated in January of each year following consultations with enterprises in the sector and is reported to the public procurement authority.

Large procurement contracts can be divided into lots

One of the instruments contracting authorities can use to improve SMEs' chances in public procurement is to divide large but heterogeneous contracts into smaller chunks, or lots, which are better suited to SMEs' capacities (SIGMA/OECD, 2016[11]). This instrument is now explicitly provided for in the 2014 EU procurement directives.

All the assessed economies allow procurement contracts to be divided into smaller lots that are more accessible to SMEs. In Albania, the legislation encourages division into lots in order to increase SME participation in procurement procedures;[3] however, this is not obligatory. In Bosnia and Herzegovina, the PPL allows contracting authorities to divide public procurement contracts into lots, but there is no obligation to do so. When procurement is divided, then all the lots must be marked in the bidding documentation in a way that allows bidders to submit bids for one lot, several lots or all lots. The contracting authority needs to clearly and precisely define in the bidding documentation the conditions and manner for submitting bids for lots. Public procurement contracts should be concluded separately for each lot. If one bidder is successful for two or more lots, a single contract may be concluded. Contracting authorities may also limit the number of lots for which bidders may apply. In this case they must reject tenders from bidders who submitted tenders for more lots than they were allowed to. In practice, according to national authorities, division into lots is applied to 25-40% of procurement procedures. The Serbian Public Procurement Office annual report for 2017 concluded that this tool improves SMEs' access to the public procurement market (Public Procurement Office of Serbia, 2017[6]). It also reported that the number of concluded procurement contracts that were divided into lots rose from 51% in 2013 to 64% in 2017.

Late payments to contractors are regulated

One of the problems economic operators face in public procurement are late payments by public institutions for services performed or supplies delivered. Payments which are not made promptly pose an additional risk for SMEs, and affect them more than larger enterprises; it can severely affect their liquidity and in extreme cases force them out of the public procurement market.

All economies set maximum time periods for payments in public procurement and impose penalties for late payments. In Albania, contracting authorities are required by law to pay their contractors within certain time limits:[4] a maximum of 30 days for public authorities provided that the contract or other legal provisions do not state a different time period. The law gives the creditor the right to interest if payment is delayed.

In Bosnia and Herzegovina, legal provisions in both entities (the Federation of Bosnia and Herzegovina and the Republika Srpska) also require contracting authorities to pay their contractors within certain time limits. The deadline for paying economic operators is 60 days. If this period is not respected, economic operators can claim financial penalties or other comparable sanctions.

In Montenegro, the time period for payment is 30 days from the day that goods are delivered or services performed. A contract may allow longer, but no more than 60 days. Economic operators who have fulfilled their obligations to the contracting authority are entitled to statutory interest rates in the event of late payment.

Advance payments by contracting authorities – i.e. payments made while the contract is being executed – are especially beneficial to economic operators, particularly SMEs. Some economies explicitly allow for this. For example, in North Macedonia the contracting authority may provide an advance payment, but this cannot exceed 20% of the public contract value for the contracting authorities. Prior to the advance payment, the contracting authority requires a bank guarantee from the contractor for the amount agreed. In Montenegro, public procurement provisions also allow for advance payments to contractors (suppliers). However, advance payments are also subject to the contractors submitting a special guarantee.

Participation conditions in all economies are non-discriminatory and proportionate

In accordance with EU procurement rules and good international practice, any requirements imposed by contracting authorities on economic operators who would like to apply for public contracts should be non-discriminatory, transparent and related to the object of the public procurement in question. Excessive requirements on economic operators, especially if not justified by the complexity of the object of procurement, would deprive SMEs of a chance to participate in the public procurement market.

All the assessed economies require procuring entities to set participation requirements that are non-discriminatory, related to and proportionate to the object and value of procurement. In Albania, economic operators participating in a procurement procedure should fulfil the criteria deemed necessary by the contracting authority, provided that those criteria are proportionate to the nature and size of the contract, and non-discriminatory. In Bosnia and Herzegovina, the bidding documentation should define the minimum criteria required for candidates/bidders to qualify, in terms of personal capacities, economic and financial standing, and technical and/or professional ability. These minimum requirements, and the documents required to prove them, must be proportionate and relevant to the procurement subject matter. The requirements must not have a restrictive effect on competition and must be clear and precise. The contracting authority may only request from the candidates/bidders the evidence necessary to establish whether or not they meet the qualification requirements. In North Macedonia, contracting authorities are not allowed to apply requirements related to suppliers' economic and financial standing, or their professional or technical ability, that are not proportionate to the contract's subject matter.

In Kosovo, a contracting authority may require economic operators to submit evidence demonstrating that they meet the minimum economic and financial requirements specified in the tender dossier and the contract notice. The minimum annual turnover required from the economic operators should not exceed two times the estimated contract value. Requirements for the suppliers' economic situation must be expressed in figures and refer to no more than the last three financial years. Where bidders are required to show their specific minimum turnover in a field covered by the contract, this turnover should not be required to exceed 1.5 times the anticipated contract value. Economic operators should, as a general rule, be permitted to satisfy this requirement by submitting, as relevant and appropriate, one or more of the references listed in the PPL. However, if for any valid reason, the economic operator is unable to provide the references requested by the contracting authority, they can demonstrate their economic and financial standing by any other document that the contracting authority, using reasonable discretion, considers appropriate. In Montenegro, a contracting authority calling for competition may add optional as well as mandatory requirements. Optional requirements may refer to candidates or bidders' financial and economic standing as well as professional and technical capability, including human resources. In this case the contracting authority should indicate in the procurement notices which documents and certificates should be submitted by candidates or bidders together with their requests for participation or bids. The PPL lists the proof that economic operators can supply to fulfil contracting authorities' requirements.

In Turkey, the PPL specifies that economic operators must submit their economic, financial, professional and technical qualifications in order to prove they are able to perform the contract in question. The PPL also defines the conditions under which economic operators are deemed ineligible and should be excluded from public procurement procedures. The contracting authorities' tender documents and notices in invitations for procurement or pre-qualification should specify documents required for evaluating economic operators' qualifications, in accordance with the procurement subject matter. Serbia has adopted some good practices for simplifying the way that economic operators must prove that they satisfy the contracting authorities' requirements (Box 6.1).

Box 6.1. Good practice in simplifying evidence requirements in Serbia

In Serbia, the Public Procurement Law (PPL) offers a number of solutions that help SMEs participate in public procurement procedures. For instance, the contracting authority may stipulate in the tender documents that instead of submitting documents or certificates to fulfil all or some individual requirements, the bidder may make a statement confirming that it fulfils the requirements, under full criminal and material liability for false statements (except for when proving that the bidder has valid permission to conduct a given activity, if required). Only the bidder whose bid is evaluated as the most advantageous is asked to substantiate the statement by supplying the originals or certified copies of all or some of the proof, before the contracting authority decides on awarding the contract. The contracting authority cannot ask a bidder to supply this proof again when it already has adequate evidence from the same bidder from previous public procurement procedures.

The contracting authority also cannot refuse a bid on the grounds that it does not

contain evidence defined by the PPL or by tender documents if the bidder included in their bid the address of a publicly available website containing the requested data. Finally, in order to enhance SME participation, the PPL allows enterprises to use the Register of Economic Operators, held by the Agency for Economic Registers (www.apr.gov.rs). Economic operators which appear in the register do not have to provide the relevant evidence but merely prove that they are in the register, or supply the Internet address where the relevant information is publicly available. Since registration requires the same type of documents from economic operators as those participating in public procurement procedures, proof of registration is sufficient.

Source: Public procurement law, Official Gazette of the Republic of Serbia, No. 124 of 29 December 2012, No. 14 of 4 February 2015, No. 68 of 4 August 2015, www.ujn.gov.rs/en/propisi/zakon.

Tender and performance securities are all regulated

Another barrier to public procurement opportunities are instruments which are supposed to ensure that a tender is "serious" (tender securities), or to protect contracting authorities from a contract being implemented in a way that is untimely or inappropriate (performance guarantees). If their amounts are excessively high and not proportionate to the value of the contract such instruments may represent unsurmountable obstacles to SMEs for accessing public procurement.

All the assessed economies have rules regulating the amounts of tender and performance securities, the form they take, and the cases in which they should be either returned or retained. For example, in Albania the PPL allows the contracting authorities to request bidders to submit a tender security with their tenders for public procurement procedures with an estimated value above the high-value threshold. The decision as to request a tender security or not is left to the discretion of contracting authorities. The security amount should be proportionate to the estimated value of the procurement contract. The contracting authority requiring the tender security should specify in the tender documents all the requirements on the nature, form, amount and other essential conditions of the bid security. Some actions or omissions by bidders will result in forfeiting the security: withdrawing or modifying the bid after the submission deadline, or before the deadline, if this is prohibited in the tender documents; refusing to sign the procurement contract; failing to provide the performance bond when the contract has been awarded; or failing to comply with any other condition specified in the tender documents prior to signing the contract. Further details on tender security are given in the implementing rules. The tender security requested may not exceed 2% of the estimated value of the limit fund.

In Bosnia and Herzegovina, contracting authorities may request appropriate bid securities to guarantee bids but only if the procurement value is more than BAM 100 000 (Bosnia and Herzegovina convertible mark; around EUR 51 000). The PPL specifies the forms in which tender securities may be submitted. When the procurement value is equal to or more than this value, the bid security may not exceed 1.5% of the estimated contract value. For group bids, security must be submitted that corresponds to the requested amount, regardless of whether it is submitted by one member, several members or all members of the group of bidders. Requested performance securities may not exceed 10% of the contract value.

In North Macedonia, the contracting authority can require tenderers to provide a tender guarantee in the form of a bank guarantee or deposited funds and must state this in the tender documentation. The amount must not exceed 3% of the tender value. The tender

guarantee should be submitted together with the tender in original form. The contracting authority can retain the tender guarantee if the tenderer:

- withdraws its tender before the expiry of the validity period of the tender guarantee
- fails to accept correction of arithmetical errors made by the commission
- fails to sign the public contract after being selected as winner
- fails to provide the performance guarantee, if required by the contracting authority in the tender documentation.

The contracting authority may require the winning tenderer to provide a performance guarantee (of proper execution of a contract) in the form of a bank guarantee which can range from 5% to 15% of the public contract value. However, this cannot be requested in design contests or procurement procedures for consultant services. Where the economic operator fails to submit a tender or performance guarantee, the contracting authority will issue a negative reference. This is published on the Electronic System of Public Procurement (ESPP) website and results in the automatic exclusion of an economic operator from participating in procurement procedures for one year from the date of publication.

In Kosovo, a contracting authority can require a tenderer to submit a tender security for a large- or medium-value contract. The tender security should be forfeited if:

- the contracting authority determines, on the basis of objectively verifiable evidence, that the tenderer has provided materially false or misleading information to the contracting authority
- the tenderer withdraws its tender after the deadline for tender submission, but before the tender validity period expires as specified in the tender dossier
- the tenderer is awarded a contract on the basis of its tender, and then refuses or fails 1) to submit any required performance security specified in the tender dossier; 2) to comply with any other condition specified in the tender dossier for signing the contract; or 3) to execute a contract that conforms to the terms and conditions specified in the tender dossier.

Where a tender security is requested, it should be no less than 1% and no greater than 3% of the estimated value of the public contract or design contest, but in any case should be at least EUR 1 000.

In Montenegro's public procurement procedures, the contracting authority can require economic operators to submit tender securities, good performance guarantees, guarantees of advance payment and other types of guarantees. These are obligatory if the estimated value of the contract exceeds EUR 30 000. The tender security may not exceed 2% of the estimated value of public procurement, while the good performance guarantee requested by the contracting authority may not be higher than 5% of the contract price.

In Serbia, contracting authorities can specify in tender documents how bidders should guarantee good performance in a public procurement procedure. They can also stipulate bidders' contractual obligations, or in which cases an advance payment should be refunded. The contracting authority cannot request a tender security or performance guarantee exceeding 10% of the offered price – excluding value-added tax (VAT) – or of the contract value, except for advance payments. A performance guarantee should be issued by the bank and should not exceed 10% of the contract value. The bidder should

provide a performance guarantee to the contracting authority at the time the contract is concluded, or within the period determined by the contracting authority, but not later than the first delivery. The performance bank guarantee will be valid for at least five days after the deadline for final completion.

In Turkey, bidders can determine the amount of tender security they submit with their bids, but it cannot be less than 3% of the proposed price. Tender securities are not mandatory for consultancy service procurements. They may be submitted in whatever form the bidder chooses, so long as payment is in Turkish lira and they include letters of guarantee from banks and special financing institutions, or Domestic Borrowing Bills issued by the Under Secretariat of the Treasury, and documents arranged for replacing these bills. In order to ensure that the commitment is carried out in accordance with the provisions of the contract and tender documents, the successful tenderer is required to submit, as a condition for signing a contract, a performance bond of 6% of the contract value. For consultancy services, a performance bond is not required, but a deduction of 6% from each subsequent payment is retained as a guarantee instead.

Joint bidding is allowed, with some economies stipulating how bidder groups are organised

Participants in public procurement procedures may be both legal and natural persons. Legal provisions for public procurement should not discriminate between the different organisational forms that economic operators may decide to adopt, and the contracting authorities should not insist that suppliers should take a specific form in order to participate in public procurement procedures. One instrument that increases SMEs' chances in public procurement is joint bidding. This allows a number of suppliers who do not individually meet contracting authorities' requirements to combine their resources and capacities to fulfil them.

All the assessed economies allow groups of economic operators to submit tenders or applications in public procurement, and hardly any require them to take a special form in order to participate. In a few cases, however, economic operators who want to submit joint tenders do need to adopt a special organisational form, according to the implementing rules. In Albania, for instance, these rules stipulate that a consortium should be officially established by means of a notarised declaration between the participating economic operators, each stating the size and nature of their contribution. In Turkey, access to public procurement is open to natural or legal persons, as well as groups of economic operators (joint ventures) formed by natural or legal persons. The PPL gives more detailed requirements that must be satisfied by these groups, however. Joint participation can take the form of either a business partnership or a consortium; the distinction being that members of a business partnership carry out the whole business jointly, having equal rights and responsibilities, while members of a consortium separate out their rights and responsibilities according to their expertise, in order to carry out relevant parts of the business. Business partnerships may participate in any kind of procurement. However, where different types of expertise are needed, the contracting authorities should indicate in tender documents whether or not a consortium is allowed to submit tenders. The contracting authority should state whether or not groups of economic operators are allowed to participate in the tender documents at the outset of the procurement procedure.

Subcontracting is permitted, although the share may be limited

Another instrument that favours SMEs is subcontracting: the winning bidder who signs the contract allows a part or parts of it to be performed by third parties (subcontractors) (SIGMA/OECD, 2016[12]). In this way SMEs who would not be able to carry out the whole contract get the chance to provide their services for smaller parts better adjusted to their capacities.

All the economies provide for the general possibility of subcontracting a part or parts of a contract to third parties. Some economies underline that subcontracting should be allowed in order to make it easier for small and medium-sized economic operators to participate. Therefore in principle economic operators are allowed to subcontract a part of the contract they were awarded. Most of the economies, however, limit the share of the contract that may be subcontracted to between 30 and 50%. In Albania, the share of the contract that is subcontracted must be proportionate to the value of the contract and should not exceed 40% of the overall contract value. In Kosovo, while the PPL does not set limits on the share of subcontracting, the operational guidelines set a limit of 40% of the contract value. In Montenegro, subcontracted parts cannot exceed 30% of the total value of the tender. In Serbia, the limit is 50% of the contract value.

Implementation (Thematic block 2)

Even the best-conceived legal provisions will not be enough to ensure that SMEs have access to public procurement if they are not implemented and (correctly) applied. The purpose of this thematic block is to assess how public procurement provisions are implemented in practice, focusing especially on disseminating information, the support and training provided by public institutions, and the use of electronic procurement.

Procurement opportunities are publicised free of charge

Access to public procurement by economic operators, particularly SMEs, would be extremely difficult – if not impossible – if they were not informed in advance by contracting authorities about prospective procurement opportunities. Providing information about plans to award contracts is therefore vital.

All the WBT economies provide information free of charge to economic operators about procurement opportunities (procurement notices, procurement documents) and almost all disseminate this information centrally. Only Kosovo declared in its questionnaire that dissemination of this information is not centralised. Information on procurement opportunities (contracts to be awarded) is available on the websites or portals of the central institutions responsible for public procurement.

In Serbia, the Public Procurement Office (PPO) is responsible, among other things, for maintaining its public procurement portal. This portal publishes all the relevant information about public procurement in Serbia: contracting authorities' public procurement plans, procurement notices and tender documents on concrete public procurement procedures. Access to the portal is free of charge and does not require previous registration. The portal provides information not only on high-value procurements but also lower-value contracts, which may be of more interest to SMEs. It was improved in 2015 with new search tools and the option of searching in English. Further improvements are planned in the form of fully electronic public procurement. In Montenegro, the PPO maintains a public procurement portal that publishes information about public procurement procedures such as public procurement plans and their

amendments, procurement notices, tender documentation, decisions on the qualification of economic operators, decisions on the selection of the most favourable bid, decisions on the termination of the public procurement procedure or annulment of the public procurement procedure, the public procurement contracts, and other information required by law.

Training in public procurement, including for SMEs, is available in most economies

Economic operators do not just need information about where and when to apply for public contracts, but also how to do so. They need to know that participation in public procurement procedures requires them to respect certain formal procedural rules. Economic operators, in particular SMEs, could benefit from practical training in applying those rules, adjusted to their needs and capacities.

Most of the economies provide training to economic operators on public procurement issues, including to SMEs specifically. Only Albania and Montenegro declared that no public procurement training is offered to SMEs by central institutions. Turkey stated that the Public Procurement Authority provides training to all types of economic operators, but offers no special treatment for SMEs.

Box 6.2 has some good examples of how this is done in other countries.

Box 6.2. Good practice in public procurement training

A number of OECD countries organise training sessions and briefings to discuss changes to public procurement rules or the introduction of a new public procurement framework.

- In Poland, after every significant change in the public procurement regulations, the Public Procurement Office organises regional conferences and seminars at various locations across the country both for contracting authorities and economic operators. The most recent training events were organised following the 2017 implementation of the 2014 EU procurement directives (www.uzp.gov.pl).
- Denmark organised training for government employees on implementing the 2016 Public Procurement Act.
- Slovenia carried out a roadshow and theme-based education of contracting authorities and economic operators in several regions of the country following the adoption of a new public procurement law in 2016 (Law ZJN-3) (www.djn.mju.gov.si).
- In Ireland, the Office of Government Procurement organises annual conferences covering all the latest policy developments that are relevant for suppliers (ogp.gov.ie).

Source: OECD (2018[13]) *SMEs in Public Procurement: Practices and Strategies for Shared Benefits*, https://doi.org/10.1787/9789264307476-en.

Public procurement offices all offer some support to SMEs

Support offered by public procurement offices in the assessed economies takes the form of telephone help desks organised by central procurement institutions; providing advice in

response to questions raised by economic operators; publishing guidance or manuals for contracting authorities, and advising them how to enhance SME participation in public procurement procedures; and direct support dedicated to economic operators. For example, in 2017 Montenegro's Public Procurement Office (PPO) published the *Guide to Promoting the Participation of Small and Medium Sized Enterprises at the Public Procurement Market in Montenegro*, which will be part of its training programme. The PPO also organised four roundtable meetings in 2016 dedicated specifically to SMEs participating in public procurement procedures. In 2016 Serbia's PPO published the *Guidelines for Increasing Participation of Small and Medium Enterprises in Public Procurement Procedures*. The guidelines present an analysis of the obstacles faced by SMEs when trying to access public procurement and propose a number of actions and solutions to improve the situation.

Electronic procurement is allowed or required, but e-procurement levels vary

Electronic procurement makes it easier for economic operators to participate. Using digital communication between contracting authorities and suppliers, particularly to submit requests and tenders, is faster and cheaper for both parties (OECD, 2011[14]). All the assessed economies allow or oblige the use of electronic tools in public procurement.

In Albania, all procurement procedures should be conducted electronically, with the exception of negotiations without prior publication, procurement procedures with a value lower than ALL 100 000 (Albanian lek; about EUR 800), during the second phase of a design contest, contracts for consultancy services and contracts for purchasing electricity. In Bosnia and Herzegovina, the following tendering procedures are conducted in electronic form: competitive requests, open procedures, restricted procedures, and negotiation procedures with publication of notice and e-auctions.

North Macedonia is one of the most advanced economies in the use of e-procurement and has a comprehensive e-procurement system, the ESPP. Managed by the Public Procurement Bureau, the system provides the basic framework for ensuring transparency in procurement opportunities and equal access for economic operators to public procurement that falls under the PPL. Contracting authorities publish contract notices and tender documents on the ESPP for all contracts covered by the PPL, other than cases where exceptions or exclusions apply. In 2016, almost half of all procedures were conducted by e-procurement. Registration fees for the ESPP are higher for foreign economic operators than for national ones; there are reduced fees for domestic SMEs. The ESPP uses modern procurement techniques and methods to award contracts both above and below the relevant EU financial thresholds. These include e-notices, publishing and downloading procurement documents, e-submission, e-evaluation and e-auctions.

In Turkey the e-procurement system Elektronik Kamu Alımları Platformu (EKAP), established in September 2010 and managed by the Public Procurement Authority (PPA), covers all stages of the procurement cycle. All contracting authorities and a large number of economic operators are registered on the system and are using it. Registration is now compulsory for any party wishing to participate in tenders.

Most of the economies collect and store information submitted by economic operators in databases in order to reuse it in forthcoming public procurement procedures. Only Montenegro and Turkey declared they did not do this.

Examples of how SMEs' access to public procurement procedures can be facilitated by reusing previously submitted information are provided in Box 6.3.

Box 6.3. Good practice in reusing stored information on economic operators: France and Serbia

French public procurement provisions follow the "only tell me once" principle. Economic operators who take part in procurement procedures do not have to resubmit documents to prove their qualifications, if 1) they have already taken part in a procedure with the same contracting authority; 2) the contracting authority has those documents; 3) the documents remain valid and up date.

At present this solution is not obligatory for contracting authorities, and may be used if the contracting authority informs potential bidders of this possibility in procurement documents. It will become obligatory, however, where mandatory provisions for electronic procurement start to apply.

Likewise in Serbia, the contracting authority does not have to ask a bidder to supply proof if it has already acquired adequate evidence for that same bidder from previous public procurement procedures.

Sources: Article 53-II, Décret n° 2016-360 du 25 mars 2016 relatif aux marchés publics du décret n° 2016-361; Ministry of Economy (2017[15]), *Présentation des Candidatures*, www.economie.gouv.fr/daj/presentation-candidatures-2017; Public Procurement Law: Official Gazette of the Republic of Serbia, No. 124 of 29 December 2012, No. 14 of 4 February 2015, No. 68 of 4 August 2015, Article 79 (2) Public Procurement Law.

Monitoring and evaluation (Thematic block 3)

Public procurement rules and practices should be constantly monitored and regularly evaluated so that the relevant institutions can intervene and adjust them if necessary (SIGMA/OECD, 2016[16]).

This section assesses whether – in practice – access to public procurement markets by economic operators, especially SMEs, is monitored and evaluated.

Most economies collect data on participation in public procurement, but not enough on SMEs specifically

Collecting information on SMEs in public procurement enables procurement offices and other relevant institutions to remove any hindrances to their participation. Montenegro (see Box 6.4), Kosovo and Turkey collect and analyse information on such obstacles. Kosovo and North Macedonia also collect information about delays to payments in public procurement.

Some of the economies also collect and publish information specifically about SME participation in public procurement procedures. The Public Procurement Bureau in North Macedonia publishes annual reports on the functioning of the public procurement system, which include some statistical information on SMEs.

All the economies collect information on the share of contracts awarded to foreign economic operators. For example, in Bosnia and Herzegovina, according to the annual report published in 2017 by the Public Procurement Agency, in 2016 domestic suppliers obtained 98.6% of all concluded contracts (1.41% contracts went to foreign companies).

In Serbia, the share of contracts awarded to foreign companies amounted to 3.0% in 2017 and in Montenegro to 5.8%.

Both Montenegro and Belgium have published good practice documents which deal with the issue of obstacles to SMEs participating in public procurement (Box 6.4).

Box 6.4. Good practice in assessing and addressing public procurement obstacles faced by SMEs: Montenegro and Belgium

Montenegro

Supporting SMEs is one of the aspects of the public procurement system dealt with in the Montenegrin multi-year public procurement strategy. The document identifies problems and obstacles faced by SMEs that want to participate in public procurement procedures, both on their own and together with other bidders, covering the issues of responsibility, qualifications, and cumulative proving of eligibility. The strategy proposes several actions related to public procurement, including "levelling the playing field" to ensure that SMEs are not unduly disadvantaged in relation to larger competitors, and training SMEs and contracting authorities.

To strengthen SME access to public procurement systems, the strategy envisages the following measures:

- harmonising public procurement legislation with the new EU directives in this area
- initiating and promoting the use of green, social and innovative public procurement
- exchanging good practice among contracting authorities by establishing a platform for sharing experience, information and knowledge
- developing specific advice, criteria and indicators to be used in public tenders
- stimulating the integration of this criteria at the public procurement planning stage
- training SMEs to improve their capacity in public procurement
- developing guidelines and organising seminars for SMEs
- encouraging greater SME employment and development through more use of the most economically advantageous tender criterion
- training contracting authorities in creating public procurement subjects that enable better access by SMEs
- analysing the possibility of abolishing or substantially reducing the fee for reviewing contracting authorities' decisions
- waiving fees to obtain various certificates
- encouraging contracting authorities to implement public procurements by lots.

Belgium

Belgian's Federal Public Service Economy, SMEs, Middle Classes and Energy has published guidelines for contracting authorities on SME access to public procurement. They contain 12 implementation principles which should improve SMEs' chances of obtaining public contracts, including: dividing procurement into lots; publishing

adequate information on public procurement opportunities; awarding contracts on the basis of an economically advantageous offer criterion; optimising electronic means of communication; ensuring adequate protection of intellectual property rights; providing feedback for bidders whose offers were not accepted; and creating proportionate minimum requirements, selection criteria, financial guarantees and methods of payment.

Sources: The Montenegrin Public Procurement Directorate (2015[17]), *Strategy for the Development of the Public Procurement System in Montenegro in 2016–2020*, www.ujn.gov.me/strategija-razvoja-sistema-javnih-nabavki-u-crnoj-gori-za-period-2016-2020-godine/; "Charte Accés des PME aux marches publics", SPF Economie, P.M.E., Classes moyennes et Energie, February 7, 2018, https://economie.fgov.be/fr/publicaties/charte-acces-des-pme-aux.

Independent procurement review bodies exist in all the economies

Even the most transparent, competitive and fair public procurement rules and procedures would be toothless without instruments to enforce them. To trust the public procurement process, suppliers need to know that when rules are not respected by public institutions, there are special mechanisms in place to force contracting authorities to respect them. This is why access to review procedures and bodies is so important for aggrieved suppliers. In accordance with the respective EU rules and good international practices, the appeals of economic operators whose rights have been breached by public bodies' illegal actions and omissions should be reviewed by independent institutions.

All the assessed economies enable economic operators to have their complaints reviewed by procurement review bodies (PRBs) which are independent both from procuring entities and economic operators. In Albania,[5] Bosnia and Herzegovina,[6] Kosovo,[7] Montenegro,[8] North Macedonia,[9] and Serbia[10] economic operators' appeals are heard by review bodies whose members are appointed for a given term by parliament.

In Turkey, a separate department in the Public Procurement Authority (PPA)[11] deals with "appeal applications". In order to secure the independence and integrity of the PPA as the review body and to avoid conflicts with other functions of the PPA (regulatory, monitoring and advisory), there are elaborate administrative routines in place. Decisions on appeal applications are adopted by the nine members of the PPA's board, supported by public procurement experts and assistants.

Time limits for submitting complaints are mostly in line with EU requirements

Most economies regulate minimum time periods for submitting complaints that are in accordance with the relevant EU directives (Remedies Directives)[12] – although in a few cases the time periods are shorter than those required by EU law.

In Albania anyone may challenge a decision who has or has had an interest in a procurement procedure and who has been, or risks being, harmed by the decision made by a contracting authority that infringes the PPL. Appeals must be submitted first to the relevant contracting authorities. The time limit for submitting an appeal is seven days. In the second stage of the review procedure, the contracting authority's final decision can be appealed to the Public Procurement Commission (PPC).

In Serbia, a request for the protection of rights has to be filed with the contracting authority and a copy submitted to the Republic Commission. After a decision is made to award a contract, conclude a framework agreement, recognise a qualification, or to cancel

the procedure, the time limit for filing a request for the protection of rights is ten days from the day of posting the decision on the Public Procurement Portal, or five days for low-value public procurement. An economic operator may submit to the Republic Commission a complaint against a contracting authority's decision within three days of receiving the decision. Since the Republic Commission is the first-instance independent procurement review body dealing with the economic operators' appeals, a three-day time period is not in line with the Remedies Directive's requirements.

All the economies have time-efficient review procedures

All the assessed economies regulate the maximum time period in which procurement review bodies should reach decisions on complaints submitted by economic operators. In most of the economies the maximum time period is slightly over two weeks: in Albania, the public procurement review body should make decisions within 15 days of receiving the complaint. This period may be extended by another 15 days if a decision cannot be finalised for objective reasons which should be stated clearly by the PPC. In Montenegro, the rulings of the procurement review body should be adopted within the statutory time limit of 15 days of receipt of the complete documentation. This time period may be extended for no more than 10 days in the event that there is a need to engage experts or obtain opinions from the competent institutions, or if the procurement documentation is complex. In North Macedonia, the State Appeals Commission should make its decision within 15 days of completing the documentation for the appeal. The same time period is applied in Kosovo. Three other economies use a longer time period. In Turkey, the review body has to conclude the review in 20 days. In Serbia, the Republic Commission should decide within 20 days from the day of receiving the complete documentation needed to establish the facts and make a decision on any request for rights protection. Finally, in Bosnia and Herzegovina, the maximum time for the Procurement Review Body to make a decision on an appeal is 30 days.

Submitting appeals is subject to fees, but they are not excessively high

All the economies require fees for submitting appeals to review bodies, but they are low enough to not hinder economic operators' access to legal protection.

Albania has no fees for submitting appeals to contracting authorities, but submitting an appeal to the Public Procurement Commission requires a fee amounting to 0.5% of the estimated procurement value. In Bosnia and Herzegovina, entry fees are also defined according to the entire public procurement value. Fees range from BAM 500 to BAM 25 000 (about EUR 256 to EUR 12 780). In North Macedonia, fees for an economic operator filing an appeal vary between the equivalent of EUR 100 and EUR 400, in addition to an administrative fee.

In Kosovo, economic operators are obliged to submit a complaint to the contracting authority before initiating a review process by the PRB. They are only entitled to seek a review from the PRB if the contracting authority has rejected the complaint. The 2016 amendments to the PPL increased these fees to 1% of the value of the estimated contract value, or in some cases of the bid, but to not less than EUR 100 and not more than EUR 5 000.

In Montenegro, fees are 1% of the estimated value of the public procurement, but cannot exceed EUR 20 000. In Serbia, complaint submission is subject to a sliding-scale fee, the amount depending on the value of the procurement and the stage of the procurement procedure at which the review was launched. Currently, the lowest fee is RDS 60 000

(Serbian dinars; about EUR 510) while the highest is 0.1% of the estimated value of public procurement or of the price offered by the winning bidder.

The way forward for public procurement

Better access to public procurement, reduced bureaucracy, more quality-oriented public purchasers and impartial review and oversight processes are all particularly beneficial to SMEs.

To achieve this, economies in the region should:

- **Further align their national legislation with EU rules and international good practices**. In particular, they should:
  - ensure that all economic operators have access to public procurement on an equal footing regardless of their origin
  - further encourage the division of procurement into lots, by requiring the contracting authorities which do not do so to justify their decision (Box 6.5)
  - remove limitations on subcontracting, such as the maximum share of the procurement contract that may be subject to subcontracting
  - lengthen the time periods for applying legal protection measures in public procurement to align with the EU Remedies Directive
  - remove obstacles to joint bidding, such as the requirement that suppliers should adopt a specific legal form to submit a joint tender
  - reduce the maximum value of economic operators' minimum yearly turnover requirement to twice the contract value, except for justified cases.

- **Reduce the administrative burden of participating in public procurement**. Bidders should only be required to submit a declaration that they satisfy the requirements of the contracting authority, and that they will provide documentary evidence as required. Supporting documents should only be required from those bidders whose offers were evaluated as the most advantageous. The mandatory introduction of e-procurement, in accordance with the requirements of 2014 EU Directives, in particular to submit tenders and requests to participate in electronic form, would also reduce bidding costs, facilitating SMEs' access to public contracts.

- **Increase the use of non-price criteria for awarding contracts** to enable public buyers to receive the best value for money. In particular, contracts must always be awarded based on the most economically advantageous tender and non-price criteria should be applied more often. Public procurement institutions should make it easier for contracting authorities to apply non-price criteria by providing them with guidelines and examples of good practice.

- **Focus on correctly implementing amended public procurement provisions** by providing consultations, assistance and training, both to contracting authorities and economic operators, especially those representing SMEs. Contracting authorities in particular should be trained in how to take SMEs' specific needs into consideration. Belgium's example (Box 6.4) could offer a template to the WBT economies for developing training materials and tailored training courses.

- **Constantly monitor and analyse the obstacles** hindering SMEs from accessing public procurement markets, including the costs of access to legal protection (i.e.

the fees paid to independent review bodies to challenge contracting authorities' decisions).

Box 6.5. Good practice in dividing procurement into lots: Portugal and France

In Portugal, the Public Contracts Code allows for public procurement to be awarded in lots. However, where contracts for supplies or services are valued at more than EUR 135 000, or works are valued at more than EUR 500 000, a contracting authority which decides not to divide the contract into lots should justify its decision. This decision may be justified when:

- the object of public procurement is technically or functionally indivisible or the division into lots would lead to major inconvenience for the contracting authority
- urgency, or technical or functional imperatives, mean that managing a single contract would be more efficient for the contracting authority.

In France, contracting authorities have been obliged to award public procurement in lots since 2006. According to the provisions currently in force, public contracts – other than for security and defence – are awarded in separate lots, except where the object of public procurement does not allow separate lots to be identified. In order to satisfy this obligation a contracting authority should define, in its description of the public procurement, the number, size (scope) and object of the lots.

Sources: Article 46A Decree-Law No. 18/2008, of 29 January, amended and republished by Decree-Law No. 111-B/2017, of 31 August; Article 32; Ordonnance n° 2015-899 du 23 juillet 2015 relative aux marchés publics, www.base.gov.pt/mediaRep/inci/files/ccp2018/CCP_consolidado_com_LEO_DL_33_2018.pdf.

Conclusions

Overall, the relevant public institutions in all the WBT economies have made progress in the area of public procurement, both in improvements to the policy and the regulatory framework, and to monitoring and evaluation. Some of the assessed economies have simplified their public procurement legislation to take SMEs' needs into account. By easing documentary evidence requirements, or allowing non-price criteria to be applied when awarding contracts, the WBT economies have reduced the administrative burden for SMEs.

On the other hand, awarding public contracts is based predominantly on price-only criteria, while non-price factors are still sparingly applied across the WBT region. This is detrimental to SMEs' chances of succeeding in public procurement procedures. Moreover, domestic preferences remain a problem in some economies. The WBT economies should also address the limitations on subcontracting, as well as barriers to joint bidding.

Implementing the recommendations put forward in this chapter will help the relevant stakeholders in the WBT economies to further reduce obstacles faced by SMEs in accessing public contracts.

Notes

[1] Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC and Directive 2014/25/EU of the European Parliament and of the Council of 26 February 2014 on procurement by entities operating in the water, energy, transport and postal services sectors and repealing Directive 2004/17/EC.

[2] Decision of Council of Ministers on mandatory application of domestic preferential treatment, 4 October 2016.

[3] Albanian Rules on Public Procurement, adopted by DCM No. 914, 29 December 2014.

[4] Albanian Law No. 48/2014, "On delayed payments regarding contractual and trade obligations".

[5] The Public Procurement Commission, www.kpp.gov.al.

[6] The Procurement Review Body, www.javnenabavke.gov.ba.

[7] The Procurement Review Body, https://oshp.rks-gov.net.

[8] The State Commission for the Control of Public Procurement Procedures, www.kontrola-nabavki.me.

[9] The State Appeals Commission, http://dkzjn.gov.mk.

[10] The Republic Commission for the protection of rights in public procurement procedures, www.kjn.gov.rs.

[11] www.ihale.gov.tr.

[12] Directive 2007/66/EC of the European Parliament and of the Council of 11 December 2007, amending Council Directives 89/665/EEC and 92/13/EEC with regard to improving the effectiveness of review procedures concerning the award of public contracts.

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Annex 6.A. Indicators for assessing public procurement policies for SMEs

This assessment of public procurement policies for SMEs was based on a questionnaire containing 20 indicators:

- Existence of a multi-year strategy that defines objective of support of SMEs in public procurement
- Access of foreign companies to public procurement procedures on equal terms with domestic bidders
- Division of public procurement into lots
- Ensuring that payments to economic operators are made on time
- Related to and proportionate to the object and value of procurement requirements
- Provisions on tender securities required from bidders
- Participation of groups of economic operators in public procurement procedures
- Subcontracting
- The share of public procurement divided into lots
- Availability of public procurement documents free of charge
- Training for SMEs offered by central institutions
- Support to SMEs offered by central procurement institutions
- Use of electronic procurement tools
- Reuse of information collected from economic operators in subsequent procurement procedures
- Share of public procurement procedure with participation of groups of economic operators
- Collection and analysis of information about obstacles faced by SMEs in access to public procurement procedures
- Collection of information on the participation of SMEs in public procurement procedures
- Collection of information on average payment delay
- Collection of information on the share of foreign companies awarded public contracts
- Access of economic operators to appeals against decisions of contracting authorities to an independent review body.

Chapter 7. Access to finance for SMEs (Dimension 6) in the Western Balkans and Turkey

This chapter assesses the policies in the Western Balkans and Turkey that support SMEs' access to external sources of finance. It starts by providing an overview of the assessment framework and progress since the last assessment in 2016. It then analyses the five sub-dimensions of Dimension 6: 1) the legal and regulatory framework, which looks at the legal and regulatory environment for creditor rights, collateralisation options, credit information systems, banking regulation and capital markets; 2) bank financing, focusing on the provision of bank loans and government support schemes to facilitate access to credit; 3) non-bank financing, which considers the legal framework and availability of alternative financing instruments such as microcredit, leasing and factoring; 4) the venture capital ecosystem, examining the financing environment for start-ups and young firms; and 5) financial literacy, focusing on efforts to broaden financial management skills among the business community and the wider population. Each sub-dimension concludes with key recommendations for helping to resolve specific challenges in facilitating SMEs' access to finance.

Key findings

- **Legal and regulatory frameworks are in place in all economies of the Western Balkans and Turkey (WBT),** facilitating access to finance for SMEs. The coverage of credit information systems has expanded in most economies, enabling more enterprises to build the credit history they need.
- **Bank lending continues to be the dominant source of finance.** As banking systems recover lending has resumed and, in some economies, commercial banks are increasingly focusing on SME lending.
- **Systemic issues remain across all WBT economies,** as loan conditions are typically less favourable for SMEs, reflecting perceived risks by lenders about their ability to repay. Public sector interventions are still common, often in the form of subsidised lending, although governments are slowly shifting towards more commercially aligned solutions such as credit guarantees.
- **Non-bank finance instruments have gained momentum as governments increasingly recognise the need to diversify sources of finance.** The activities of microfinance institutions have increased in some economies, and across the region efforts are underway to strengthen legal frameworks to support leasing and factoring. Although these steps are welcome, further efforts will be needed to support uptake of these types of finance.
- **Venture capital is still in its infancy across the Western Balkan region**, although some pioneer venture capital fund investments took place in the Republic of North Macedonia and Serbia during the reporting period. Venture capital is active in Turkey boosted by strong government support.
- **Levels of financial literacy remain low**. Both public and private sector efforts to increase financial know-how among businesses and the wider population more generally remain scattered and uncoordinated, and all the WBT economies lack a clear strategic approach to tackling shortcomings in this area.

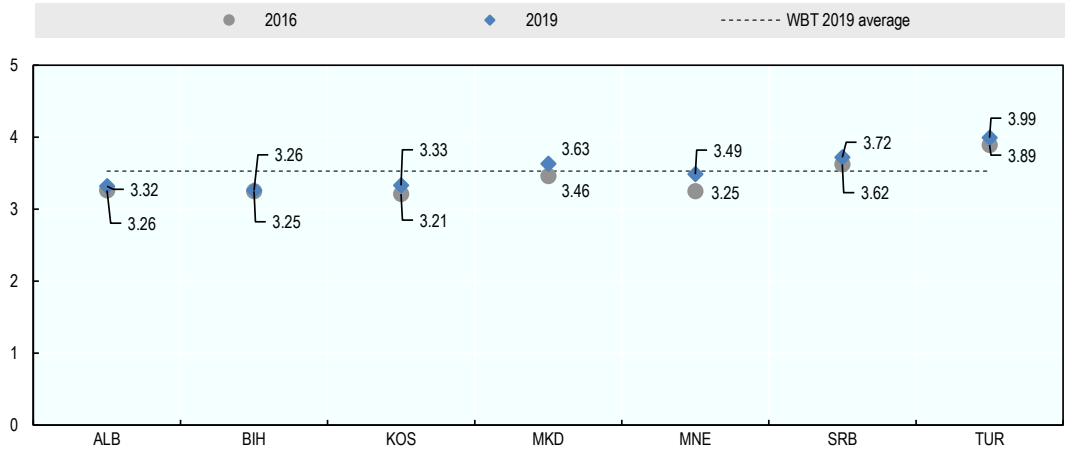
Comparison with the 2016 assessment scores

All the WBT economies have made progress in this dimension, but the speed of improvement has slowed since previous assessments. On average, the region scores 3.53, compared to 3.41 in the 2016 assessment (OECD, 2016[1]). The WBT economies perform best in the area of legal and regulatory frameworks, followed by non-bank finance. In contrast, the region continues to underperform in supporting financial literacy.

Overall, Turkey remains the strongest performer in this dimension, followed by Serbia and North Macedonia. Albania, Bosnia and Herzegovina[1] and Kosovo[*] all perform similarly, with the average score ranging between 3.26 and 3.33. Figure 7.1 summarises the region's performance and improvements since the last assessment.

[*] 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 7.1. Overall scores for Dimension 6 (2016 and 2019)



Note: Scores for 2019 are not directly comparable to the 2016 scores due to a methodological change increasing the focus on 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

Implementation of the policy recommendations outlined in the 2016 SME Policy Index has been mixed, with economies making good progress in some areas while lagging behind in others (Table 7.1).

Table 7.1. Implementation of the SME Policy Index 2016 recommendations for Dimension 6

Overall 2016 recommendations	SME Policy Index 2019	
	Main developments during the assessment period	Regional progress status
Tackle current issues in the banking sector	- Levels of non-performing loans (NPLs) have fallen in most of the Western Balkans region, albeit from high levels. NPL ratios in Turkey remain stable. - Growth recovery and structural reforms, such as stricter write-off policies and better NPL resolution procedures, have helped NPL resolution in the region. - Credit growth has revived and banks have ample liquidity, although SME lending remains subdued either due to risk perceptions on the supply side or low demand.	Moderate
Broaden the availability of credit information	- The coverage of public and private credit information registries has improved in most economies, with progress particularly evident in Albania, Montenegro and North Macedonia. - Credit information could be further enriched with data from utility providers, which would allow smaller companies and start-ups without loans to build a credit history.	Advanced
Promote policies that make funding more accessible for SMEs	- Some economies, notably Serbia and Kosovo, have made progress in preparing or launching credit guarantee schemes with international donor support, which may reduce fiscal burdens if well designed. – The budget for the Credit Guarantee Fund in Turkey has increased.	Limited

Develop non-bank finance instruments	- The availability of microfinance has increased in most economies, except Turkey and Serbia, where this type of finance remains limited due to restrictive legal frameworks. - Leasing and factoring have gained momentum in the Western Balkan region – albeit from low levels – amid increasing efforts to embed these types of finance into dedicated legal frameworks. In Turkey, both instruments remain a viable finance option for SMEs. - New legal frameworks for leasing and factoring have been passed in Montenegro and Bosnia and Herzegovina (Federation of Bosnia and Herzegovina). - Factoring reforms in Kosovo and North Macedonia are ongoing. - Venture capital remains underdeveloped in the Western Balkans, but a number of pioneer investments under the donor-supported Enterprise Innovation Fund send an important signal to international investors.	Moderate

Introduction

Access to finance is an important factor for companies, allowing them to expand their operations, modernise equipment or move into new undertakings, thereby increasing their competitiveness and helping them grow. However, ease of access to finance is typically correlated with firm size, meaning that the smaller the company, the more difficult it is to tap into external financing options. This can be for many reasons, including higher rates of informality among smaller firms, a higher perceived risk profile, fewer collateral options, and lower accounting and financial management capacity.

Access to credit was made more difficult by the financial crisis in 2008/09 in many countries, including those of the European Union (EU). Since then, conditions have eased somewhat. For example, according to EU data (EC, 2017[2]), fewer small and medium-sized enterprises (SMEs) in EU Member States now consider access to finance to be the single most important obstacle they face, although this is still perceived to be the case by 1 in 11 (down from 1 in 6 in 2009). SMEs tend to be particularly exposed to downturns in the supply of finance due to their higher risk profile and more limited collateral options; EU survey data show that access to finance is a disproportionate hindrance for younger and fast-growing SMEs (EC, 2017[2]).

Governments can play an important role in improving access to credit by creating a legal environment that provides flexible collateral options and transparent and reliable legal recourse in cases of default, and by establishing schemes to support SME access to finance. The Small Business Act for Europe recognises that governments "should facilitate SMEs' access to finance, in particular to risk capital, microcredit and mezzanine finance and develop a legal and business environment supportive to timely payment in commercial transactions" (EC, 2008[3]).

Policy support can come in several forms. An efficient legal framework that supports the enforcement of creditor rights helps to increase financing opportunities from banks. A well-functioning cadastre and a system to register security interests over movable assets increases SMEs' collateral opportunities while minimising risks for lenders. Comprehensive, reliable and easily accessible credit information systems reduce the asymmetry of information between creditors and borrowers. When it comes to bank financing, credit guarantee schemes can stimulate SME lending by addressing banks' concerns over the risks presented by SMEs. Alternative sources of finance – such as microfinance, leasing and factoring – may also be actively supported through dedicated legal frameworks and supervisory mechanisms, and by raising awareness among SMEs of the range of financing options available to them. Finally, supporting SMEs' financial literacy through formalised programmes helps them develop their business planning and financial management skills, making them more attractive clients to financial service providers.

A crucial aspect to consider when implementing support schemes of this kind is their additionality: they should aim to support the private sector provision of financial services without crowding it out. Otherwise, market distortions risk making businesses dependent on continued public budget support rather than leveraging private funding, affecting the sustainability of support schemes. In addition, any support programme should be systemically monitored against performance indicators and evaluated to make sure that it reaches those most in need of support and adjusted as needed.

Assessment framework

Structure

Access to finance for SMEs is assessed through the following five sub-dimensions:

- **Sub-dimension 6.1: Legal and regulatory framework** focuses on the legislation facilitating access to finance, including protection of creditor rights, facilitating the use of collateral and credit information, and banking and stock market regulations.
- **Sub-dimension 6.2: Bank financing**, including the lending practices of local banking markets and the availability of credit guarantees.
- **Sub-dimension 6.3: Non-bank financing**, reviewing the legal framework and use of microfinance, leasing and factoring.
- **Sub-dimension 6.4: Venture capital ecosystem**, assessing the legal framework enabling venture capital and the existence of business angel networks.
- **Sub-dimension 6.5: Financial literacy**, analysing government efforts to promote financial know-how among the business community and wider population.

Figure 7.2 illustrates how the sub-dimensions and their constituent indicators make up the assessment framework for this dimension. For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

The assessment framework puts particular emphasis on the legal and regulatory framework for facilitating access to finance for SMEs. However, it should be noted that access to finance is the result of a complex interaction of a variety of determinants linked to areas such as the general macroeconomic environment, the health of local financial markets and the overall creditworthiness of enterprises. These cannot be all captured by the assessment framework, which focuses on a set of specific themes and indicators which are deemed to be disproportionally important for SMEs compared to larger firms.

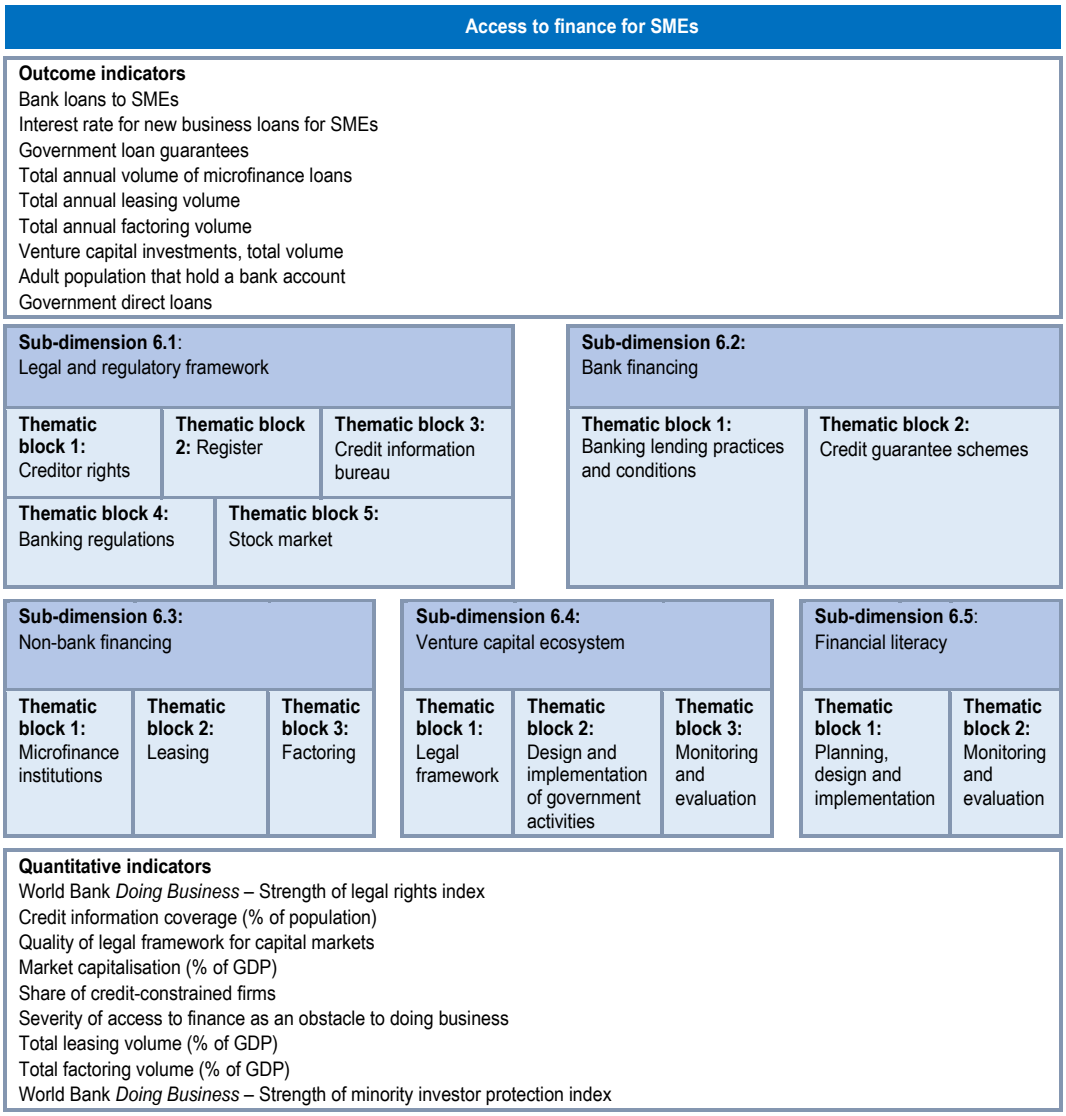
Key methodological changes to the assessment framework

Small adjustments have been made to the framework since the 2016 assessment to allow for a more in-depth analysis of the quality of the regulations (Table 7.2).

Table 7.2. Key changes in the composition of Dimension 6

Sub-dimensions	Key changes since 2016 assessment
Sub-dimension 6.3: Non-bank financing	Removal of references to savings and loan associations as they were only operating in Albania, and are typically already captured under microfinance or bank finance. In some cases, this has led to substantial changes in the scoring.
General	Introduction of a more detailed analysis of the quality of leasing and factoring legal frameworks and higher weights given for their penetration data.

Figure 7.2. Assessment framework for Dimension 6: Access to finance for SMEs



Note: The outcome indicators serve to demonstrate the extent to which the policies implemented by the government bring about the intended results, and they have not been taken into consideration in the scoring. By contrast, quantitative indicators, as a proxy for the implementation of the polices, affect the overall scores.

Other sources of information

Data from the World Bank *Doing Business* report were used to supplement the assessment of the legal framework for secured transactions (World Bank, 2018[4]). These include indicators such as the coverage of credit information systems and recovery rates in cases of insolvency to compare countries and changes over time. Data from the *Business Environment and Enterprise Performance Survey* (BEEPS) V (EBRD, 2014[5]) are used to provide information on the extent of credit constraints. Reports – mainly by national or international associations on the use of certain instruments such as factoring, leasing or capital markets – were also used to provide context for the relevant sections. The World Bank's *Global Financial Development* database (World Bank, 2018[6])

provided credit data for the WBT and comparator economies and the European Business Angel Network provided data on venture capital (VC) investments (EBAN, 2017[7]).

Overall, the data available for this chapter were relatively limited, particularly data disaggregated by firm size and on non-bank financing instruments. It was therefore not always possible to use the same reporting year, but in all cases the latest available data were used.

Analysis

Performance in access to finance for SMEs

Outcome indicators play a key role in examining the effects of policies, and they provide crucial information for policy makers to judge the effectiveness of existing policies and the need for new ones. Put differently, they help policy makers track whether policies are achieving the desired outcome. The outcome indicators chosen for this dimension (see Figure 7.2) are designed to assess the Western Balkan economies and Turkey's performance in creating the conditions that facilitate SMEs to access the finance they need. This analysis section starts by drawing on these indicators to analyse the health of the financial sector in the WBT.

In the Western Balkans, a region that has seen very high levels of non-performing loans (NPLs) since 2010 and subdued credit growth, access to finance for SMEs has been difficult. High collateral requirements and complex application procedures deter SMEs from accessing bank loans. Less favourable loan terms for SMEs often reflect lenders' perceptions about their ability to repay them. The picture in Turkey is slightly different. SMEs have benefitted from a rising trend in bank lending, partly fuelled by substantial government support programmes, particularly in recent years. However, access to credit in less advanced regions of Turkey and for longer tenors is still an issue and the banking sector may be vulnerable to macroeconomic developments.

With credit growth somewhat static or even negative since 2008, domestic credit to the private sector as a share of gross domestic product (GDP) has remained at similar levels across the WBT region in the past ten years with few, but notable, exceptions. On average, private credit has remained around 40-43% of GDP, apart from in Turkey and Montenegro, which have seen significant shifts of around 35 percentage points upwards and downwards, respectively (Table 7.3). This compares to private credit levels of 97% of GDP in the EU-15 and 68% in the EU-13,[2] which suggests that the level of financial intermediation is still low in most economies in the region.

There have been more positive signs more recently. NPL levels in the Western Balkans have come down since their peak in 2010-14, ranging from below 3% in Kosovo to 13.3% in Albania as of June 2018. Credit growth has picked up slightly and liquidity is ample. In some economies, such as Montenegro, banks are showing renewed interest in SME lending whereas in other markets lending remains subdued, either due to risk perceptions on the supply side or low demand. Across all WBT economies, lending to SMEs represents around 40% of total loans on average (calculations based on IMF data (2017[8]).

Table 7.3. Key banking sector indicators (2008-18)

	Private sector credit, as % of GDP			Credit constrained firms, as % of firms needing a loan		NPLs, as % of total gross loans		
	2008	2014	2016	2008	2012	2008	2014	2018
ALB	35.4	37.1	34.7	35.6	60.4	6.6	22.8	13.3
BIH	66.8	55.3	53.2	35.8	37.1	3.1	14.0	9.7
KOS	32.9	36.0	39.3	64.9	46.5	0.0	8.2	2.8
MKD	42.1	48.9	47.4	50.2	50.3	6.7	10.8	4.9
MNE	87.0	51.4	48.9	44.0	63.2	7.2	17.2	7.4
SRB	39.0	43.8	43.4	36.3	39.1	11.3	23.0	9.2
TUR	35.2	74.5	69.9	26.6	18.7	3.4	2.8	3.0

Note: NPL ratios: latest available (Q1 2018 for BIH, MNE, SRB; Q2 2018 for ALB, KOS, MKD, TUR).
Source: (World Bank, 2016[9]), *World Development Indicators 2016*, http://documents.worldbank.org/curated/en/805371467990952829/World-development-indicators-2016; (EBRD, 2014[5]), *Business Environment and Enterprise Performance Survey, BEEPS V (2011-2014)*, http://ebrd-beeps.com; respective regulatory bodies, latest available.

While non-bank financing instruments could provide an alternative for some SMEs, alternative financing sources such as leasing and factoring are underdeveloped. Penetration rates in terms of annual volumes are mostly below 1% of GDP, which is below EU levels, particularly for factoring.

Legal and regulatory framework (Sub-dimension 6.1)

The legal and regulatory framework surrounding secured transactions is important to encourage banks to lend to SMEs, especially as small firms are perceived to be more risky borrowers. It is important to have a framework that allows information asymmetries to be reduced and for security to be easily used and enforced in case of default. Credit information systems facilitate the collection and distribution of credit information on borrowers, while allowing different types of assets to be used as collateral can help increase banks' appetites to lend to SMEs. The effective realisation of collateral if a borrower is unable to pay is also an important mechanism for reducing lending risks or costs. Therefore, creditor rights, functioning systems for registering security interests, comprehensive credit information systems and adequate banking regulations are important ingredients of a legal framework that supports, rather than impedes, lending to SMEs.

This section looks at these different aspects of the legal and regulatory framework that support bank lending to SMEs. Overall, the legal and regulatory frameworks for bank lending are already relatively well set up. There has been no significant further progress since the last assessment on this sub-dimension, with the exception of the coverage of credit information systems, which has significantly improved (Table 7.4).

Table 7.4. Scores for Sub-dimension 6.1: Legal and regulatory framework

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Creditor rights	4.44	3.85	3.55	4.76	5.00	4.27	3.56	**4.20**
Registers	4.42	4.50	4.92	4.75	4.58	4.45	4.42	**4.58**
Credit information bureaus	4.43	4.25	4.22	5.00	4.42	5.00	4.51	**4.55**
Banking regulations	3.50	3.00	3.50	3.50	3.50	4.50	5.00	**3.79**
Stock market	1.31	3.07	1.00	3.46	4.00	3.29	4.35	**2.93**
Weighted average	**3.86**	**3.87**	**3.67**	**4.46**	**4.41**	**4.38**	**4.31**	**4.14**

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

A solid legal framework for secured transactions is in place across the region

A well-designed legal framework for secured transactions can reduce lending risks and thus encourage bank lending at acceptable terms. In the WBT economies, the legal framework for secured transactions is relatively well developed in general. For example, in most economies apart from Bosnia and Herzegovina, secured creditors are paid first in cases of default or insolvency. Albania has made progress in this area since the last assessment by adopting legislative changes that give secured creditors priority when a firm liquidates. Similarly, Turkey changed its legislation in early 2018 to stipulate that secured creditors are paid before taxes (for more information, see Chapter 2 on bankruptcy and second chance for SMEs).

However, enforcement remains an issue in many jurisdictions, with lengthy procedures and sub-optimal outcomes. For example, the World Bank *Doing Business* indicator measuring the recovery rate in insolvency proceedings suggests that across WBT economies, secured creditors recover only around 38 cents on the dollar on average, compared to 71 cents in the EU (World Bank, 2018[4]).

Registers for security interests over movable assets are not yet sufficiently utilised to support the collateralisation of such asset types

Within a secured transactions framework, it is important to have reliable and accessible registers that facilitate the use of immovable and movable assets as collateral. Up-to-date, accessible systems are very important for secured lending. Together with a legal framework that allows for a straightforward repossession process, such systems can facilitate collateralised lending and bring down interest rates by increasing the chances of recovery in cases of default.

It is therefore important to have a cadastre that allows for the registration of land and real estate, including information on their value, ownership and existing pledges over the asset. Online availability and broad access (within the limits of privacy laws) are important to improve ease of use and reduce costs. All the WBT economies have cadastres in place, but in many cases they are only partly available on line (for instance in Albania, Montenegro and Serbia). These economies should improve their accessibility and ease of use.

Registers for security interests over movable assets can widen the range of assets companies can use as collateral. This is particularly important for SMEs, as they often lack access to sufficient land or real estate to use as a security. Such registers should be centralised and unified in order to avoid multiple use of the same asset. As with a cadastre, accessibility is important to lower costs and increase usage. All the economies in the region have an operational registration system for pledges over movable assets. However, accessibility is still an issue and could be improved by making registration or records available on line (for instance in Albania, North Macedonia and Serbia) in one central register, and by increasing the speed of updates so that a potential lender is always sure they have access to up-to-date status information. In Turkey, the reform of the non-possessory movables pledge regime in 2017 has made it easier to use movable assets as collateral, and this is becoming increasingly common.

The coverage of credit information systems has significantly improved

Credit information systems can help reduce information asymmetries between lenders and borrowers by giving potential lenders access to the credit history of a borrower. While public registries are usually managed by the central bank which is collecting lending data mainly for supervisory purposes, private credit bureaus typically collect a broader range of information which can include data from utilities or telecommunication companies. Collecting information from a broader range of sources can be particularly helpful for first-time borrowers who have not yet established a credit history with a bank or other financial institution. All the economies in the region have either a public credit registry or a private bureau, with the coverage of the population varying (Table 7.5). In some economies, coverage has increased significantly in the past three to four years, most notably in Albania, Montenegro and North Macedonia, with the latter reaching 100% coverage in 2017. However, only credit bureaus in Bosnia and Herzegovina and North Macedonia collect data from retailers and utilities. The Serbian credit bureau is the only one in the region to recognise SMEs as a distinct group of borrowers and provide SME-specific credit reports.

Table 7.5. Credit information coverage in the WBT economies (2008-18)

	Public credit registry coverage (% of adults)			Private credit bureau coverage (% of adults)		
	2008	2014	2018	2008	2014	2018
ALB	6.8	16.7	57.4	n/a	n/a	n/a
BIH	n/a	39.7	43.7	69.2	8.1	12.9
KOS	n/a	22.8	41.3	n/a	n/a	n/a
MKD	6.5	36.4	40.7	n/a	83.7	100
MNE	26.3	26	56.6	n/a	n/a	n/a
SRB	n/a	n/a	n/a	91.9	100	100
TUR	12.7	63.6	77.72	26.3	n/a	n/a

Note: 'n/a' means institution does not exist in the economy.
Source: World Bank (2018[6]), *Global Financial Development Database*, https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database.

The banking regulatory framework has started to align with Basel III requirements

Most economies in the region have started to align their regulatory framework with Basel III.[3] All the economies except Albania and Kosovo have made progress in this area,

though at differing levels. In the Western Balkans in particular, banks' capital adequacy position is relatively comfortable and does not seem to constrain lending.

While some economies have adopted the euro or have a pegged currency, foreign exchange (FX) denominated loans are still prevalent, averaging 58% in the Western Balkans (excluding Kosovo and Montenegro) and 32% in Turkey (as of December 2017). Serbia, where over 70% of loans are denominated or indexed to a foreign currency, has formulated a dinarisation strategy; but FX loan levels have not effectively come down, particularly for businesses. In Albania, over half of total loans are foreign currency loans. However, the share has significantly decreased – from nearly 70% in 2010 – supported by a national strategy to encourage local currency use. To protect consumers, all economies not using the euro require banks to disclose FX risks to prospective borrowers. This is particularly important for SME lending as small entrepreneurs tend to be less sophisticated borrowers and financial literacy remains low in many economies of the region – see also the section below on Financial literacy (Sub-dimension 6.5).

Capital markets are underdeveloped but a regional solution might be more successful

The notion of financing SMEs through capital market instruments has gained traction in recent years. If tailored to SME needs, capital markets can provide a viable alternative for some more mature companies to access (long-term) financing, either in the form of an initial public offering or corporate bonds. Attempts to adapt capital market instruments to SME needs have been made in both developed and emerging markets in recent years – albeit with mixed results (see Box 7.1). With the support of the European Bank for Reconstruction and Development (EBRD), the Belgrade Stock Exchange is currently preparing a programme aimed at increasing the awareness and demand for investment capital and the supply of securities, while in Turkey the Emerging Companies Market of Borsa Istanbul, which targets SMEs, continues to provide access to finance for companies – although its impact is somewhat below potential.

In contrast, capital markets remain underdeveloped in most economies of the Western Balkans, often due to small market sizes. As a result, they have increasingly focused on strengthening connectivity in the South East Europe region through the SEE Link in recent years, which is now fully operational.[4] Since the last assessment, the stock exchanges of Belgrade, Sarajevo and Banja Luka have joined the platform, which now links seven national stock exchanges in South East Europe. Albania and Kosovo are currently not participating in the platform, while Montenegro applied to join in 2016, although its membership is pending. Integration of the trade environment is now complete, but the consolidation of the post-trade environment remains outstanding. Deploying harmonised post-trade solutions would streamline processes for the settlement and clearing of security transactions, and provide a single access to all the central securities depositories of the SEE Link Markets. For investors, this would provide more certainty and security, and increase the liquidity of the SEE Link in the long term.

Box 7.1. Strengthening SME access to capital market finance: The Progress Market in Croatia and Slovenia

In 2015, the European Commission adopted an action plan setting out measures to

establish the building blocks of an integrated capital market in the EU – the Capital Markets Union – to broaden the range of financing options for companies at all stages of the business cycle. Among other measures, the action plan envisages more access by SMEs to capital market funding.

One way to enable this type of finance for SMEs is via dedicated SME growth markets. Some European and other emerging market stock exchanges operate such markets, which typically have less restrictive listing and reporting requirements than the main markets. As an alternative source of financing, such dedicated SME markets can play a significant role in helping SMEs to finance inclusive, long-term growth.

Against this background, in 2017 the Zagreb Stock Exchange (ZSE), together with the EBRD, launched a feasibility study into establishing an SME growth market in Croatia and Slovenia, which was aimed at creating a regional SME financing platform. The feasibility study provided a proposal for the market set-up and most suitable measures to increase access to capital market financing by companies in Croatia and Slovenia, and potentially the wider Western Balkan region. Specifically, it provided the ZSE with sufficient capacity to decide on the optimal set-up of the SME market, together with a business and implementation plan as a policy-making lever with relevant stakeholders.

This new SME growth market – the Progress Market – has launched operations under the Markets in Financial Instruments Directive II of the EU (MiFID II). This regulation eases listing and reporting requirements for SME markets compared with the main markets, and is designed to strike a balance between listing requirements and providing adequate information for financial investors. A first listing took place in January 2019.

The implementation of the Progress Market for Croatia and Slovenia complements the successful establishment of the equity crowdfunding platform for SMEs and start-ups at ZSE in 2017, which transformed the ZSE into a company financing hub. The company financing hub is a model developed by the EBRD in which exchanges evolve into multi-level equity markets, covering issuers of various sizes at different development stages in segmented markets, thus enabling exchanges to offer access to capital market financing to small- and mid-cap companies throughout their different growth stages.

Sources: European Bank for Reconstruction and Development; EC (2015[10]), *Action Plan on Building a Capital Markets Union*.

The way forward for the legal and regulatory framework

- **Continue efforts to strengthen collateral registries**, in particular for movable assets. For SME lending in particular, steps should be taken to facilitate a framework in which collateral can be easily established and repossession processes are straightforward. This could encourage lending activity which is currently subdued despite good capital adequacy and liquidity.
- **Strengthen and align data collection**. Informed policy decision making and impact monitoring can only occur in an environment where policy makers have access to reliable and standardised statistics. In the context of access to finance, governments should prioritise and regulate data collection from financial institutions, including non-bank finance instruments (NBFIs), ideally disaggregated by size of enterprise and demographic factors such as gender and age. This would also help close the existing gaps in statistical data collection

standards and allow all the economies to be included in comparative performance analyses, such as the OECD Financing SMEs and Entrepreneurs Scoreboard[5].

Bank financing (Sub-dimension 6.2)

Many factors influence the availability of bank financing for SMEs. These range from the competitive environment in the banking system and the legal framework for bank lending to the financial readiness of borrowers. Governments can put in place policies to improve the "enabling environment", such as the legal framework or financial literacy, and they can also run support schemes that directly increase access to bank finance.

Support schemes can take many different forms: interest rate subsidies, caps, guarantees and other instruments. While the choice of instruments can depend on a variety of factors, it is important to align instruments as much as possible with market decision making in order to have a more sustainable and less distorting effect. For example, providing guarantees is more closely aligned with banks' commercial lending decisions than a straight interest rate cap dictated by policy makers with no consideration for risk profiles and cost of funding.

This section measures SMEs' access to bank financing. It looks first at the availability of bank financing more generally and then discusses support schemes that could facilitate lending to SMEs.

While in the aftermath of the 2008 crisis many governments put support schemes in place providing interest rate subsidies, credit guarantee schemes remain largely absent from the support landscape, particularly in the Western Balkans. Where they do exist, they tend to be rather small in scale and ineffective. However, steps have been taken in recent years to set up new schemes, the success of which will need to be assessed once they are more established. Turkey has a functioning credit guarantee fund which has been used as a major policy tool by the government in recent years to stimulate lending. The advanced nature of the credit guarantee fund is also reflected in Turkey's high score in this sub-dimension (Table 7.6).

Table 7.6. Scores for Sub-dimension 6.2: Bank financing

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Banking lending practices and conditions	2.48	2.74	3.08	3.37	2.07	3.12	3.61	**2.92**
Credit guarantee schemes	2.48	2.17	3.00	1.67	1.00	2.33	3.44	**2.30**
Weighted average	**2.48**	**2.51**	**3.05**	**2.69**	**1.64**	**2.80**	**3.55**	**2.67**

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

Bank lending is slowly recovering, but intermediation levels remain below potential

As described above, there are signs of recovery in the Western Balkans' financial markets. However, many economies are still struggling with the aftermath of the global economic and financial crisis, reflected in high NPLs and a limited willingness to lend to

SMEs despite high levels of liquidity. In contrast, Turkey has experienced solid credit growth over the past few years, partly fuelled by extensive government support schemes. Despite this, Turkey's banking sector remains vulnerable to macroeconomic developments. Overall across the region, SMEs in Turkey are the least constrained in accessing finance.

SME support schemes are available, but are often too small or cumbersome to make a difference

Most of the economies have specific nationally funded development banks or SME agencies with financing programmes in place. These typically extend credit lines at more favourable terms, or provide interest rate subsidies through special SME lending programmes with commercial lenders. The only exceptions to this are Albania and Kosovo. In Albania, these programmes are mainly donor financed or co-financed, while Kosovo has no such subsidised schemes.

Credit guarantee schemes (CGSs) can be an effective tool for supporting SME lending and alleviating the financing constraints they face. They can provide important security for lenders in light of existing information asymmetries and the perceived risk of lending to small businesses. In addition, credit guarantees tend to be better aligned with commercial lending practices than measures such as interest rate subsidies. If well designed and monitored (Box 7.2), they are also less onerous on public budgets.

Many WBT governments have either established a guarantee fund, or plan to do so in the near future. This is a significant change from the last assessment when such initiatives were rare across the region. However, the extent of these schemes differs greatly across economies. In Turkey, the Credit Guarantee Fund (KGF) introduced a portfolio product in 2017 and the government has greatly increased the funding available to it, leading to guarantees being issued to the amount of around TRY 200 billion (Turkish lira; around 6.5% of GDP). The KGF is also the only scheme in the region that has some element of private ownership, as a number of banks are shareholders. CGSs in the Western Balkans are more modest in size – many could be more effective if they were scaled up. In addition, they are mainly set up and run by governments and donors with little or no private sector involvement. This may contribute to the low uptake and limited feedback loop between the guarantee scheme and the commercial banks which are supposed to use it. Some steps have been taken by Western Balkan economies to set up new schemes or invigorate old ones. In Kosovo, for instance, a new Credit Guarantee Fund was established in 2016/17 to provide portfolio guarantees to local banks with the intention of supporting SME lending. Serbia has also taken the first steps towards establishing a guarantee facility with the help of EU funding, and Montenegro is planning to set up a CGS within its Investment and Development Fund in 2019.

The way forward for bank financing

- **Continue efforts to support banking sector recovery**. Particular focus should be placed on further reducing NPL levels and providing a legal and regulatory environment that encourages sustainable credit growth.
- **Work on establishing and strengthening credit guarantee schemes.** Where the first steps have been taken, governments should continue with the establishment of CGSs; where schemes exist, but are ineffective, they should consider comprehensive reforms. The design of these schemes should be

mindful of questions of sustainability, scale and private sector participation in order to ensure that they are meaningful and result in appropriate uptake. See Box 7.2 for more information on best practices.

Box 7.2. Good practice design features of credit guarantee schemes

Credit guarantee schemes can help alleviate financing constraints for SMEs by allowing banks to absorb more risk and thus encourage more lending to the SME segment. However, if poorly designed or implemented they only add limited value and can prove to be costly.

CGSs provide guarantees on loans by covering a share of the default risk of the loan. In case of default, the lender recovers the value of the guarantee. Schemes can be designed in many different ways. They can have differing coverage ratios, risk-sharing arrangements and pricing structures; they can cover individual loans or loan portfolios; and may have private sector participation. While the ultimate design of any scheme depends on the circumstances of its inception and specific objectives, there are certain aspects that policy makers should take into account when setting up or reforming a CGS.

The risk sharing and coverage structure is one key component. For example, a high coverage ratio (i.e. the guarantor bears most or all of the losses in case of default) or imbalanced risk-sharing arrangement can increase moral hazard and may encourage borrowers to default prematurely, or relieve banks of their responsibility to assess loan risk adequately at origination. An interesting example of how to establish the guarantee rate and reduce moral hazard is the Fondo de Garantía para Pequeños Empresarios (FOGAPE) in Chile, where the coverage ratio is determined through an auction.

Pricing should adequately reflect the risk taken by the guarantor in order not to overly subsidise private market participants. While this should keep losses to a minimum, credit guarantee schemes should not try to maximise profits as this would defeat the scheme's purpose of providing affordable financing to SMEs. Therefore, the structure should reflect policy priorities in balancing loan incrementality and cost recovery.

Providing guarantees for individual loans gives more control to the guarantee scheme as it can evaluate each loan application. However, it may be cumbersome for implementing commercial banks that have to fill in documentation for each loan and wait for a decision by the CGS. This can significantly lengthen the application and decision-making process by the commercial bank and make the loan more costly. Portfolio guarantees may be easier to implement but can be more difficult to design in ways that minimise moral hazard.

While many guarantee schemes are originated and funded by the public sector, **private sector participation** should be considered and even encouraged. Having commercial banks participate in the scheme's capitalisation can not only provide additional financing, but also creates an important feedback loop between commercial banks and the CGS to ensure that the products offered are tailored to market needs, thus increasing their effectiveness.

Finally, some schemes provide **additional services** to end-borrowers beyond the guarantee alone. These include technical assistance – which can also be provided through referral to other state agencies – advisory services or training. For example, the Korean guarantee agency for technology finance, KOTEC (Korea Technology Finance

Corporation), provides services beyond guarantees, such as technology appraisal, which have had a positive effect on the recipients' performance.

Sources: Williams, Kijek and Cole (2004[11]), *Evaluation of the Canada Small Business Financing Program: Final Report*, http://publications.gc.ca/collections/Collection/Iu188-79-2004E.pdf; Vienna Initiative (2014[12]) *Credit Guarantee Schemes for SME Lending in Central, Eastern and South-Eastern Europe*, http://vienna-initiative.com/wp-content/uploads/2014/11/2014_credit_guarantee_schemes_report_en.pdf; OECD (2009[13]), *Facilitating Access to Finance*, www.oecd.org/global-relations/45324327.pdf.

Non-bank financing (Sub-dimension 6.3)

Diversifying access to finance for SMEs has gained momentum across the world and has become a policy priority for many emerging economies as a way of complementing conventional bank finance. According to the *G20/OECD High-level Principles for SME Finance* (G20/OECD, 2015[14]), economies need to develop more comprehensive options for SME financing to support sustainable economic growth and boost the resilience of the financial sector, and particularly to target enterprises more likely to be under-served by the banking sector.

Microfinance can help support the financial inclusion of smaller enterprises and borrowers that are typically not covered by larger commercial banks. If tied into the credit information system, it can also help build a credit history and make borrowers more creditworthy in the long run. Typically, microfinance institutions are established with the support of governments or the donor community, but may become self-sustaining in the long term.

Other non-bank financial instruments such as asset-based leasing or factoring tools can provide access to finance for SMEs even when they struggle to meet banks' collateral or credit history requirements. Leasing can help SMEs modernise equipment and implement expansion plans in the absence of a bank loan or financial resources of their own. Under a leasing contract, dedicated leasing companies purchase a piece of equipment or technology for example, and allow the lessee to use this asset for a fee without requesting further guarantees, such as additional collateral. Factoring is a financial instrument based on the sale of accounts receivable from a firm with a good credit performance. Factoring can alleviate liquidity constraints for SMEs and enable them to have off balance-sheet access to working capital, which is priced against the credit risk of the enterprise's customers rather than that of the company itself.

Both types of financial instruments require a supporting legal framework, either incorporated into the general legal framework or supported through dedicated factoring and leasing laws. Factoring in particular often includes complex contracting procedures and requires more sophisticated legislation. Law makers and regulators can encourage the development of leasing and factoring by maximising the stability and legitimacy of the industry, ensuring that market players are well established and increasing the legal certainty of transactions.

This section looks at the existence and scope of a legal and regulatory framework that supports leasing, factoring and microfinance activities, as well as statistics on the use of these types of financial services.

Overall, the region has made some progress in developing non-bank financial instruments. In particular, the economies have strengthened their legal frameworks for enabling leasing and factoring. Market penetration of alternative finance has gradually

increased but remains significantly below potential. Table 7.7 summarises the economies' performance in this sub-dimension, revealing that most economies' performance is relatively similar.

Table 7.7. Scores for Sub-dimension 6.3: Non-bank financing

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Microfinance institutions	4.83	4.33	4.67	2.17	4.67	2.00	2.33	**3.57**
Leasing	2.46	2.75	2.54	3.17	2.33	3.30	3.33	**2.84**
Factoring	2.63	1.75	1.50	1.50	3.00	3.25	3.50	**2.45**
Weighted average	**3.31**	**2.94**	**2.90**	**2.28**	**3.33**	**2.85**	**3.06**	**2.95**

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

Microfinance is a viable source of finance for SMEs in some economies, but volumes remain low

Microfinance is available on a small scale in most of the assessed economies, and volumes have increased in recent years, although a significant share is absorbed by private households. Microfinance institutions (MFIs) account for the vast majority of the NBFI loan portfolio in Albania, where the statistics also include the activities of saving and loan associations. Microfinance is also available in Bosnia and Herzegovina and North Macedonia. Microfinance lending is also available in Montenegro at self-sustainable levels, where it has gained momentum in recent years and almost returned to pre-crisis levels. Volumes reached over EUR 60 000 at the end of 2017, almost doubling from a low in 2013.

In contrast, levels of financing through MFIs remain low in Serbia and Turkey, primarily due to legal environments that are not conducive to their operation. In Turkey, micro and smaller businesses are mainly served by commercial banks, thus leaving relatively little room for dedicated MFIs. Some non-government organisations (NGOs) provide microloans to specific segments of the population, such as women on low incomes. Given the limited scope of this type of activity, there has not been a focus on developing a specific legal framework for microfinance in recent years. In Serbia, the government's SME Development Strategy and Action Plan 2015-2020 envisages establishing a legal framework for non-bank, non-deposit credit institutions, but has made no progress in introducing legislation conducive to microfinance.

Leasing and factoring are gaining momentum as legal frameworks are strengthened, but market penetration is below potential

Leasing and factoring operations are available in all economies in the Western Balkans and Turkey, but are underused. Overall, leasing volumes remain below potential, in particular in the Western Balkans (at less than 1% of GDP), compared to 1.3% of GDP in Turkey, where leasing and factoring are more developed. This compares to 1.7% of GDP on average in EU countries, with Estonia having one of the highest leasing penetration rates (at 4.3% of GDP), showing that this type of activity can also be significant in smaller economies. Factoring penetration also remains insignificant in the Western Balkans, at 1.6% of GDP, compared to 4.5% of GDP in Turkey and an average of 7.6% in EU countries (World Bank, 2016[9]). Yet due to the low level of financial

intermediation in many economies, the potential for these instruments may be even higher than for many EU members.

Despite more recent positive trends, the continuing low uptake of leasing and factoring suggests in particular demand-side limitations such as low levels of awareness among smaller businesses of the opportunities they present. For instance, leasing is only a genuine alternative financing option for smaller enterprises in Turkey, due to a strong SME focus in the portfolio of leasing companies. In addition, the Turkish leasing sector is also strong in equipment and technology leasing, not just vehicle financing (the most common use of leasing in much of Central and Eastern Europe, including the Western Balkans).

Across most WBT economies, leasing and factoring are governed by a legal framework, with some governments having implemented or currently undergoing reforms to further strengthen legislation in recent years. This will increase certainty for the market and reduce transaction risk.

With support from the EBRD, Montenegro took an important step in the reform of its legislative framework in October 2017 with the adoption of a new law on financial leasing, factoring, purchase of claims, and microcredit and credit guarantee (Box 7.3). As a result, its legal and regulatory framework has been significantly improved and is now aligned with international best practices. In Bosnia and Herzegovina, the Federation of Bosnia and Herzegovina also adopted a new law on factoring in 2016, and legislative reforms for factoring are currently underway in both Kosovo and North Macedonia. Serbia undertook an exercise in 2016 to identify areas of its legal framework requiring reform for factoring, with EBRD support. Few concrete actions have been implemented to date, however.

Box 7.3. Factoring and leasing legislative reform in Montenegro

In 2017, Montenegro introduced its first factoring legislation and reformed its leasing legislation in order to boost the financial industry and provide the market, in particular SMEs, with access to working capital and asset financing. The reform also supported Montenegro's efforts to align its financial sector regulation with the relevant EU *acquis*.

The aim of the new legislation was to reduce funding and cash flow shortages for SMEs, which are often required to provide trade credit to larger buyers and hold accounts receivable on their balance sheet. Similarly, the reform of leasing regulations aimed at boosting the use of leasing services and creating more legal certainty, as well as providing easily accessible asset financing. The main components of the reform included better regulation of leasing companies and amendments of ambiguous provisions in the existing legislation, which had previously resulted in slow enforcement and uncertainties surrounding rights and obligations in leasing transactions. In line with EU directives, for the first time the new factoring and leasing frameworks also introduced the passporting concept into Montenegrin legislation.

The legislative reform, supported by the EBRD, was undertaken in close co-ordination with financial services providers, consumers, regulators and foreign experts in financial services. Co-ordination was achieved through consultations at every stage of the process and by giving stakeholders the opportunity to comment on concept papers and propose alternative solutions that were later transposed into legislation. The involvement of all stakeholders from the beginning, and the close collaboration throughout the process, were

key to the success and functionality of the reform.

Considering the level of development of the Montenegrin financial industry and recognising the importance of expanding it, the government authorities adopted a so-called light-touch approach. This meant finding a careful balance between enough regulation to introduce certainty while not placing unnecessary burdens on both service providers and consumers.

The Montenegrin regulators decided to combine the proposed factoring and leasing legislation with the legislation governing other financial services, such as microcredit institutions. This resulted in an all-encompassing financial industry law called the Law on Financial Leasing, Factoring, Purchase of Claims, Micro-Credit and Credit-Guaranteeing. The law now regulates both the service providers (e.g. capital requirements, licensing and corporate governance) and financial transactions (i.e. rights and obligations of transacting parties). It was adopted by parliament on 25 October 2017 and entered into force on 11 November 2017. It came into effect on 11 May 2018.

Source: European Bank for Reconstruction and Development.

The way forward for non-bank financing

- **Support the market penetration of factoring and leasing.** Amid increasing emphasis on reforms of legal frameworks for factoring and leasing, the focus should be on completing and adopting them. In addition, efforts should be made to raise awareness about these types of financial instruments to increase uptake. This could include centralised awareness-raising campaigns or posting information on dedicated portals (see section on The way forward for financial literacy).
- **Embed microfinance into a supportive legal and regulatory framework.** In those markets where microfinance is currently limited, governments should further consider including legislation conducive to microfinance activity to support SME access to finance.

Venture capital ecosystem (Sub-dimension 6.4)

Traditional debt financing is particularly ill-suited to high-growth and innovative early-stage firms, which typically lack a credit history and collateral and operate in a rapidly changing environment. For these types of enterprises more equity-based financial instruments, such as venture capital, are particularly relevant. Venture capitalists – usually business angels or specialised VC funds – invest in entrepreneurs with innovative ideas and provide them with additional business expertise and support at the pre-launch, launch or early development phases (Table 7.8). In return for the high risk of investing in early phase enterprises, VC usually envisages higher-than-average returns on investment. Business angel networks have a similar approach to VC, though the size of investment is usually much smaller and driven by high net-worth individuals or successfully established entrepreneurs.

Table 7.8. Venture capital by stage

Stages	Definition
Pre-seed/seed	Financing provided to research, assess and develop an initial concept before a business has reached the start-up phase.
Start-up/other early stage	Financing for product development and initial marketing. Companies have not sold their product commercially and are in the process of being set up.
Later stage venture	Financing for the expansion of an operating company.

Source: OECD (2015[15]), *New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments*, https://doi.org/10.1787/9789264240957-en.

Although currently not part of the SME Policy Index assessment, crowdfunding is also emerging as a new type of non-bank financial instrument particularly relevant to start-up companies. Crowdfunding allows businesses to draw on a multitude of investors without having to meet excessive reporting requirements or due diligence. The downside, however, is that it usually does not offer adequate investor protection. For instance, minimum capital or anti-money laundering requirements are not sufficiently regulated, unless embedded in a dedicated legal framework.

Governments can support the development of venture capital activities by creating an adequate framework for investor protection, taxation and corporate governance, as well as by building a local environment conducive to innovation and early stage enterprises (for more information, see Chapter 10 on innovation policy for SMEs).

This section assesses the availability in the WBT region of dedicated legislation to enable venture capital investment, as well as the presence of policy measures to encourage such activities.

Venture capital and business angel investments continue to be underdeveloped throughout the Western Balkan region. In contrast, in Turkey VC is available to innovative start-ups and high-growth enterprises, giving Turkey the highest score in this sub-dimension (Table 7.9).

Table 7.9. Scores for Sub-dimension 6.4: Venture capital ecosystem

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Legal framework	1.67	1.82	2.11	1.78	1.67	2.55	4.67	**2.32**
Design and implementation of government activities	1.57	1.34	2.29	2.82	1.54	2.86	4.91	**2.48**
Monitoring and evaluation	1.00	1.00	1.00	1.00	1.00	1.00	4.33	**1.48**
Weighted average	**1.49**	**1.44**	**1.97**	**2.09**	**1.48**	**2.38**	**4.71**	**2.22**

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

Venture capital remains in its infancy, with the focus on building an adequate environment

In Turkey, venture capital is embedded in the legal framework, and the government provides incentives for VC investment through the Turkish Investment Initiative. A recent decision to enable the Turkish Treasury to invest directly in venture capital funds

is likely to further stimulate the market, which may help in light of increased macroeconomic uncertainty. The secondary market at Borsa Istanbul, which enables smaller businesses to access capital markets, also provides VC funds with a viable exit option. In addition, the government introduced new legislation in December 2017 to increase clarity on the treatment of crowdfunding activities. This new law moves the Turkish regime from a grant or reward-based system to a return-based one. Additional legislation is currently under preparation, with the support of the EBRD, to regulate equity-based crowdfunding.

None of the economies in the Western Balkans has a dedicated legal framework for VC; instead activities are de jure regulated by more general investment laws. Although some governments had carried out a review of the regulatory framework to address the needs of venture capital during the previous assessment period, no progress has been made in this area. Instead, most economies are primarily focusing on enhancing the overall enabling environment for innovation and have implemented several policies which may lead to increased VC activity in the medium term. Montenegro and Serbia are currently preparing new legislation to establish an alternative investment fund, which may eventually lead to better regulation of venture capital activity. Montenegro is also considering setting up a crowdfunding platform, but no concrete plans are yet in place.

The launch of operations in the Western Balkans of the Enterprise Innovation Fund, supported by the EU and IFIs (International Financial Institutions), is also a noteworthy development. To date, the fund has made a total of ten investments in North Macedonia and Serbia, investing more than EUR 5 million and giving an important signal for other investors looking at the region (EC, 2018[16]).

Business angels continue to be embryonic throughout the Western Balkan region, as existing networks remain largely non-operational and investments are limited. In contrast, numerous business angel networks in Turkey are an important source of finance for start-ups (Box 7.4), laying the foundation for VC investors. According to data collected by the European Trade Association for Business Angels, business angels in Turkey invested EUR 130.3 million between 2015 and 2017, compared to EUR 8.6 million in Serbia, EUR 3.3 million in North Macedonia, EUR 1.8 million in Kosovo and EUR 100 000 in Montenegro (EBAN, 2017[17]). Data for Albania and Bosnia and Herzegovina are not available.

Box 7.4. Public sector support to boost business angel activity in Turkey

Through a variety of policies, from tax incentives to passing a dedicated law, the Turkish government has been successful in significantly increasing business angel activity. Business angel investment volumes have almost quadrupled within four years (2014-17), making it the fifth largest market in Europe.

The increase is commonly attributed to a number of policies. First, Turkey was the third country in the world (after the United Kingdom and the United States) to pass a dedicated angel investor law in 2013. Second, the Turkish Treasury provides a tax incentive of 75% on qualifying investments, rising to 100% on investments in projects previously supported by specific government bodies such as the Scientific and Technological Research Council of Turkey (TÜBİTAK). However, it is worth noting that such schemes primarily target the development of the short-term market and should, in the medium term, be phased out to support more commercially sustainable solutions, such as the

dedicated fund announced by TÜBİTAK, to which it has pledged USD 25 million.

As a result of the various support schemes, Turkey is now one of the largest business angel markets in Europe, with 16 angel networks and a total investment volume of EUR 52 million in 2017. While it is too early to showcase exits from this recent investment growth, Turkish start-ups and VC funds have made headlines with large-scale exits, with multiple acquisitions in 2017 and 2018 exceeding USD 100 million.

The Turkish case highlights the importance of a clear, reliable and dedicated legal framework, as well as the role of government incentive schemes in getting financing opportunities off the ground and widening the access to finance for SMEs. While early results look very promising, the Turkish example will be an interesting one to follow as it matures and transitions to more sustainable, market-driven mechanisms.

Source: EBAN (2017[17]), *2017 Annual EBAN Statistics Compendium*, European Trade Association for Business Angels, www.eban.org/2017-annual-eban-statistics-compendium.

The way forward for the venture capital ecosystem

- **Continue efforts to build a business environment conducive to innovation,** including strengthening certainties for investors and highlighting clear exit routes. Adopting dedicated legal frameworks to regulate venture capital investments and supporting innovative businesses with adequate finance and support infrastructure would increase the investment readiness of companies and boost foreign direct investment. In addition, while reviewing existing legislation and assessing the need for policy measures are positive first steps, they should be linked to an action plan outlining concrete policy measures and reforms.

Financial literacy (Sub-dimension 6.5)

Financial literacy is a particularly difficult element to quantify and measure, but the importance of implementing support programmes for the wider public is now recognised as an "investment in human capital" (Lusardi and Mitchell, 2014[18]). At the same time, programmes targeting existing entrepreneurs can help start-ups and SMEs make more informed decisions and better understand their financial requirements. The overall benefits of higher financial literacy levels have been well established in academic research and range from better interest rates to more diversified investments (Lusardi and Scheresberg, 2013[19]; Abreu and Mendes, 2010[20]).

Similarly, existing programmes require diligent monitoring and evaluation to adjust and optimise their reach and impact. Examples from Indonesia, Kenya, Malaysia and Sri Lanka show that impact assessments may be carried out by professional researchers if dedicated resources within the government are limited (Atkinson, 2017[21]).

This section examines the existence of government-led financial literacy assessment and training schemes in each economy, as well as the inclusion of financial literacy in the education system. It assesses support measures not only for their impact, but also their structural monitoring and evaluation.

While the region has made progress with the introduction of additional support programmes, expanding the suite of often highly specific training implemented by government and private bodies, the focus should now be on putting formalised

monitoring and evaluation schemes into practice. Scores for this policy area remain relatively low across all the economies, as summarised in Table 7.10.

Table 7.10. Scores for Sub-dimension 6.5: Financial literacy

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning, design and implementation	2.26	1.38	2.89	1.98	2.33	2.78	3.45	**2.44**
Monitoring and evaluation	1.00	1.00	1.00	1.00	1.00	1.00	2.33	**1.19**
Weighted average	**2.01**	**1.31**	**2.51**	**1.79**	**2.07**	**2.42**	**3.22**	**2.19**

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

Ad-hoc financial literacy programmes exist across the region, but lack formal monitoring and evaluation

Global surveys have found a relatively low level of financial literacy in the WBT region, meaning that any policies should target both the wider population and existing entrepreneurs. On average in the assessed economies, 27% of the adult population are considered financially literate, compared to an EU average of 52% (Klapper, Lusardi and Van Oudheusden, 2015[22]). While the regional picture seems encouraging at first, with multiple governments implementing visibility campaigns, training programmes and/or online portals (such as the Serbian National Bank's Tvoj Novac educational portal[6]), efforts are generally quite ad hoc and rarely form part of a holistic framework. In Montenegro for example, training is provided by at least half a dozen different organisations, such as the Directorate for SME Development[7], the employment agency and the chamber of commerce, without any central strategy in place. As with other policy instruments, financial literacy support programmes should be based on needs assessments (in this case, a population survey), leading to an overall strategy. In the Serbian example, the National Bank has developed an official strategy, but it is not grounded in a national assessment of financial literacy.

Formal evaluation approaches are generally lacking in the WBT. Turkey appears to be the only economy in the region which conducts formal monitoring of its financial literacy initiatives under the Financial Access, Financial Education and Financial Consumer Protection Strategy and Action Plans. However, no data on their impact are available.

The way forward for financial literacy

- **Prioritise financial literacy within existing policy frameworks**. Economies should develop a centralised strategy co-ordinating a variety of financial literacy efforts targeting diverse population groups. This should range from including basic topics in secondary curricula and advanced topics in vocational educational curricula to creating portals providing all the available support schemes for potential and existing entrepreneurs. Such support programmes might also consist of training or reference material and should ideally be integrated with the other government SME financial support programmes.
- **Improve analysis of financial literacy levels.** Economies should undertake a formal assessment of current financial literacy levels (either drawing on existing international surveys or commissioning dedicated ones) and implement stringent centralised monitoring and evaluation against pre-set targets. Governments could

partner with private sector financial institutions (who would have a vested interest in expanding their potential client base) for outreach campaigns, drawing on NGOs' development experience if needed, to implement programmes targeted at particular demographics (e.g. rural SMEs, potential entrepreneurs or women entrepreneurs).

Conclusions

Overall, the relevant stakeholders in all the WBT economies have made progress in improving access to finance for SMEs.

The assessment found that acceptable legal and regulatory frameworks are in place to facilitate access to finance for SMEs, even though the effective availability of wider collateralisation options could be improved. The coverage of credit information systems has expanded, enabling more enterprises to build a credit history. Amid recovering banking systems, lending has slowly resumed and, in some economies, commercial banks are increasingly focusing on SME lending. Non-bank finance instruments have gained momentum as governments are increasingly recognising the need to diversify access to finance sources. The activities of microfinance institutions have increased in some economies, and across the region efforts are underway to strengthen legal frameworks to support leasing and factoring. Furthermore, the assessment found that venture capital remains active in Turkey amid strong government support. However, although some pioneer VC fund investments were made in North Macedonia and Serbia during the reporting period, VC remains in its infancy across the Western Balkan region.

Nevertheless, systemic issues remain across all WBT economies. In this context, public sector interventions to ease SME access to finance remain common, but, governments are slowly shifting towards more commercially aligned solutions such as credit guarantees. Steps to strengthen legal frameworks to support leasing and factoring are welcome, but their increased uptake requires support, including by raising awareness among small businesses.

Lastly, the low levels of financial literacy require both public and private sector support and a clear strategic approach to tackle shortcomings in this area. Addressing the recommendations presented in this chapter will support relevant stakeholders in the WBT region to improve access to finance for SMEs.

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] The EU-15 comprises Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom. The EU-13 comprises Bulgaria, Croatia, Cyprus,** Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.

** Note 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.

Note 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.

[3] Basel III is a set of measures developed by the Basel Committee on Banking Supervision in response to the 2008/09 crisis. It has beesn agreed internationally with the aim of a more resilient banking system. It underpins the regulatory and supervisory framework and strengthens banks' risk management.

[4] SEE Link website: www.see-link.net.

[5] See http://www.oecd.org/cfe/smes/financing-smes-and-entrepreneurs-23065265.htm

[6] See www.tvojnovac.nbs.rs.

[7] The Directorate for SME Development was restructured at the beginning of 2018 and renamed as the Directorate for Investments, Development of Small and Medium-Sized Enterprises and Management of EU Funds.

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Chapter 8. Standards and technical regulations (Dimension 7) in the Western Balkans and Turkey

This chapter assesses the quality infrastructure systems and procedures required in the Western Balkans and Turkey to facilitate small and medium-sized enterprises' (SMEs) access to the EU Single Market. It starts by outlining the assessment framework, then presents the analysis of Dimension 7's three sub-dimensions: 1) overall co-ordination and general measures, which assesses the strategic documents and institutional framework for quality infrastructure co-ordination; 2) harmonisation with the EU acquis, *which analyses the capacities of quality infrastructure institutions as well as their alignment with international and European rules for technical regulations, standardisation, accreditation, metrology, conformity assessment and market surveillance; and 3) SME access to standards, which explores government initiatives to enhance and support access. Each sub-dimension section makes specific recommendations for increasing the capacity and efficiency of quality infrastructure systems in the Western Balkans and Turkey.*

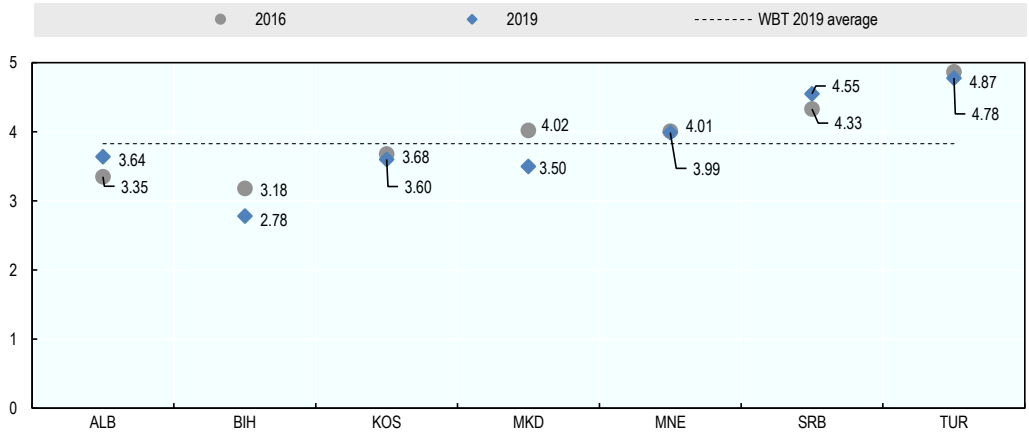
Key findings

- **Overall co-ordination of quality infrastructure policies has significantly improved across most economies.** However, challenges remain in a few economies, particularly in integrating market surveillance into the co-ordination mechanism of quality infrastructure pillars.
- **Most governments have renewed their strategic documents for adopting quality infrastructure legislation and transposing EU directives**. However, monitoring and evaluation is largely ineffective and insufficient in all economies.
- **All governments have taken steps to conclude mutual recognition agreements and participate in international quality infrastructure structures.** As a result, their quality infrastructure systems are increasingly consistent with the established principles in the EU and internationally.
- **Much focus has been placed on strengthening institutional and human resource capacities, though several economies will need to make additional investments.** Maintaining and expanding the current level of accreditation, conformity assessment and metrology services remain challenges.
- **Policy makers are not exploiting synergies at the regional level**. Although some co-operation is taking place regionally, there has been no attempt to collaborate to provide cost-effective quality infrastructure services at a regional level.
- **All governments have made progress in removing trade barriers by transposing European standards.** Nonetheless, national standards bodies in the Western Balkans have not succeeded in increasing their own revenues, and given the relatively small size of their economies, they struggle to reduce their dependence on public funding.
- **SMEs' access to standardisation in the WBT economies remains inadequate.** SMEs are not systematically informed about new standards or involved in their development. Effective programmes remain scattered, and very few economies have targeted and regular programmes to support SME awareness of and participation in standard development.

Comparison with the 2016 assessment scores

Overall, the regional average score in the area of standards and technical regulations stands at 3.83, which is slightly lower than the previous assessment of 3.92. The progress made in aligning with the EU *acquis* has been offset by poor performance in facilitating SMEs' access to standardisation, resulting in only minimal changes to the overall scores (Figure 8.1). Turkey and Serbia continue to lead the way, reflecting their more comprehensive provision of programmes and instruments for enhancing SMEs' access to standardisation.

Figure 8.1. Overall scores for Dimension 7 (2016 and 2019)



Note: Scores for 2019 are not directly comparable to the 2016 scores due to a methodological change increasing the focus on 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 small changes in the overall scores since the *2016 SME Policy Index* can be explained by the limited implementation of its recommendations (Table 8.1). While almost all the assessed economies have renewed their strategic documents for adopting and implementing EU legislation, establishing a single central source of information for SMEs about exporting to the EU market remains a challenge for most. The assessed economies have also not made any significant improvements in monitoring and evaluation practices for technical regulations and legislation.

Table 8.1. Implementation of the SME Policy Index 2016 recommendations for Dimension 7

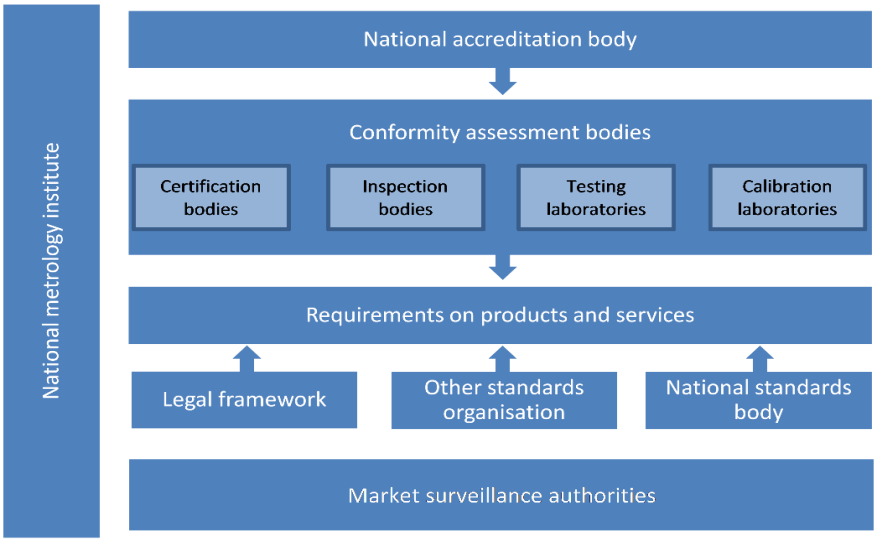
Overall 2016 recommendations	SME Policy Index 2019	
	Main developments during the assessment period	Regional progress status
Develop and adopt strategic documents	Almost all the assessed economies have either finished drafting or adopted strategic documents. The only exception is Bosnia and Herzegovina, where the Committee for Technical Regulation has been in political deadlock since 2012. As a result, strategic documents on the transposition of EU sectoral legislation on industrial products and technical regulations in priority sectors are yet to be renewed.	Moderate
Provide single central sources of information	Little progress has been made in providing single sources of information specifically targeting the needs of SMEs when exporting to the EU market. However, Serbia has been operating a designated website since 2011. It provides relevant information concerning standards, conformity assessment and other elements needed for exporting to the EU market. Although not covering all of Bosnia and Herzegovina, a similar website in the Republika Srpska has been operating since 2009. Turkey also operates a single contact point for exporters to the EU Single Market.	Limited
Regularly evaluate technical regulations and legislation	Regular monitoring and evaluation of technical regulations and legislation remains an area for major improvement. These activities remain sporadic across the Western Balkan economies, and sometimes depend on the availability of donor funding; only Turkey conducts an annual evaluation.	Limited

Introduction

Technical regulations and standards promote public policy objectives such as protecting human health or the environment. They also underpin global markets by helping to remove trade barriers. When well-harmonised among trading partners, standards and technical regulations can facilitate cross-border trade by reducing uncertainty and building trust among market players.

The diffusion and implementation of technical regulations and standards cannot be ensured merely by adopting them, however. Relevant institutions are needed to evaluate and confirm compliance levels. Through services such as certification, testing, inspection and calibration, conformity assessment bodies evaluate and confirm compliance with requirements set out in the technical regulations and standards. Accreditation, metrology and market surveillance further complement the system and increase public confidence in product safety. Figure 8.2 summarises the structure of a national quality infrastructure system, in which interrelated elements build on each other to maximise their impact.

Figure 8.2. A national quality infrastructure system



Source: Blind, K. and C. Koch (2017[1]), *Introduction to Quality Infrastructure Management*, lecture at Technische Universität Berlin.

Against this backdrop, the Western Balkan economies and Turkey need to provide the necessary structures and fulfil their obligations regarding the free movement of goods in the lead up to European Union (EU) accession. Where products are governed by different national regulations, their free circulation in Member States will be hindered. Therefore, before joining the EU, governments need to make sure to align their product legislation with the EU *acquis* and transpose European standards into national ones while withdrawing contradictory national standards.

Improvements in quality infrastructure systems have the potential to further boost trade with the EU. In 2017, EU trade with the Western Balkan economies reached EUR 49 billion, while trade with Turkey reached EUR 154 billion. Although trade volume has doubled over the last 10 years, the openness of the WBT economies to trade remains low

given their size, level of development and geographical location (Sanfey and Milatovic, 2018[2]). This untapped potential to expand trade with the EU was also confirmed by the recently adopted European Commission Strategy for the Western Balkans (EC, 2018[3]). In 2016, the Commission also proposed modernising and expanding the Customs Union with Turkey (EC, 2016[4]).

Currently, however, SMEs in the WBT economies do not fully benefit from the opportunities provided by the EU Single Market. This is partially because they lack information about the rules applied in the EU, as well as sufficient language skills. The cost of meeting the requirements to enter the Single Market are also often another obstacle.

In this context, ensuring SMEs in the WBT economies have access to reliable and efficient quality infrastructure services will be critical to improving their products and stimulating demand from the EU Single Market. Moreover, in light of the globalisation of value chains, technical regulations and standards are becoming important beyond the EU market (Blind, Mangelsdorf and Pohlisch, 2018[5]). The ability of firms, sectors and economies to absorb, adapt and disseminate up-to-date technology and participate in global value chains hinges on investments in quality infrastructure institutions and mechanisms (Doner, 2016[6]). Compliance with technical regulations and standards is not only a prerequisite for increasing exports, but also for industrial upgrading and ultimately promoting sustainable economic growth (Swann, 2010[7]; Guasch et al., 2007[8]).

Realising the benefits of technical regulations and standards and exploiting their economic potential means establishing an entire network of interdependent organisations and instruments of national quality infrastructure. This combines a system of public and private organisations with the relevant legal and regulatory framework, and the practices needed to support and enhance the quality, safety and environmental soundness of goods, services and processes. In establishing this network, it will be extremely important to pay special attention to SMEs' needs and challenges (UNIDO, 2017[9]).

Assessment framework

Structure

The overall objective of Dimension 7 (standards and technical regulations) is to analyse whether the economies have a well-functioning quality infrastructure system, how far it is aligned with the EU rules, and how governments are endeavouring to improve SMEs' access to the EU Single Market. The analysis revolves around the following three sub-dimensions:

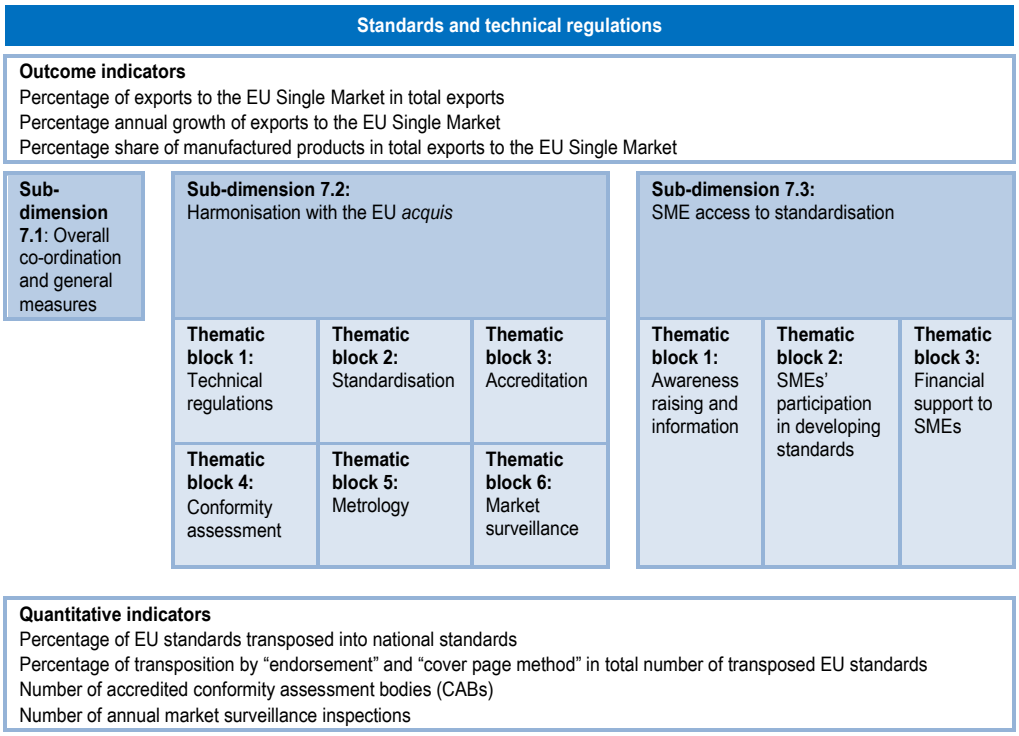
- **Sub-dimension 7.1: Overall co-ordination and general measures** looks at general policies and tools for overall policy co-ordination and strategic approaches to adopt and implement EU legislation. The assessment also evaluates if all relevant information on requirements for exporting to the EU is accessible to SMEs.
- **Sub-dimension 7.2: Harmonisation with the EU *acquis*** explores the national quality infrastructure systems by examining the main elements of their key pillars – technical regulations, standardisation, accreditation, metrology, conformity assessment and market surveillance – in six thematic blocks. More specifically, it analyses their institutional capacity, adoption and implementation of strategic

documents and integration into international structures. It also examines if the legislation and instruments are subject to regular monitoring and evaluation.

- **Sub-dimension 7.3: SME access to standardisation** evaluates government efforts to increase SME awareness of standards and facilitate their participation in developing standards. It also considers the availability and scope of the current financial support programmes aimed at enhancing implementation of standards in the SME population.

Figure 8.3 illustrates how the sub-dimensions and their constituent indicators make up the assessment framework for the standards and technical regulations dimension.

Figure 8.3. Assessment framework for Dimension 7: Standards and technical regulations



Note: The outcome indicators serve to demonstrate the extent to which the policies implemented by the government bring about the intended results, and they have not been taken into consideration in the scoring. By contrast, quantitative indicators, as a proxy for the implementation of the policies, affect the overall scores.

The assessment framework is prepared in full accordance with the Small Business Act (SBA) principle of encouraging SMEs to benefit more from the opportunities offered by the Single Market. This principle calls for government efforts both to promote SME participation in standardisation, and also to disseminate information on the use and benefits of European standards to SMEs (EC, 2008[10]).

The assessment was based on qualitative data collected with the help of questionnaires filled out by governments and independent consultants in the Western Balkans and Turkey. Face-to-face interviews were also held with SME owners and managers to uncover the challenges of complying with EU standards and technical regulations (see Annex C). In addition to qualitative inputs, the assessment draws on quantitative data

from the national statistics offices in the assessed economies. 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 2016 assessment, a number of changes have been introduced to the assessment framework (Table 8.2). A new sub-dimension has been added to gauge government measures aimed at improving SMEs' access to standardisation, while the structure and scope of the other sub-dimensions have been extended. In this assessment cycle, the first sub-dimension (overall co-ordination and general measures), now asks whether authorities have designated a body to co-ordinate the policies of all the quality infrastructure pillars. All the other sub-dimensions from the previous cycle have been consolidated into one sub-dimension (harmonisation with the EU *acquis*), which now also analyses education on standardisation and measures to facilitate SME access to conformity assessment.

In order to better evaluate the economies' performance on the revised Dimension 7, and in particular to capture the state-of-play of the new sub-dimension, the weights for the first two sub-dimensions have been adjusted.

Table 8.2. Key changes in the composition of Dimension 7

Sub-dimensions	Key changes since 2016 assessment
Sub-dimension 7.2: Harmonisation with the EU *acquis*	Consolidates the previous sub-dimensions on technical regulations, standardisation, accreditation, metrology, conformity assessment and market surveillance
Sub-dimension 7.3: SME access to standardisation	New sub-dimension introduced to evaluate government efforts for improving SMEs' awareness of the benefits of standards to facilitate their participation in developing standards and to reduce their financial burden when implementing standards.

Other sources of information

The main findings of the European Commission's EU accession progress reports for the Western Balkans and Turkey have been referred to throughout the chapter. In particular the progress made under Chapter 1 of the EU negotiations (free movement of goods) has been reflected in the analysis whenever relevant (EC, 2018[11]).

Analysis

Performance in EU trade

Outcome indicators play a key role in examining the effects of policies, and they provide crucial information for policy makers to judge the effectiveness of existing policies and the need for new ones. Put differently, they help policy makers track whether policies are achieving the desired outcome. The outcome indicators chosen for this dimension (see Figure 8.3) are designed to assess the WBT region's trade with the European Single Market, whose success hinges on good policies for standards and technical regulations, among other things. This analysis section starts by drawing on these indicators to describe the economies' trade performance with the European Union.

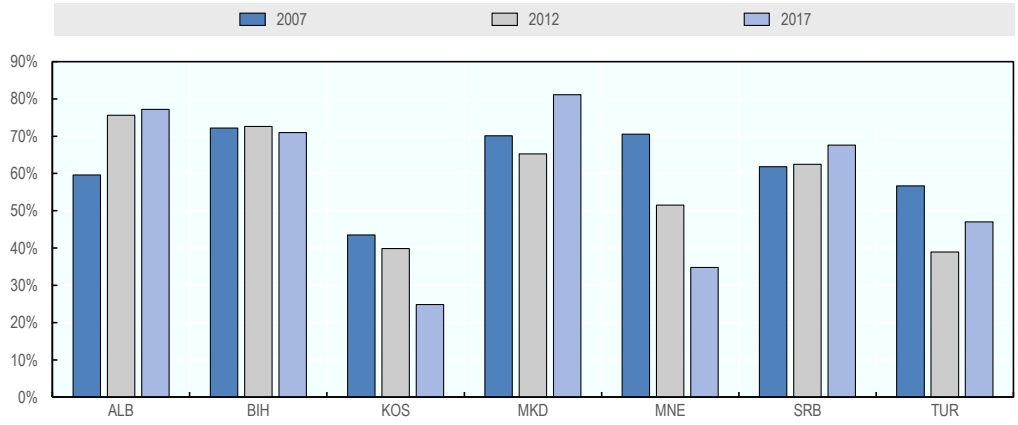
Trade has been a key aspect of the Western Balkans and Turkey's integration into the EU, and the EU has progressively concluded bilateral free-trade agreements with the Western Balkans and signed the Customs Union agreement with Turkey.

The Western Balkan economies were granted autonomous trade preferences in 2000 (renewed in 2015 and valid until 2020), leading to a substantial surge in exports to the EU Single Market. Autonomous trade preferences allow unlimited and duty-free access for almost all Western Balkan exports to the EU. The exceptions are wine, sugar, and certain beef and fisheries products for which preferential tariff quotas apply.

As for Turkey, the Customs Union agreement on industrial products with the EU entered into force in 1995. The agreement stipulated that Turkey needs to transpose the *acquis communautaire* concerning the abolition of technical barriers. This has resulted in early alignment efforts and the strengthening of Turkey's quality infrastructure system. In December 2016, the Commission proposed modernising the Customs Union agreement and extending it to areas such as services, public procurement and sustainable development. At the time of writing, this proposal was being discussed at the European Council.

The EU is already the largest export market for the majority of the WBT economies and accounts for around 70% of total exports in Albania, Bosnia and Herzegovina, the Republic of North Macedonia, and Serbia. It is also Turkey's largest export market, accounting for 47% of exports. While exports from most of the economies have increased modestly or remained stable, Kosovo* and Montenegro's exports to the EU Single Market have fallen as a share of total exports and remain below pre-crisis volumes (Figure 8.4). In both cases, this reflects a bigger increase in exports to the Central European Free Trade Agreement (CEFTA) region.[1] Despite this declining share, in Kosovo the volume of exports to the EU actually grew modestly over the period 2006-17.

Figure 8.4. Share of EU exports in total WBT exports (2007-17)



Note: Due to unavailability of 2007 data for Bosnia and Herzegovina, data for 2008 were used instead.
Source: Adapted from Eurostat (2018[12]), *International Trade of EFTA and Enlargement Countries dataset*, https://ec.europa.eu/eurostat/web/products-datasets/-/ext_lt_intercc.

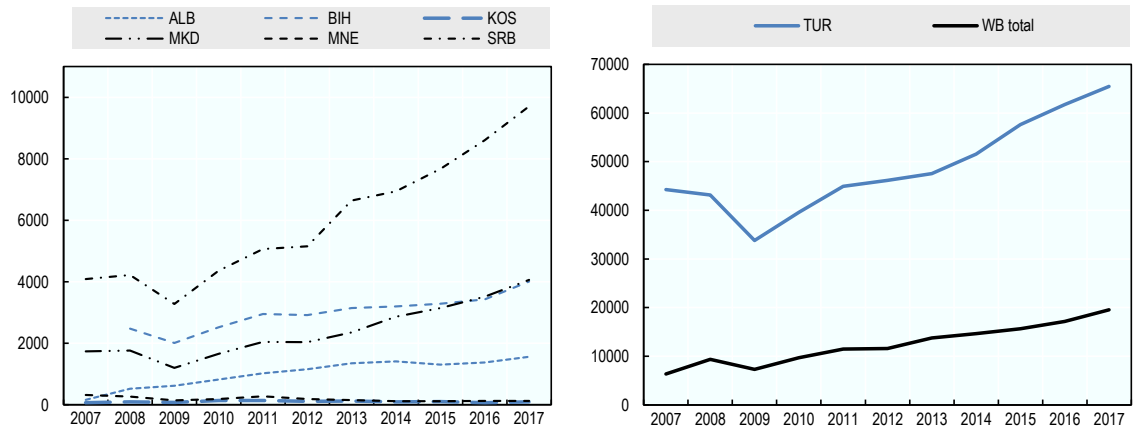
StatLink http://dx.doi.org/10.1787/888933937565

* 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.

Greater access to the EU Single Market has allowed the Western Balkans and Turkey to steadily increase trade with the EU since the early 2000s. Although the crisis of 2007 did not have significant negative effects on WBT exports to the EU Single Market, the Eurozone crisis of 2009 depressed export volumes in most WBT economies, which slumped by 21% on average. The first half of 2010 saw a vigorous rebound and has resulted in steady average growth ever since (Figure 8.5). In 2017 alone, the trade in goods volume grew 13.5% compared to the previous year (EC, 2018[13]).

Figure 8.5. WBT exports of goods to the European Union (2007-17)

EUR million



Source: Adapted from Eurostat (2018[14]), *Comext database*, https://ec.europa.eu/eurostat/web/international-trade-in-goods/data/focus-on-comext.

StatLink http://dx.doi.org/10.1787/888933937584

Manufactured goods continue to dominate trade with the EU, reaching 80% of the Western Balkan economies' exports to the EU Single Market in 2017 and 77% of imports (Eurostat, 2018[15]). Considering the strict requirements for manufactured goods exported to the EU Single Market, this trade composition further strengthens the case for facilitating SMEs' access to relevant standards across the WBT economies.

Against the backdrop of facilitated access to the EU Single Market, there is still potential to increase current trade volumes. Doing more to harmonise the economies' legal and institutional quality infrastructure frameworks with the EU *acquis* and to provide targeted support to SMEs for complying with standards and technical regulations would contribute to the WBT governments' efforts to further increase the trade volumes.

Overall co-ordination and general measures (Sub-dimension 7.1)

The overall co-ordination of quality infrastructure can improve the allocation and use of public resources, facilitate inter-agency information sharing and help to detect potential shortcomings in the system. Since a quality infrastructure system includes inter-related pillars and involves various public institutions, designating a body to co-ordinate services can also improve their effectiveness.

This section considers the extent to which the WBT economies have ensured the overall co-ordination of their quality infrastructure system. Similar to the previous assessment, Turkey continues to lead the way, while Kosovo, Montenegro, and Serbia have made significant progress in this policy aspect (Table 8.3).

Table 8.3. Scores for Sub-dimension 7.1: Overall co-ordination and general measures

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Overall co-ordination and general measures	2.75	1.83	2.75	2.50	3.00	4.00	5.00	3.12

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

The inter-institutional co-ordination of quality infrastructure is stronger

With the exception of Bosnia and Herzegovina, all WBT governments have functioning bodies to co-ordinate quality infrastructure processes. Nonetheless, the existence of a dedicated body does not always translate into effective co-ordination. For instance, in Kosovo, the Division for Quality Infrastructure at the Ministry for Trade and Industry has only three employees, rendering effective co-ordination challenging. Meanwhile, co-ordination of the quality infrastructure systems in both Albania and North Macedonia excludes market surveillance – hindering the holistic co-ordination of all of the quality infrastructure pillars.

The majority of WBT governments have also adopted and renewed strategies and action plans to transpose EU legislation for industrial products. Albania and North Macedonia are in the process of renewing their strategic documents. The political stalemate in the Committee for Technical Regulations of Bosnia and Herzegovina as the body involved in preparing programmes of transposition, persists due to disagreement over state and entity competences for issuing technical regulations and appointing conformity assessment bodies.[2]

The progress made in ensuring overall quality infrastructure co-ordination in the WBT economies has not been complemented by support systems for exporters (for more information, please refer to Chapter 12 on internationalisation of SMEs). Most economies lack designated web portals or single points of contact. Information about applicable EU laws and regulations remains fragmented, which not only creates potential discrepancies in the information but also forces SMEs to search for and contact the relevant institutions and agencies individually.

Only Serbia and Turkey have designated portals that provide specific information to SMEs interested in exporting to the EU Single Market. In Serbia, a user-friendly website called TEHNIS provides comprehensive information on export requirements and government support mechanisms for exporters (Box 8.1). Likewise, information concerning compliance with export requirements is also provided in Bosnia and Herzegovina, although only in the Republika Srpska (RS). Turkey has established a single contact point for exporters, which enables SMEs to directly contact the Ministry of Trade experts via phone, on line and via a mobile phone application. It also allows SMEs to find the relevant forms for exports and to reach Turkey's trade representations abroad. Kosovo's Private Sector Development Strategy 2018-2022 envisages the establishment of a single point of contact for trade in services, but no such initiatives seem to be in preparation for trade in products.

Box 8.1. TEHNIS: Serbia's information portal and database

In most of the economies, information on export requirements and compliance mechanisms, where available, are fragmented. There are no dedicated websites containing all the necessary information and guidance for SMEs to navigate through the regulations and standards requirements. Equally, SMEs often lack information on the support schemes available to them. A well-designed and comprehensive pool of information would therefore benefit SMEs, which often do not have the time, resources or the personnel capacity to gather information from various sources, institutions and websites. This poses another challenge to SMEs when accessing international markets and upgrading their production.

The TEHNIS website in Serbia is a good practice example that stands out in the region. TEHNIS was developed by the Ministry of Economy (Sector of Quality and Product Safety) with the objective of establishing a single enquiry point for technical legislation in Serbia. It provides information on all elements of quality infrastructure and guides SMEs in meeting product requirements and regulations. Legislation is presented thematically, providing information about the respective directives, e.g. in the field of machinery, as well as corresponding guides on how to comply with the requirements. The TEHNIS database also contains registers of valid technical regulations, draft technical regulations, designated and authorised conformity assessment bodies, and recognised foreign certificates. SMEs can also find contact information for all the relevant quality infrastructure institutions, brochures and latest news.

Source: Ministry of Economy (2018[16]), *Sector for Quality and Product Safety website*, www.tehnis.privreda.gov.rs.

The way forward for overall co-ordination and general measures

Although overall co-ordination of quality infrastructure policies has significantly improved in the WBT economies, there is scope to improve general measures to support exporters. In particular, governments should:

- **Establish a single source of tailored information for SMEs**. This could consist of single web portals or trade help-desks and could include guidance in local language(s) for SMEs on health, safety, marketing and the technical standards their products need to meet. Coverage could also be extended to include the necessary shipping forms when exporting or to provide information on trade agreements and trade representations abroad.

Harmonisation with the EU acquis (Sub-dimension 7.2)

In the course of accession to the EU, the candidates are required to transpose the EU technical regulations into national legislation. Harmonising national regulations with EU product legislation ensures the free movement of goods across the EU Single Market. It also benefits businesses by reducing regulatory burdens and ensuring a predictable legal framework. A series of directives and regulations defines the essential requirements that each product, process or service must fulfil before being placed on the EU market.

This section examines the extent to which quality infrastructure rules and procedures in the WBT economies are harmonised with the EU *acquis* – i.e. the fundamental

framework to enable SMEs to access the EU market. The assessment considers all six quality infrastructure pillars, from technical regulations to standardisation, accreditation, conformity assessment, metrology and market surveillance (Table 8.4)

Table 8.4.. Scores for Sub-dimension 7.2: Harmonisation with the EU *acquis*

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Technical regulations	3.53	2.47	4.13	3.00	3.93	5.00	5.00	**3.87**
Standardisation	4.25	2.88	3.88	3.50	4.00	4.50	4.75	**3.97**
Accreditation	4.15	3.44	4.62	4.92	4.69	4.92	5.00	**4.53**
Conformity assessment	3.53	2.07	3.60	2.80	4.00	4.73	4.80	**3.65**
Metrology	4.33	3.89	3.94	4.11	5.00	5.00	5.00	**4.47**
Market surveillance	4.20	3.80	3.80	4.60	5.00	4.60	5.00	**4.43**
Weighted average	**4.00**	**3.09**	**3.99**	**3.82**	**4.44**	**4.79**	**4.93**	**4.15**

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

Overall, the level of preparation in the WBT economies for the free movement of goods has improved. Of the seven economies, Serbia and Turkey are most advanced in their harmonisation efforts, particularly in transposing and enforcing technical regulations. Albania has made the most progress by improving its market surveillance activities. In Bosnia and Herzegovina, strategic documents on the adoption and implementation of EU legislation for industrial products and technical regulations in priority sectors have not been renewed. Following prolonged political deadlock in North Macedonia, new strategies and action plans are currently being developed.

Most governments have aligned their technical regulations, although regular monitoring and evaluation are often lacking

With the exception of Bosnia and Herzegovina, progress has been made across all WBT economies in transposing EU technical regulations. In Bosnia and Herzegovina, the process has stagnated since the aforementioned Committee for Technical Regulations responsible for stopped convening in 2012. As a result, EU legislation has not been aligned in a uniform manner, leading to inadequate harmonisation with the EU *acquis*.

The training needs of the institutions implementing technical regulations have been assessed in all the WBT economies, except North Macedonia. In Serbia and Turkey, the staff of government ministries and agencies are trained in new regulations and their implementation; however, this training is usually one-off and sporadic in nature.

Most of the economies have weak mechanisms to monitor and evaluate the impact of the implementation of technical regulations. Regular monitoring and evaluation only take place in Serbia and Turkey – in other economies the arrangements are more ad hoc.

Adoption of European standards is progressing, though mostly by endorsement

The national standards bodies in the WBT economies have increased their efforts to adopt EU standards. However, the region shows two distinct levels of performance, with

Albania, North Macedonia, Serbia and Turkey achieving much higher adoption rates (Table 8.5).

Table 8.5. Adoption of European standards in the Western Balkans and Turkey

	Adoption rate
ALB	98%
BIH	85%
MKD	98%
KOS	50%
MNE	72%
SRB	98%
TUR	98%

Source: National standards bodies in the Western Balkans and Turkey.

In most cases transposition involves issuing an "endorsement notice"[3] or by translating only the cover page – the "cover page method". As a result, standards are usually not available in local languages making it hard for SMEs to find the relevant standards, fully grasp their content and implement them correctly. This finding was further reinforced in the interviews conducted with private sector. For instance, Turkey has only fully translated 3 686 EU standards – just 18% of all adopted EU standards. The share is even lower in the Western Balkan economies.

In spite of linguistic similarities in the Western Balkans, regional co-operation has not been used as a cost-effective way to translate European standards.

National standards bodies lack funding and human resources

National standards bodies (NSBs) in the Western Balkans and Turkey grapple with financial issues, since they struggle to raise their own funds and continue to depend largely on public funding. The challenge is that these bodies collect very little revenue from sales of standards and other services offered to the private sector. Moreover, in certain cases, the revenues they collect are funnelled into general government budgets, further undermining their already weak incentives to diversify revenue sources. For instance, the Kosovo Standardisation Agency is administratively part of the Ministry of Trade and Industry and lacks its own budget or bank account, and the income it generates from the sales of standards goes entirely to the state budget.

Some NSBs have already cited lack of staff due to limited and fluctuating budgets as a significant obstacle to carrying out their activities. This is the case for regular activities in Bosnia and Herzegovina, Kosovo and Montenegro, while the NSBs in Albania and North Macedonia foresee a need for a more employees in order to strengthen and diversify their services.

Turkey's national standards body, the Turkish Standards Institution (TSE), provides conformity assessment services, thereby raising additional revenue to support its other standardisation activities. Currently, the TSE is the only national standards body in the WBT region that does not rely on public funding. Although the direct engagement of public NSBs in conformity assessment has certain benefits, such as offering competence-building activities for private conformity assessment bodies (CABs) and generating financial resources for standardisation services, there are also certain risks. First, it might crowd out private investment in CABs; and second, it might create biased incentives for

NSBs to develop unnecessary standards just to generate some certification business. It is therefore crucial to maintain a clear separation between NSBs' activities in standardisation and conformity assessment, and also to ensure that NSBs only offer conformity assessment services in specific sectors which have major relevance for the society and economy in general, and where there is no business case for private CABs to offer those services.

National standards bodies are well integrated into European structures and co-operate regionally

All national standards bodies except the Kosovo Standardisation Agency actively participate in the European standards system. The national standards bodies of North Macedonia, Serbia and Turkey are members of the European Committee for Standardization (CEN) and European Committee for Electrotechnical Standardization (CENELEC), allowing them to represent their economies' interests on their technical committees. The other economies have affiliate status. In 2017, Kosovo signed an agreement with CEN and CENELEC for direct access to EU standards. All the WBT governments except Bosnia and Herzegovina have also carried out needs assessments into the investment and technical expertise required to participate in the European standards system.

Regional co-operation among national standards bodies has also been deepening in the Western Balkans and Turkey. For example, CEN has been running a project aimed at the full implementation of EU product legislation for electrical/electronic equipment and construction products in the six economies of the Western Balkans. The project is financed by the Swedish International Development Cooperation Agency (Sida) and the European Free Trade Association (EFTA). It includes the organisation of workshops and training, networking events, and proficiency testing. However, regional co-operation is not limited to donor-funded initiatives. For example, in 2018 the national standards bodies of Turkey and Serbia signed a memorandum of understanding (MoU) to facilitate co-operation in the certification of management systems and products (e.g. halal), as well as in organising training and expert exchanges.

Education in standardisation is almost non-existent

Standards have the potential to achieve public objectives (e.g. protecting human health or the environment), while also facilitating trade by reducing market uncertainty and information asymmetries between producers and consumers. This potential can only be fully harnessed if the relevant actors in the standardisation process (regulatory authorities, standards developing organisations, academia, businesses and consumers) are able to participate and make informed decisions (Wilfried and de Vries, 2011[17]). Since the process entails a significant level of technical knowledge, education in standardisation can help businesses and consumers to take on a contributory role and enhance the effectiveness of overall participation.

Education in standardisation in the WBT economies is limited to small-scale and irregular activities and lacks a coherent approach, thereby depriving the economies from fully realising the advantages of standards. While various programmes have been prepared to educate and train businesses in implementing standards, they usually do not cover topics related to developing them. Moreover, education about standardisation has not been well established in academic programmes or curricula. While national standards bodies and public universities have signed co-operation agreements in several of the economies, they

are limited to irregular seminars. Furthermore, these seminars are not complemented by attractive study materials and rarely include practical classes.

Standardisation education is not included in government strategies or action plans in the majority of the economies. Only Serbia and Turkey have defined clear government actions to systematically improve and expand education activities (Box 8.2).

Box 8.2. Standardisation education by the Turkish Standards Institution

Education is vital to enable SMEs to exploit the benefits of implementing and developing standards. The first step is to raise awareness of the topic through training and targeted workshops, including on the strategic relevance of standardisation, especially in the EU, as well as how to participate in standardisation in order to shape the content of future standards.

The Turkish national standards body, the Turkish Standards Institution (TSE), has taken active measures along with its education department to address the low level of awareness of standards and standardisation. The TSE's activities stand out in the region, and demonstrate that targeted and specific activities can reach current and future stakeholders and raise the general awareness of standards and standardisation.

Striving to bring the topic into higher education curricula, the TSE is co-operating with four universities through activities such as delivering lectures on standards and quality infrastructure. The co-operation involves lectures by TSE staff members, either on site or through distant-learning programmes, as well as training for university staff in specific standards (such as ISO 9001), statistical process control, and sector-specific content such as medical instrument tests and calibration.

To raise awareness sustainably, activities have also been specifically targeted at children to introduce them to standards and standardisation – an approach which stands out in the region and also within the EU. A quarterly journal, containing specifically designed cartoons, introduces children to the world of standards and standardisation in a playful way.

The general public is reached through monthly online journals on standards and standardisation.

Source: TSE (2018[18]), *Turkish Standards Institution website*, https://en.tse.org.tr/.

Accreditation infrastructure is solid and conformity assessment services have increased in priority sectors

The increasing number of specific EU standards and technical regulations has brought about a need for effective systems in the Western Balkans and Turkey to evaluate compliance. National accreditation bodies provide an authoritative statement on the competence and credibility of conformity assessment bodies (CABs), which in turn evaluate whether products fulfil the requirements of the EU Single Market (European Accreditation, 2018[19]). SMEs often need to show proof of their compliance with the requirements set out in standards and regulations. For this, they depend on the availability of reliable conformity assessment services, such as certification.

National accreditation bodies in the assessed economies have increased their participation in European accreditation systems. They are either full members of the European co-operation for Accreditation (Albania, Montenegro, North Macedonia, Serbia and Turkey) or associate members (Bosnia and Herzegovina, and Kosovo). Likewise, most WBT economies are signatories of the European Accreditation Multilateral Agreements (EA MLA)[4] or Bilateral Agreements (EA BLA). These agreements provide confidence that national accreditation is operated in a manner that is harmonised and consistent with accreditation procedures in the EU. This means that conformity assessments carried out by accredited CABs in the WBT economies are accepted across borders, opening up markets for SMEs. Having been tested or certified once, SMEs do not need to re-test or re-certify their product. In the region, the EA MLAs of Turkey and Serbia cover the highest number of scopes, seven and six respectively (Table 8.6).

Table 8.6. Scope of European accreditation agreements in the WBT economies

Accreditation scopes	ALB	BIH	MKD	SRB	TUR
Calibration		✓	✓	✓	✓
Testing and medical examination	✓ *	✓ *	✓ *	✓	✓
Product certification			✓	✓	✓
Management systems certification	✓		✓	✓	✓
Certification of persons				✓	✓
Inspection	✓	✓	✓	✓	✓
Validation and verification					
Proficiency testing providers					✓

Notes: Kosovo and Montenegro are not EA MLA or BLA signatories, * Signatory for testing laboratories only; not signatory for medical laboratories.
Source: European Accreditation (2019[20]), *Directory of EA Members and MLA Signatories*, https://european-accreditation.org/ea-members/directory-of-ea-members-and-mla-signatories/.

The WBT economies have also concluded co-operation agreements with each other. In October 2018, Bosnia and Herzegovina and Serbia signed an MoU to mutually recognise documents issued by accredited laboratories for industrial non-food products, which will further remove trade barriers and facilitate exports for SMEs.

Almost all WBT governments have adopted legislation on conformity assessment in line with the EU *acquis*. Their legislation has also moved towards the principles applied in European harmonised legislation, i.e. the presumption of conformity, self-certification and absence of mandatory standards. In Bosnia and Herzegovina, the effectiveness of the law on conformity assessment remains limited, since the Republika Srpska continues to develop and implement its own legislation separately. As with other quality infrastructure pillars, the legislation on accreditation and conformity assessment in the WBT economies is generally not subject to regular monitoring and evaluation.

While most governments declare their accreditation body to be fully operational, in Bosnia and Herzegovina and Kosovo, additional staff will be required to maintain the current level of accreditation services. Accreditation of new CABs remains a major issue for Kosovo's accreditation body, which currently employs only three auditors. As the number of CAB applications continues to increase, Serbia foresees the need for additional staff and Albania has allocated increasing funds to hire auditors and technical experts for their accreditation.

Since many economies do not need or cannot afford CABs in all sectors, the focus of WBT governments has primarily been to ensure the existence of conformity assessment services in mandatory areas and their priority sectors.[5] Although the number of CABs has increased across the WBT economies, SMEs in certain sectors still need to seek conformity assessment abroad in several economies. For instance, conformity assessment services are not available for the food and electrical equipment sectors in Albania, or for lift and lift parts manufacturers in Kosovo.

SMEs in all WBT economies can check the availability of conformity assessment bodies and services through online CAB registries.

Several metrology bodies in the WBT economies lack resources

Metrology ensures that reliable measurement systems and equipment are used in production, and tests whether products and processes adhere to standards and regulations.

All the WBT governments have established institutions responsible for metrology and they are well integrated into European and international organisations. With the exception of Kosovo, their metrology bodies are associate members of the European Cooperation in Legal Metrology and members of the European Association of National Metrology Institutes (EURAMET). Their integration and co-operation with these bodies ensures alignment in industrial as well as legal metrology, providing SMEs with access to reliable metrological services such as equipment calibration.

However, it is debatable whether the Western Balkan economies all need their own metrology bodies, given the difficulty of financing metrology bodies in smaller economies (Guasch et al., 2007[8]). The need for additional financial resources has consistently been voiced by national metrology bodies in the region – with the lack of laboratories and adequate premises notably highlighted as obstacles in North Macedonia and Montenegro respectively.

Co-operation among metrology bodies in the region is well developed. A number of MoUs have been signed, most recently between the Institute for Metrology of Bosnia and Herzegovina and North Macedonia's Bureau of Metrology (in August 2018). Several WBT metrology bodies also participate in EURAMET's inter-laboratory comparison programmes, which allow test results to be compared and the quality assurance of testing services. For example, Albania, Bosnia and Herzegovina, Kosovo, Montenegro, and North Macedonia all participate in regional volume comparisons.

Market surveillance activities have increased, but focus mainly on enforcement rather than supporting compliance

An important challenge for governments is achieving high levels of compliance with regulations, while reducing the burden on enterprises. Although the ultimate goal of market surveillance remains protecting consumers from unsafe products, a well-

formulated system will also protect businesses from disproportionate costs and unfair competition.

All WBT economies have legislation on market surveillance that is in line with the EU *acquis*. Implementation has mainly focused on enforcement – recalling products and imposing penalties. In this context, market surveillance authorities have concentrated their resources on increasing the number of inspections and hiring new inspectors, without developing upstream measures to support and encourage SMEs to comply with technical regulations. They have also made only limited efforts to provide information and guidance on legal requirements for products in order to promote compliance among enterprises. One exception is the annual guide for economic operators produced by the Market Surveillance Agency of Bosnia and Herzegovina, which serves as a good practice example of how to help economic operators to place safe products on the market (Box 8.3).

Box 8.3. Bosnia and Herzegovina's guide for economic operators

Since 2016 the Market Surveillance Agency of Bosnia and Herzegovina has published guides to help manufacturers, importers and distributors to bring non-food consumer products into compliance with the regulations and applicable standards. The guide is published annually in local languages and English. It provides information on the most common risks for users and areas of non-compliance for each product that will be the focus of surveillance in the year of publication.

So that companies can avoid penalties and the withdrawal of their products from the market, the publication provides detailed guidelines on labelling of products, information to be included in instructions for use and functionality of products. Since it includes the list of products that pose certain safety risks, consumers may also use the publication to make informed purchases.

The agency also publishes brochures for individual products with more detailed information to help manufacturers, importers and distributors in Bosnia and Herzegovina fulfil their obligations arising from the regulations and the standards applicable in Bosnia and Herzegovina.

Source: Market Surveillance Agency of Bosnia and Herzegovina (2018[21]), *Publications*, http://annt.gov.ba/Za_poslovne_subjekte/publikacije/Archive.aspx?langTag=en-US&template_id=172&pageIndex=1.

The majority of the WBT economies have also made progress in co-ordinating market surveillance activities through a designated co-ordination body. However, in Kosovo and North Macedonia, overlapping competences in secondary legislation and a large number of competent authorities are increasing government expenses as well as the compliance burden for enterprises. Acknowledging this problem, Albania established the State Inspectorate for Market Surveillance in 2016, merging various market surveillance activities and clearly defining its competences and tasks. Meanwhile, Kosovo is planning to decrease overlapping and parallel inspections by merging the current 36 market surveillance directorates into 15. Although improving, the overall effectiveness of market surveillance in North Macedonia is inhibited by the multiple pieces of legislation which continue to regulate inspections.

Cross-border collaboration also remains a challenge. While discussions continue in various forums on developing a module for exchanging information about dangerous

products (test reports, checklists, risk assessments, etc.), no steps have been taken to implement it.

The way forward for harmonisation with the EU acquis

The WBT governments have taken positive steps to enhance their quality infrastructure systems. However, several issues related to operating self-sufficient quality infrastructure bodies and sustaining efforts in harmonisation with the EU *acquis* warrant further attention:

- **Explore regional collaboration and consider taking steps to establish the common use of quality infrastructure at the regional level.** Establishing fully fledged national quality infrastructure requires considerable investment and ties up resources over the long term. For many economies with limited financial means and a relatively modest demand for some of the quality-related services, this is neither feasible nor useful. Instead, the common use of a shared and complementary infrastructure or intensified expert exchange appear to be better approaches (BMZ, 2004[22]). A first step could be to consider the costs of and demand for quality infrastructure services to find out which services individual economies should establish themselves, and which could be provided at the regional level.
- This SBA assessment reveals the scope to step up regional co-operation for the following quality infrastructure pillars in the Western Balkans and Turkey:
  - **Accreditation:** since national accreditation bodies require substantial resources to cover all conformity assessment areas, the economies could consider only providing accreditation services for their priority sectors. An individual economy should base its decision to add or remove specific areas of accreditation on a cost-benefit analysis of market priorities, demand for auditing and availability of audit experts. Where accreditation would not be effective and efficient, governments could consider regional solutions, such as recognising foreign accreditation or contracting with another accreditation body in the region to undertake accreditation on their behalf.
  - **Metrology:** operating a metrology body in smaller economies is a costly endeavour. Policy makers should therefore conduct a cost-benefit analysis to assess which services are essential in their national economies. For instance, it would not be economically reasonable for national metrology bodies to develop a system for metrological traceability in all areas of metrology. Stronger regional co-operation in metrology activities would therefore reduce the financial burden of maintaining current levels of investment in national metrology bodies.
  - **Standardisation:** regional co-operation could be further stepped up by building on existing bilateral co-operation agreements between some national standardisation bodies in the WBT region. A regional database and network covering applicable local and international standards in the region could be established to improve information and knowledge sharing. This would also facilitate intra-regional trade, and contribute to the efforts of the WB governments under the Multi-Action Plan for the Regional Economic Area[6]. Moreover, given the linguistic similarities in the region, standardisation

bodies could create synergies by translating the relevant EU standards, and sharing the cost among themselves.

- **Conformity assessment:** if not available locally, governments should facilitate SMEs' access to conformity assessment in neighbouring economies. Government support could include measures to cover extra costs incurred by SMEs when seeking conformity assessment abroad. This would also reduce the costs of providing those services in their economy.
- **Market surveillance**: in order to establish predictable and consistent enforcement of regulations across the WBT economies, market surveillance authorities should enhance their co-operation by exchanging information on unsafe products and measures carried out by national authorities (as well as producers or distributers). To achieve this, national authorities could establish contact points to improve the co-ordination of market surveillance activities. The WBT economies would also benefit from mapping sector-specific challenges and establishing region-wide working groups to produce guidelines for joint action.

- **Scale up the revenue-earning services of national standards bodies**. NSBs could diversify their revenue-earning services by preparing packages and subscriptions tailored to the needs of SMEs in particular sectors. Such offers in the Western Balkans and Turkey would make it easier and less expensive for SMEs to implement the standards they require while generating additional revenues for national standards bodies. NSBs in the WBT region should also aim to offer innovative services to SMEs, which could bring them additional sources of revenue and support their regular standardisation activities (see Box 8.4 for some EU/OECD examples).

Box 8.4. Innovative products and solutions offered by national standards bodies in the EU and the OECD

National standards bodies in the EU have moved towards providing innovative tools and services to help SMEs implement standards. Some of the services include:

- **Online management of standards by Austrian Standards International.** This innovative solution, known as effects 2.0, is convenient for managing the standards and norms applied on line. SMEs can quickly access documents and stay informed of their current status of standardisation through automatic updates.
- **The online standards collection viewing service by the Estonian Centre for Standardisation (EVS)**. Standards change over time, reflecting progress in science, technology and systems. Keeping up with those changes is often an inconvenient and time-consuming task. The EVS offers a standards monitoring service which allows SMEs to create a list of relevant standards and receive e-mail notifications about any changes in these standards. Notifications include replacement of the selected standards with newer ones, amendments, correction, withdrawals, or translations into the national language.
- **E-learning by the Polish Committee for Standardization (PKN).** In addition to traditional classroom training, the PKN has introduced training for those who prefer distance learning. This type of training translates traditional presentations

into user-friendly screen-based forms. The training courses combine course material with tests to certify participants' knowledge.

Sources: Austrian Standards (2018[23]), www.austrian-standards.at/home/; Estonian Centre for Standardisation (2018[24]), www.evs.ee; Polish Committee for Standardization (2018[25]), www.pkn.pl.

- **Include standardisation topics in national secondary and tertiary curricula.** The role of education in standardisation could be improved through a number of measures. First, the relevant standardisation topics could be embedded in high school courses as well as university programmes (such as electrical, mechanical or civil engineering; and economics). Second, co-operation between national standardisation bodies and academic institutions could facilitate the exchange of experience and expertise. As an example, the Rotterdam School of Management hosts a Chair in Standardization – endowed by the Netherlands Standardization Institute (NEN) – to give courses at bachelor's and master's levels, as well as supervising master's and doctoral projects. Co-operation could extend to organising practical classes to improve the skills required for standardisation processes.

  All the relevant stakeholders need to engage in developing study materials that are attractive to both students and teachers. The CEN and International Organization for Standardization (ISO) have repositories of teaching materials (for primary, secondary and higher education) with examples of the different materials used throughout the world.[7]

- **Complement the enforcement of regulation with measures to increase transparency and compliance.** Regulatory enforcement agencies, in close co-operation with business associations, should develop and publish guidance notes or toolkits that help SMEs understand regulations and how to comply with them in the most common situations and sectors. For instance, the Consumer Product Safety Program of Canada publishes guides and holds webinars specifically for manufacturers, distributors and retailers to introduce them to their regulatory responsibilities (Government of Canada, 2018[26]). Governments could also introduce "self-check" tools to allow SMEs to understand their ability to comply with the regulations. These publications and tools should be tailored to specific sectors of operation.

SME access to standardisation (Sub-dimension 7.3)

Governments across WBT economies can improve the growth and competitiveness of SMEs by fostering the use of standards. SME involvement in the standardisation process gives them a head start in adapting to market demands and new technologies. However, evidence shows that many SMEs still fail to profit from using standards and face a series of barriers when participating in their development (de Vries et al., 2009[27]). As a key engine of the WBT economies, SMEs need to receive adequate and sustained support in order to benefit from standards and standardisation.

This section gauges whether the existing policy frameworks foster SME awareness of the benefits of standards, facilitate their participation in developing standards and reduce the financial burden of implementing standards (Table 8.7).

Table 8.7. Scores for Sub-dimension 7.3: SME access to standardisation

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Awareness raising and information	4.25	3.97	3.50	4.50	4.33	4.83	4.33	**4.24**
SMEs' participation in developing standards	2.50	1.00	2.50	2.50	2.50	3.50	3.50	**2.57**
Financial support to SMEs	1.80	1.93	1.80	2.00	1.80	3.60	3.80	**2.39**
Weighted average	**2.85**	**2.30**	**2.60**	**3.00**	**2.88**	**3.98**	**3.88**	**3.07**

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

Overall, performance varies across the three aspects of this policy area. While basic measures are in place for awareness raising, the participation of SMEs in standards development and financial support instruments still leaves room for improvement. Serbia and Turkey currently provide the most advanced support in enabling SME access to standardisation.

Authorities are improving awareness of standards and their benefits

SMEs are often unaware that by using standards they can boost efficiency, increase confidence in their clients and open new markets. The potential benefits of using standards remain overshadowed by perceptions that they are an onerous burden.

All WBT governments have also introduced initiatives to promote the benefits of standards and standardisation. The current programmes remain focused on promotional campaigns and training events for SMEs. However, they are infrequent and irregular in Albania, Bosnia and Herzegovina, and Kosovo. In addition, SMEs are often uninterested unless the events are tailored to their very specific segment or group. National standards bodies often disseminate generic materials prepared by international standards organisations, instead of producing practical guides with instructions and solutions tailored to the local context. Therefore, there is still significant room for improvement when it comes to preparing relevant materials that present success stories from the region. The Living Standards Award by the national standards body of Austria is one example of how the use of standards can be promoted by identifying and showcasing local success stories (Box 8.5).

While all WBT authorities have ensured easy access to their database of national and European standards, identifying relevant standards remains an issue for SMEs. Since standards are frequently revised and new ones adopted, SMEs need to know how to keep track of relevant standards for their area of operation. The monthly journal published by Turkey's national standards body stands out as a positive example of how this can be achieved. Offered in print and online versions, the journal caters for SMEs in the manufacturing industry and aims to improve implementation of standards specific to this sector. Meanwhile, in Serbia, the Institute for Standardisation offers SMEs free consultations to learn about the relevant standards for their operations, and the Serbian

Chamber of Commerce organises regular meetings with SMEs operating in particular sectors to inform them about the latest relevant standards.

National standardisation bodies increasingly co-operate with business associations to provide a communication channel with SMEs. In Montenegro, North Macedonia, Serbia and Turkey, such co-operation is regular and business associations send updates to their members concerning new developments and upcoming events. Nevertheless, joint promotional campaigns or sectoral roadshows remain sporadic across the economies.

Box 8.5. Austria's Living Standards Award

In an effort to promote standardisation and raise awareness about the benefits of standards, Austrian Standards International presents annual awards to innovative enterprises, private and public-sector organisations, and start-ups. ASI aims to promote the use of standards in an exemplary way, as well as to promote strategic considerations in the development of standards. The award is also used as an opportunity to prepare promotional materials and showcase success stories in implementing standards. The award criteria usually include:

- strategically oriented application of standards
- strategic management of standards at several locations
- exemplary development of new/existing standards at the national/international level
- successful implementation of an innovative project involving the application/development of standards
- early consideration of standards in an emerging topic (early adopter)
- other extraordinary achievements in the context of standards (e.g. scientific paper).

Source: Austrian Standards (2018[28]), *Living Standards Award 2019*, www.austrian-standards.at/en/our-events/living-standards-award-2019/.

SME participation in the development of standards is weak

SMEs' involvement in standardisation remains low across OECD and EU countries, even though evidence shows that it has a positive impact on their profits (Wakke, Blind and Ramel, 2016[29]). SMEs often regard the standardisation process as being inflexible, as it does not take into account the limited time, personnel or financial resources at their disposal (de Vries et al., 2009[27]).

Across the Western Balkans and Turkey, NSBs struggle to get SME representatives to participate in technical committees for standards development. Interviews conducted in the region reveal that SMEs perceive their participation as futile, and that such meetings keep them away from their "real work".

To encourage SME participation, Serbia's NSB extends invitations to technical committee meetings through phone calls, and organises them in different cities across the country. In a similar vein, Turkey's NSB has signed a co-operation protocol with the Union of Chambers and Commodity Exchanges to facilitate the effective participation of SMEs through regular and sector-specific meetings. In North Macedonia, the NSB has established a working group to develop an action plan to increase SMEs' participation, which is planned to be completed by 2019.

While the other economies largely lack any proactive approaches to increasing SME participation in standards development, they do publish calls for feedback on drafts of standards during their development (although in Bosnia and Herzegovina, the drafts are yet to be made publicly available for feedback). However, SME participation in these public calls remains low, which might be partially attributed to the fact that national standards bodies do not produce any follow-up reports specifying how private sector feedback was taken into account in the standards development process. Similarly, the involvement of SMEs is rarely monitored and evaluated, with the exception of Serbia, which regularly produces reports on their participation in the standardisation process.

Financial support for SME access to standardisation exists but varies in scope

Given SMEs' limited resources, financial support programmes are essential to help them acquire and implement standards, as well as to ensure their overall participation in standards development.

Only Serbia and Turkey offer standards at reduced prices for SMEs. In other economies, discounts for the acquisition of standards are limited to members of technical committees. Although SMEs could also benefit from these discounts, they are less likely to participate in technical committees than larger enterprises, so they rarely do.

Programmes supporting the implementation of standards differ significantly across the seven economies in their source, level and scope. With the exception of Kosovo, all governments operate some financial support programmes, albeit often small-scale and irregular. This support is usually provided within the scope of assisting SME exporters and improving SME competitiveness.

For instance, in Albania, the Competitiveness Fund run by the Albanian Investment Development Agency (AIDA) supports SMEs exporting their products to foreign markets by reimbursing up to 70% of their costs for product certification, other conformity assessments and introducing quality management systems. However, the requirement to demonstrate the ability to finance the entire project costs can deter SMEs from applying. Likewise, the Development Agency of Serbia (RAS) runs a programme to support SME exporters, covering up to 50% of the costs of implementing standards, and the certification or recertification of products.

Montenegro operates a state-funded national programme to enhance regional and local competitiveness through compliance with international business standards. It aims to support SMEs financially, in particular those from less developed municipalities, to comply with international product standards by reimbursing up to 70% of the costs of certification.[8] The programme is expected to continue until 2020.

Turkey's Small and Medium-Sized Industry Development Organization (KOSGEB) supports the implementation of standards and management systems under its General Support programme.[9] The admissible costs also include certification tests, analyses and calibration. In North Macedonia, SMEs can benefit from a voucher scheme operated by the Innovation Fund to support quality infrastructure investments, including implementation of standards and certification.[10]

In Bosnia and Herzegovina, financial support for implementing standards is provided at the entity level. While the Federation of Bosnia and Herzegovina (FBiH) supports the implementation of international quality standards through annual grants, in the RS the focus is on sector-specific funds (e.g. wood processing).[11]

Finally, when it comes to financial support to help SMEs to participate in standards development, the majority of WBT economies allow SMEs to join technical committees at no cost (Albania, North Macedonia, Serbia, Turkey). In Serbia, technical committee meetings are held in different cities to lower SMEs' cost of participation (e.g. travel costs). Turkey is exploring the potential of using digital tools to ease SME participation. Furthermore, the Turkish Ministry of Economy (now the Ministry of Trade) has initiated a support programme for companies entering new markets. If they can provide evidence that participating in standardisation is necessary to enter the new market, SMEs are offered a reimbursement of 50% of their relevant participation expenditure.

The way forward for SME access to standardisation

Despite the existence of some initiatives across the region aiming to increase SME's access to standardisation, governments need to ensure they are better targeted:

- **Disseminate successful case studies that highlight benefits of standardisation in a local context.** In addition to publishing guides on the use of standards, governments should disseminate successful case studies that highlight the advantages of standardisation for improving market results in a local context. The measures introduced by the Dutch standards development organisation are a good example of how to increase SMEs' awareness of standards and their benefits (Box 8.6).

Box 8.6. How the Dutch standards development organisation increases SME access to standards

Perceiving low awareness of standards among SMEs, as well as a lack of participation in standards development, the Dutch standards development organisation (NEN) strives to improve SME access to standards and standardisation through a variety of measures:

- As young businesses are generally not aware of the use and benefits of standards, NEN prepares information material to distribute to start-ups when they register officially.
- Brochures are provided on successful cases of SME participation to motivate their peers.
- A translation initiative was launched to ease SMEs' access to standards.
- The NEN and the Netherlands Electrotechnical Commission have enhanced communication with SMEs by preparing sector-specific electronic newsletters to announce new standards and share information on standards-related events.
- The NEN promotes standardisation by communicating through social media, such as YouTube, Twitter and LinkedIn.

After establishing this programme, the sales of standards translated into local languages tripled. Revenues from the sales of standards more than offset the respective costs. These practices show that national standards bodies can increase awareness of standards and SME participation in their development through simple but well-targeted measures.

Source: de Vries, H. et al. (2009[27]), *SME Access to European Standardization*, www.unms.sk/swift_data/source/dokumenty/technicka_normalizacia/msp/SME-AccessReport.pdf.

- **Allow SMEs to participate in standards development through digital tools or by covering their travelling costs**. SMEs often do not have the time, personnel or financial resources to engage in standards development. National standards bodies should therefore consider the provision of digital platforms, allowing for online participation, feedback and comments to reduce time and travel costs. For example, the German standards development body, Deutsches Institut für Normung (DIN) offers SMEs the opportunity to join the meetings of technical committees via web conference to increase their participation rates (Box 8.7). Additionally, the WBT governments should consider providing funds to cover the travel costs of SMEs attending technical meetings. The Swedish Electrical Commission provides such support and requests the grantees to prepare a report on their participation to be published in its magazine.
- **Scale up financial support programmes to help SMEs implement standards**. Support for implementing standards is currently provided through general programmes for enhancing competitiveness, and the number of SMEs benefitting from the programmes remains low. Therefore, governments should scale up funding and ensure their programmes are better targeted. The authorities should also strive to develop long-term financing schemes based on SMEs' needs when exporting to the EU Single Market, as well as on the evaluation of programmes already conducted.

Box 8.7. Increasing SME access to standardisation in Germany

Germany's national standards body, DIN, together with the Federal Ministry of Economy, has established a SME committee (KOMMIT) comprised of representatives from SMEs, chambers of commerce, business associations and the public sector. Following an analysis of how to maximise the benefits of standardisation for SMEs, KOMMIT has developed the following:

- An SME Help Desk, which serves as a point of contact for SMEs for questions on standards and standardisation. It also assists SMEs in applying standards and consults those that are interested in participating in standards development.
- Web conferencing, to enable SME participation in technical committees by allowing real-time engagement without incurring travel costs. Standardisation meetings are either completely virtual, or else individual members can join through the web-conferencing tool. A dedicated portal allows SMEs to read and comment on draft standards without having to be members of technical committees.
- An online database where SMEs can freely search for standards, technical rules and other documents in DIN's web shop. Summaries and a table of content are provided to help SMEs identify the right standard for their purposes.
- Standard flat rates for SMEs to reduce the financial burden in acquiring standards. SMEs have the option to purchase an unlimited number of standards at a fixed annual flat rate or a package of a fixed number of standards (e.g. 25 or 50) within one year.

KOMMIT is a good example of how a multi-stakeholder working group dedicated to the needs of SMEs can help to analyse and implement measures to increase their participation in the standardisation process.

Source: DIN (2018[30]), *SMEs and Standardization*, www.din.de/en/about-standards/benefits-for-the-private-sector/sme-commission-kommit.

Conclusions

All the WBT governments have taken positive steps to strengthen their quality infrastructure systems further.

Overall, the co-ordination of quality infrastructure policies has improved across most of the economies. However, the quality infrastructure of some economies still does not encompass all the elements needed. Participation in international quality infrastructure structures has increased, bringing quality infrastructure procedures further in line with harmonised principles in the EU and internationally. As a result, SMEs benefit from growing confidence among foreign consumers and authorities in local assessments and certifications.

However, maintaining and expanding the current level of accreditation, conformity assessment and metrology services remains a challenge. Although much focus has been placed on enhancing institutional and human resource capacities, several economies will need to make additional investments. Policy makers are yet to consider taking the first steps towards developing a regional approach for quality infrastructure services based on a cost-benefit analysis of their individual market needs.

Governments have also strengthened the enforcement of technical regulations by increasing inspections, penalties and product recalls. However, implementation of measures to promote compliance remains limited, and in some economies overlapping laws implemented by numerous market surveillance authorities subject SMEs to parallel inspections. SMEs' access to standardisation in the WBT economies also remains inadequate. They are not systematically informed about new standards or involved in their development. Moreover, effective programmes to support SME awareness and participation in the development of standards remain scattered.

The recommendations put forward in this chapter address policy reform priorities for quality infrastructure in the WBT economies. Their implementation will improve the reliability and effectiveness of the quality infrastructure institutions and processes, while also creating better services for SMEs and increase their competitiveness in international markets.

Notes

[1] In Montenegro, it is also due to a steep decline of exports to Montenegro's two main pre-crisis export destinations in the EU. In the course of 2016, Montenegro's exports to Italy fell from EUR 129.4 million to EUR 17.3 million and exports to Greece from EUR 53.2 million to EUR 0.7 million (MONSTAT, 2018).

[2] 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.

[3] Endorsement of a European standard can be achieved either by publication of an endorsement sheet or by an announcement in the national standards body's official journal.

[4] The EA Multilateral Agreement (EA MLA) is signed between the EA Full Members; signatories recognise and accept the equivalence of the accreditation systems operated by the signing members, and also the reliability of the conformity assessment results provided by conformity assessment bodies accredited by the signing members. EA MLA scopes include: testing and

medical examination, calibration, products certification, certification of persons, management systems certification, inspection, validation and verification, and proficiency testing providers.

[5] Mandatory provisions represent a departure from the general principle that standards are voluntary in order to ensure that certain public interests such as health, safety, consumers or the environment are effectively protected.

[6] The leaders of Western Balkans Six economies endorsed the Multi-annual Action Plan on Regional Economic Area in the Western Balkans Six (MAP) in 2017. The MAP actions are designed to help the private sector reap the economies of scale of an almost 20-million market, and to refocus the growth model towards more indigenous, long-term driven growth.

[7] See www.cencenelec.eu/standards/Education/Pages/repository.aspx and www.iso.org/sites/materials/teaching-materials/education_materials-higher-edu.html.

[8] While 34 SMEs benefitted from the programme in 2017, the draft action plan to implement the new Strategy for Development of MSMS Enterprises in Montenegro 2018-2022 foresees the number to increase to 100 SMEs, with the overall programme value amounting to EUR 420 000.

[9] In 2017, 1 213 SMEs benefitted from the programme, with a cumulative total of 7 829 since 2010. While reimbursement rates range from 50% to 70% of the incurred cost (depending on the region of SMEs' registration), costs related to conformity assessment are fully reimbursed. The upper support limit of the programme is set at TRY 30 000 (Turkish lira; approximately EUR 5 400).

[10] In 2016, 9 companies used 13 vouchers to implement standards, falling to 6 companies and 11 vouchers in 2017.

[11] In 2017, the FBiH supported 12 SMEs to introduce international quality standards through the annual Strengthening SME Competitiveness grant scheme. In the same year, 11 companies from the RS benefitted from sector-specific grants (e.g. wood processing and textiles) that are provided in co-operation with USAID's Workforce and Higher Access to Markets Activity project.

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Chapter 9. Enterprise skills (Dimension 8a) in the Western Balkans and Turkey

This chapter assesses policies in the Western Balkans and Turkey to promote the skills SMEs need, from starting up and throughout their growth phases. It starts by providing an overview of the assessment framework and progress since the last assessment in 2016. It then presents an analysis of Dimension 8a's three thematic blocks: 1) planning and design, which assesses policies in the areas of skills intelligence; 2) implementation, which focuses on training for start-ups, responding to the skills required of digital and green economies, and smart specialisation; and 3) monitoring and evaluation, which considers whether economies ensure their SME skills policies are working and keeping up with market needs. The chapter concludes with key recommendations to help the region's policy makers to tackle the challenges identified and provide their SMEs with the skilled human capital they need.

Key findings

- **The Western Balkan economies and Turkey (WBT) have made some progress in improving the governance of enterprise skills**. Most of the economies have taken steps to collect information on skills needs although institutional capacity needs to be strengthened for well co-ordinated data collection and its use to inform SME skills policy and programming.
- **The statistical basis needed to analyse companies' skills needs have improved over the assessment period.** In spite of these improvements, however, the monitoring results of SME support programmes are not always made available to enable decision makers to identify successful or less relevant support measures and programmes.
- **Most of the WBT economies recognise the importance of digital skills for SMEs and the link with internationalisation,** but this recognition has not been systematically translated into providing the conditions or the training required to steer SMEs towards the digital economy.
- **Training provision is not always tailored to the specific needs of start-ups at different stages of growth.** Provision needs to distinguish between those who need help with their business idea, the early-phase start-ups and those that need a push to scale up their business.
- **Online platforms are needed to provide an overview of the training on offer to SMEs.** The WBT economies do not use SME skills intelligence to map the training available and to provide a single searchable online platform to enable SMEs to find the training that meets their specific needs in timing, content and delivery method.
- **E-training for SMEs is not widely available across the region.** There is a need to scale up publicly funded e-training to make training more accessible to SME managers and their employees as it does not require them to take time away from work which could disrupt business and add to the actual cost of training.
- **Smart specialisation will have implications for SME skills which will need to be assessed and addressed.** The economies have recognised the importance of skills for innovation and will need to lead in defining an approach to smart specialisation in which the territorial concentration of SME skills, knowledge and competences are transformed into a competitive advantage.

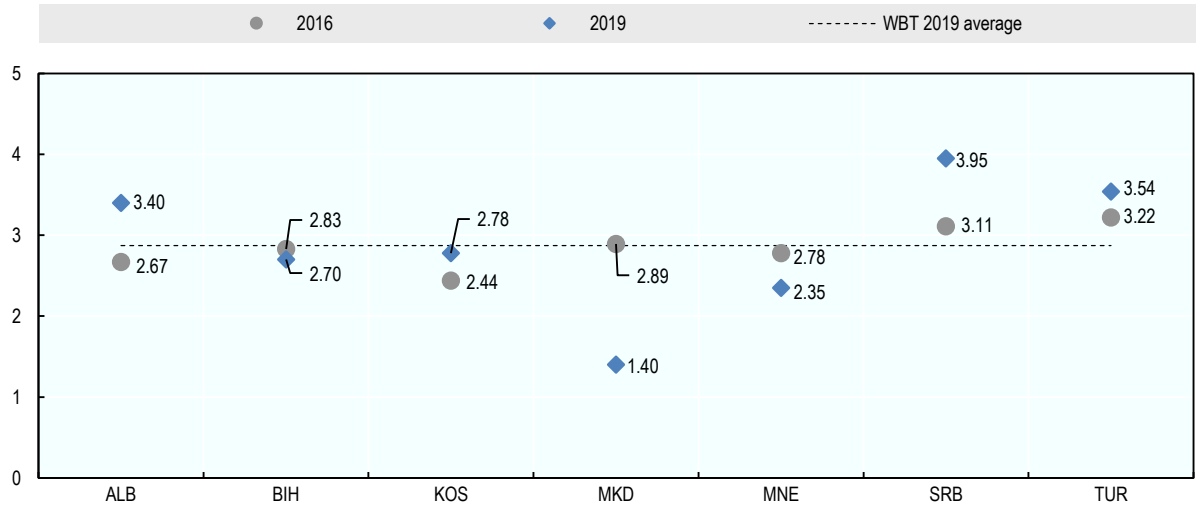
Comparison with the 2016 assessment scores

Overall the average score for the economies in the enterprise skills dimension demonstrates modest progress since 2016. Looking at the specific scores for each economy (Figure 9.1), Albania and Serbia have made a significant leap forward, with Bosnia and Herzegovina, Kosovo,* Montenegro and Turkey making more modest progress. The Republic of North Macedonia has a lower score than in 2016 due to a

* 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.

change of government – the relevant institutional arrangements and mechanisms for supporting enterprise skills are still to be reactivated.

Figure 9.1. Overall scores for Dimension 8a (2016 and 2019)



Note: The comparison of scores between the 2016 and 2019 assessments should be interpreted with caution because of the change in assessment methodology and the introduction of new questions. 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

Table 9.1 summarises to what extent the WBT economies have implemented the recommendations of the 2016 SME Policy Index.

Table 9.1. Implementation of the SME Policy Index 2016 recommendations for Dimension 8a

Overall 2016 recommendations	SME Policy Index 2019	
	Main developments during the assessment period	Regional progress status
Identify a co-ordinating body for skills intelligence	- Little progress has been made in developing institutional co-ordination for monitoring data on SME skill needs. - Albania, Bosnia and Herzegovina, Montenegro and North Macedonia still have no formal institutional co-ordination mechanisms. - Only Turkey has established a new institution in the area of skills intelligence, specifically a department under the Department of Science, Technology and Industry Education of the Ministry of Industry and Technology.	Moderate
Monitor and evaluate training at both project and system level	- All the economies require government co-financed training for SMEs to be monitored at least at the level of spending, disbursement and number of beneficiaries. - Monitoring – and especially evaluation – has not seen a lot of progress except in one economy – Kosovo. Also, North Macedonia is in the process of establishing or strengthening co-ordination mechanisms between the public and private sectors and civil society, which will lay the foundation for strengthened monitoring and evaluation in the future.	Limited

(Co-)develop e-training services with training providers and academia	- E-training for SMEs is not widely available across the region. Only Serbia, Turkey and Kosovo provide publicly funded e-training. - Turkey continues to stand out for its e-training provision to SMEs through its SME Development and Support Organisation's (KOSGEB) online training platform, where 35 online training programmes in 6 categories are available free of charge to registered SMEs.	Limited

Introduction

Small and medium-sized enterprises (SMEs) make up the lion's share of businesses in the Western Balkans and Turkey (WBT). The ability of SMEs to add value, create employment and spearhead innovation depends on skilled human capital. Skills policies that target SMEs are important for economic growth, and investment in human capital is a key resource for competitiveness (EC, 2010[1]; EC, 2016[2]).

Enterprise skills are important for improving the performance of the business sector. Employers generally lack sufficient high-quality skills, particularly for growing enterprises and export-oriented companies (Gribben and Lasku, 2013[3]). For example, the most recent European Company survey (Eurofound, 2013[4]), in 2013, found that four in ten European Union (EU) employers, the vast majority of them SMEs, reported difficulties finding the right skills when recruiting. This is a result of the weak response of the education and training community to the interests and needs of SMEs.

Many changes are being driven by digital and other new technologies, and by new business models. The skills forecasting model of the European Centre for the Development of Vocational Training (Cedefop) predicts that in the future about 85% of all EU jobs will need at least a basic level of digital skills (Cedefop, 2019[5]). Technological evolution entails changes in occupations as old skills become obsolete or automated while new skills are needed. The WBT economies will need to modernise by investing in the workforce through high-quality training to ensure that they stay competitive in global markets. Having access to the right high-quality skills – at the right place and the right time – will be essential for SME competitiveness, whether starting out or scaling up. Workforce skills alone cannot reduce the skills mismatch and boost competitiveness, however. The managers of SMEs themselves, in particular the smaller companies and start-ups, could also be greatly helped by improving their skills.

Effective policy making for business development requires systematic intelligence about the SME workforce to allow governments and the private sector to establish the necessary policies, support structures and training measures. Poor skills intelligence on the other hand leads to mismatches between the supply and demand of skills (Gribben and Lasku, 2013[3]).

Addressing skills mismatches cannot rely solely on more and better systems and tools to forecast skills needs, however. Improving policy co-ordination and synergies, particularly among the government bodies responsible for education, training and the economy, will be important (Gribben and Lasku, 2013[3]). A variety of actors will need to collaborate to ensure that education and training provision matches the skills needs of SMEs.

Continued improvement of the skills of both managers and staff will be necessary to sustain jobs and to grow businesses. SMEs need to be able to access skilled staff as well as on-the-job-training so that they can update the skills of their existing employees, including managers, and make effective use of their full potential.

The Small Business Act for Europe (SBA) assessment analyses the progress economies have made and makes recommendations on areas of further improvement. This chapter examines the policy context supporting enterprise skills and reflects on the progress made since the previous assessment in 2016. SMEs, particularly micro and small companies, tend to carry out less internal training and rely more on the external market than larger employers, which can be problematic if the skills they need are not available or if the training to create those skills – and information about the training on offer – is not readily

available. The chapter concludes with key recommendations to move forward in these areas.

Assessment framework

Structure

The assessment framework for enterprise skills is divided into three thematic blocks (Figure 9.2): planning and design (30% of the total score), implementation (50% of the total score) and monitoring and evaluation (20% of the total score).

The first thematic block considers whether there is a skills intelligence framework within the overall national policy design and planning, and what methods are in place to analyse the skills needs of SMEs. Within the implementation thematic block, the assessment mainly covers the training on offer to SMEs. Finally, the third block of the assessment examines the monitoring and evaluation arrangements for SME training and policy frameworks.

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

Figure 9.2. Assessment framework for Dimension 8a: Enterprise skills

Enterprise skills		
Thematic block 1: Planning and design	**Thematic block 2:** Implementation	**Thematic block 3:** Monitoring and evaluation

Key methodological changes to the assessment framework

The assessment framework for Dimension 8a, enterprise skills, has changed substantially since the 2016 assessment with the adoption of a questionnaire. This has brought it into line with the wider SBA assessment methodology introduced in the 2016 assessment for the other dimensions. A group of experts from the seven economies contributed to the revision process and agreed which areas the assessment should focus on. The former five-step level indicators (SME skills intelligence, training for start-ups, training for enterprise growth, e-training and training for internationalisation) have been integrated into the questionnaire, while the quality assurance indicator has been dropped from this assessment.

The current assessment focuses more heavily on SME skills intelligence and how it is used for policy design and the development of new training programmes. The assessment of the training offer includes new categories, including start-up training as well as training for SMEs with growth potential and training on green and digital skills. In line with the EU accession requirements, the assessment also considers to what extent training for SMEs is part of the Economic Reform Programme (ERP).[1] The assessment also includes a new question on the adoption of the smart specialisation[2] approach, with the aim of increasing the importance of skills and human capital development in the innovation policy dialogue.

Analysis

The private sector is the main contributor to economic output in all the economies in the Western Balkans and Turkey. The fundamental problem holding back the region's economic development is low productivity. SMEs dominate the private sector and account for about two-thirds of value added on average. They also provide a large share of employment, ranging from just below 70% in Bosnia and Herzegovina and 73.5% in Turkey, to more than 80% in Albania (Sanfey and Milatovic, 2018[6]). SMEs are therefore essential for creating jobs and boosting productivity, growth and competitiveness. Education and training, especially when effectively tailored to the specific needs of entrepreneurs and their staff, will be key to honing the competitive edge of SMEs.

Although SMEs are generally less innovative than large enterprises, some are highly innovative with productivity levels above those of large companies (OECD/LEED, 2018[7]). Many new business ideas are emerging in the digital and green economies. When appropriately used, education and training can fuel SME innovation in these domains. Due to their small size, SMEs find it difficult to meet their education and training needs and invest significantly less in skills development than their larger counterparts. Therefore, they depend on the labour market to supply them with qualified labour. SMEs' inability to invest in skills, combined with labour market mismatches, erodes their innovation potential across sectors, all of which require different sets of skills and ways of education and training. Companies which develop and use their internal strategic resources effectively – such as managerial and workforce skills, information and communications technology (ICT), research and development – and collaborate with external partners in the innovation system, have better innovation performance (OECD/LEED, 2018[7]).

For the purposes of this assessment, enterprise skills comprise business skills (e.g. marketing and finance), entrepreneurship as a key competence (e.g. creativity, innovation and risk management) and vocational skills (i.e. professional skills for specific sectors). All three areas are necessary to deliver companies' business plans and for companies to operate effectively in increasingly open economies. A company's demand for skills will change as it moves from start-up to growth phases and will also constantly evolve in response to external factors such as technological change. More ambitious businesses operating in international markets require specific knowledge and skills to meet international trading standards for their respective sectors (Gribben and Lasku, 2013[3]).

Overall, Serbia performs best in this dimension, thanks to scores that are well above average in all three thematic blocks (Table 9.2). This reflects the substantial resources the Serbian government is investing in SME support, including training services dedicated to specific target groups of SMEs and supporting different phases of enterprise development. Albania also scores above average in all three thematic blocks, while North Macedonia scores lowest across the board – most of the initiatives that would increase its score are in the pipeline but not yet in place.

Table 9.2. Scores for Dimension 8a: Enterprise skills

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	3.50	3.50	4.17	1.50	3.17	4.50	3.33	3.38
Implementation	3.50	2.50	2.25	1.50	2.00	4.00	4.06	2.83
Monitoring and evaluation	3.00	2.00	2.00	1.00	2.00	3.00	3.00	2.29
Weighted average	**3.40**	**2.70**	**2.78**	**1.40**	**2.35**	**3.95**	**3.54**	**2.87**

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

Planning and design (Thematic block 1)

Better skills intelligence is being gathered, but does not always translate into policy design

Integrated skills intelligence is one of the three pillars of the New Skills Agenda for Europe, but has long been a challenge for the economies of the Western Balkans and Turkey (EC, 2016[2]). It is generally acknowledged that better and more timely information on current and future education and training needs can help make vocational education and training policies more responsive. However, the way skills are traditionally measured is often either too specific or too aggregated, or the data are not used to inform relevant policies. Another challenge is ensuring that a broad array of potential beneficiaries have access to and use skills intelligence, and that it meets the needs of diverse audiences. In many economies the effective transmission of skills intelligence is the weak link in their skills governance systems, diminishing the returns to investment in the state-of-the-art skills anticipation and forecasting projects being implemented. Common weaknesses in integrated skills intelligence systems include a lack of appropriate data sources for decision making and policy evaluation, information asymmetries (unequal access to information), fragmentation between different layers of government, and capacity constraints (both human and financial). However, difficulties in relaying information can also reflect the limited relevance of conventional skills-forecasting methods and instruments for policy design and implementation (OECD, 2016[8]).

Most of the WBT economies have taken steps towards a more systematic approach to analysing SME training needs and translating them into concrete training provision. Perhaps the biggest leap forward has been made by Turkey, which has established a new department under the Ministry of Industry and Technology (Directorate General for Research and Development Incentives) to identify and implement training provision. SME employees are eligible for financial support from KOSGEB to cover 50-70% of the cost of the training. With the support of KOSGEB, the ministry also chairs the Entrepreneurship Council which is responsible for the system-level co-ordination of government SME skills policies and their implementation. A dedicated Directorate General is responsible for digital transformation in industry, focusing on programmes to enhance SMEs' digital skills.

In Bosnia and Herzegovina and North Macedonia, the systems for collecting data on labour demand and forecasting future skills needs are still at an early stage of development, constraining policy making. In Bosnia and Herzegovina, the Republika Srpska Chamber of Commerce continuously tracks SME manpower developments[3].

Based on this analysis, the Republic Agency for SME Development has created 10 training programmes specifically for the metal sector, which are now being provided by the Faculty of Mechanical Engineering in the University of Banja Luka. North Macedonia has recently established its Skills Observatory as a department within the Ministry of Education and Science, as well as a project to establish a web platform with information on actual higher education careers, vocational education and training (VET) and adult education programmes, job placements for graduates, etc. However, the practical use of this platform is held back by a lack of data harmonisation, limited capacity to support the development of evidence-based policy making and a reluctance by institutions to share information.

In Albania the National Employment Service implements a wider employers' survey (not solely focused on SMEs) which is carried out biennially, if donor funding is available. In Montenegro multiple organisations – including the Chamber of Commerce, the Employers' Federation, and the Employment Agency – conduct SME training needs analyses for internal purposes, but no meta-analysis has been conducted and the results from the different analyses have not been pooled into a single summary. There is no cross-institutional collaboration to identify emerging skills mismatches or tackle the causes and effects of skills imbalances (ETF, forthcoming[9]). Similar situations were found in Albania, Bosnia and Herzegovina, and North Macedonia, where the results from existing skills intelligence are not systematically used to inform public policy and funding. In Albania and North Macedonia this is due to government restructuring and the challenge of re-establishing formal mechanisms for institutional collaboration.

So far only Serbia and Kosovo have created systems to anticipate skills needs so that the education system can meet the needs of SMEs in the labour market. Both economies also use skills intelligence to inform policy and programming and their respective Economic Reform Programmes.

Across the Western Balkans and Turkey there is an understanding that maximising SMEs' potential to drive growth and create jobs requires consistent, reliable and up-to-date intelligence on skills requirements and gaps. Volume considerations (i.e. the total number of staff required) from employers and industry are simply not enough. The challenge is to map all data sources, combine data, and manage multiple sources to develop the evidence base for smart specialisation.

Implementation (Thematic block 2)

Start-ups have access to more training, but it is not always tailored to their needs

Start-ups in the EU have a low survival rate: typically less than half of all enterprises started in 2010 were still active in 2015. Survival rates among the WBT economies compare well with the EU: the survival rate in North Macedonia is slightly higher than the EU average (52.6% in 2014), while those for Kosovo (63.4% in 2014) and Turkey (66.6% in 2015), place them near the top performers in the EU (Eurostat, 2018[10]). Supporting start-ups on their entrepreneurial journey is essential to increasing their long-term viability. Start-up training makes entrepreneurs better prepared and gives them more confidence to succeed and to grow their business. Growing businesses are more likely to create jobs (Van den Eynde, forthcoming[11]).

All the economies in the WBT have started to invest more in financial and non-financial support for start-ups. A number of economies have created specific funds to support them financially. For example, both the Start-Up Fund managed by the Albanian Investment

Development Agency (AIDA) and Kosovo's new Fund for Innovation and Technology Development recently organised open calls to fund a selected number of start-ups in the ICT and technology sector. However, most of the economies need to make more effort to make training provision (including mentoring and coaching) a precondition for receiving grants or loans. This is already the case in Montenegro, where the Employment Agency trains the unemployed in self-employment skills, and potential entrepreneurs in basic entrepreneurship skills. Entrepreneurs must participate in the training in order to qualify for credit support.

Government-financed training programmes for start-ups exist in almost all economies, except Kosovo and North Macedonia, where non-financial support is mainly donor driven. To improve the efficiency and effectiveness of public and private training provision, start-up training should be targeted more closely at the specific needs of entrepreneurs, and where they are on their entrepreneurial journey. Policy makers in all the economies should pay attention to the different categories of entrepreneurs when allocating resources: from the "wannabe" entrepreneurs who need help with their business idea, to the early-phase start-ups that need support to make their business sustainable, and the "up-starts" that need a push to scale up their business (Van den Eynde, forthcoming[11]).

While it will be important for economies to address all these categories in their training programmes for start-ups, policy makers might also decide to prioritise "scale-ups" – young but established companies that want to grow into thriving medium-sized enterprises – since they have the greatest impact on the growth of the economy. A next step would then be to start paying attention to the training offered to "restarts", those whose businesses have failed but who want to start again (for more information, see Chapter 2 on bankruptcy and second chance for SMEs). They need specific support linked to the social and psychological effects of business failure.

Most economies (with the exception of Montenegro and North Macedonia) have specific training programmes targeted at young entrepreneurs (under 30). In Serbia, the Youth Caravan project financed by the Serbian Development Agency gives young people legal advice and support to develop a business plan. In Turkey, youth start-ups can benefit from the Individual Young Entrepreneurs Support organised by the Scientific and Technological Research Council of Turkey (TÜBİTAK). Targeted training for women entrepreneurs is available in North Macedonia, Serbia and Turkey, while Kosovo has a quota for women in every call for start-up training. None of the economies so far offer specific training for older entrepreneurs (aged over 50).

The emerging digital and green economies are opportunities for SMEs

The digital economy refers to all the economic activities enabled by ICT through the use of the Internet, mobile technology, big data and the Internet of Things. Across the WBT economies, digitalisation – transforming business processes or activities by leveraging digital technologies – is acknowledged to be one of the main drivers of change, disrupting traditional industries and labour markets and acting as a source of new opportunities for SMEs. Digitalisation is driving the emergence of new business models which may enable firms to scale up very quickly, often with few employees, tangible assets or geographical market presence (OECD, 2017[12]). The adoption and effective use of ICT hardware and software are forms of business innovation in themselves, but are also a prerequisite for and further driver of other forms of business innovation (OECD/LEED, 2018[7]).

Turkey has established a new department within the Ministry of Industry and Technology that is responsible for digital transformation in industry. The Department of the 4th Industrial Revolution under the Directorate General for R&D Incentives works specifically on enhancing SMEs' digital skills. The ministry has prepared a digital transformation roadmap for Turkey's manufacturing industry which focuses on strengthening the education infrastructure and workforce training, and supporting the digital transformation of SMEs, among other things. Kosovo has made good progress in supporting SMEs in the digital economy. Its Economic Reform Programme reflects the importance of SMEs in the digital economy and the Ministry of Economic Development is looking to implement a project to broaden access to and use of ICT. Kosovo has made a wide range of training on digital skills available to SMEs, including online training, the costs of which are partly covered by the Ministry of Innovation and Entrepreneurship.

North Macedonia has not yet recognised the role of SMEs in the digital economy at policy level, but its new National Council for ICT, established in February 2018 and tasked with developing a National ICT Strategy, offers an opportunity to do so and to promote digital skills and use of ICT by SMEs as a critical factor for success in innovation, competitiveness and growth.

Serbia is the only economy which provides training to support SMEs operating within the EU Digital Single Market. Serbia's other support measures for SMEs in the digital economy included a call in 2017 for participation in Create Life, a support programme for innovative micro, small and medium-sized enterprises (MSMEs) and entrepreneurs. The Create Life programme's objective was to strengthen the innovation capacity of MSMEs in order to increase their competitiveness. It was implemented by the Development Agency of Serbia in partnership with regional development agencies and provided support for businesses to improve existing technological processes and products and develop new ones, and to purchase national and small patent rights and patent documentation.

The green economy refers to sustainable economic activities that aim to reduce environmental risks and generate sustainable job opportunities. "Growth potential" SMEs are likely to take up opportunities in new domains such as the green economy (OECD, 2013[13]) (for more information, see Chapter 11 on SMEs in a green economy). However, only two economies, Montenegro and Turkey, currently have national policies that recognise green skills. In Turkey, the United Nations Industrial Development Organization (UNIDO), in partnership with the Global Environment Facility, is promoting affordable and scalable solutions to move to cleaner, more resilient economies through the Global Cleantech Innovation Programme. Implemented in collaboration with the Ministry of Industry and Technology and co-ordinated by TÜBİTAK, the programme provides training to SMEs and start-ups on renewable energy, energy efficiency, energy production from waste, water efficiency and green buildings. A key component of the programme is the annual competition-based accelerator, which identifies the most promising innovators and entrepreneurs across the country (UNIDO/GEF, 2017[14]).

Smart specialisation strategies will highlight the need to improve workforce and SME skills

Smart specialisation is part of the EU's cohesion policy and aims to boost growth and jobs by enabling regions to identify and develop their areas of competitive advantage. It is a strategic way to create productive collaboration between actors with the aim of stimulating innovation-driven growth. It requires all actors to work together across all

levels. Skills contribute to smart specialisation more widely than just through knowledge production. Human capital, knowledge dissemination and transfer, and support for entrepreneurship are all key elements of smart specialisation.

Since 2014, smart specialisation strategies have been a condition for regions in EU Member States to qualify for funding from the European Regional Development Fund. To date, EU Member States and regions have developed over 120 smart specialisation strategies. All the WBT economies are working with the European Commission (EC) to implement smart specialisation, starting with familiarising themselves with the approach. Turkey is the most advanced in implementing smart specialisation, with Montenegro and Serbia not far behind.

Montenegro, Serbia and Turkey are the first economies to begin to implement smart specialisation in the region. Turkey is the only economy which has adopted a subnational (regional) approach to smart specialisation, with all the others taking a national approach. In Turkey the specialisation framework has been adapted into "results oriented programmes" which all regions must develop from 2019 onwards. In February 2017, Serbia opened Chapter 20 of its negotiation of the EU *acquis* (on enterprise and industrial policy). In April 2018, the EC recommended Serbia should develop a comprehensive industrial policy based on EU principles and using the findings of the smart specialisation analysis. Serbia has also started developing a new sector-based industrial strategy; it should step up this work by enhancing its administrative capacity and taking into account the findings of its smart specialisation analysis (EC, 2018[15]). The EC also recommended in April 2018 that Montenegro include smart specialisation under Chapter 25 of its negotiation (on science and research) and develop a smart specialisation strategy. Montenegro is currently preparing the strategy with the EC's support, and has established an inter-ministerial working group for this purpose, including business, academia and non-government organisations. At this stage, the main sector priorities are sustainable agriculture and energy, ICT, manufacturing, and health and wellbeing; tourism is a cross-cutting priority (EC, 2018[16]).

Albania, Bosnia and Herzegovina, Kosovo, and North Macedonia began implementing smart specialisation in 2018. In Albania, Kosovo and North Macedonia, smart specialisation also falls under Chapter 25. The EC recommended Kosovo should increase government spending on research and seek to stimulate investment from the private sector by using the findings of a smart specialisation strategy currently being developed. In North Macedonia, preparations have only just begun for a smart specialisation strategy and sector-specific scientific priorities. The recommendation is to develop a smart specialisation strategy to underpin national research and innovation strategies and policies. In Albania, the process of drafting a smart specialisation strategy has started under the lead of the Ministry of Education, Sports and Youth and the first analysis is expected to be completed by the end of 2018.

Although vocational education and training has an important role to play in innovation and smart specialisation,[4] most EU Member States currently focus on higher education and only a handful include VET and skills in their innovation clusters and strategies. In implementing smart specialisation, the WBT economies are also focused on higher education rather than education and training provision more broadly. This approach does not reflect the renewed focus on the importance of skills and human capital in smart specialisation, nor the push by the EC to link VET to innovation systems and to include skills intelligence and skills matching, in line with the New Skills Agenda. Smart specialisation needs to be accompanied by improved workforce and SME skills as labour

market requirements change, and the use of new technologies increases. Omitting skills from the smart specialisation analysis (assets, capabilities and bottlenecks) risks creating skills mismatches, reducing the competitiveness of SMEs and hindering economic growth.

As the WBT economies press ahead with implementing smart specialisation, this will create an opportunity to develop a shared vision across policy areas (such as economic, industrial and digital education policies). The challenge of skills will be brought to the forefront in Montenegro and Serbia first, as they implement the Entrepreneurial Discovery Phase of smart specialisation in the second half of 2018. This phase requires the strong engagement of companies and industry and is known to highlight skills, such as workers' expertise and the ability of workers to adapt to new working practices and advanced product design.

Monitoring and evaluation (Thematic block 3)

Monitoring and evaluation are too fragmented to inform policy design

Monitoring and evaluation of SME skills policies are separate but complementary practices to collect and process information about the how far policy measures have been implemented and whether they have achieved the expected results. Monitoring captures data on progress made against set targets and evaluation uses the monitoring data to understand whether the policies have had the desired effect. Both are critical in building a strong evidence base for understanding SME skills needs and for assessing the diverse range of interventions being implemented to address them. Monitoring and evaluation are critical to developing objective conclusions about policies' results and impact – and key to identifying the most valuable and efficient use of resources. Together, they provide the necessary data to guide strategic planning, design and implement projects and policies, and allocate and reallocate resources in better ways.

In all the WBT economies, both policy makers and the training community demonstrate growing awareness of the value of monitoring and evaluating SME skills policies. There is also a general recognition of the need to strengthen overall collaboration among stakeholders for more effective cross-institutional sharing of data and knowledge as a prerequisite for effective monitoring and evaluation. However, in most of the economies (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, and North Macedonia) the data produced and collected are of limited value as monitoring continues to be confined to project or ministry level and not shared with stakeholders. In Albania the government monitors the Competitiveness Fund which requires beneficiary SMEs to demonstrate the impact of the project funded within two years of its completion. In 2017, an independent evaluation of all AIDA support funds was carried out which provided overall recommendations and specific recommendations for all funds. In North Macedonia, the Ministry of Economy plans to establish an integrated performance management system, in line with the recommendation of the State Audit Office for improving the quality and quantity of SME data, although any results have not yet been made public. In general, all of these economies struggle with using and interpreting the data they have for policy development, and lack system-level monitoring and particularly evaluation capacity.

Serbia and Turkey have the most developed monitoring of SME skills policy implementation in the region – Serbia through the Development Agency of Serbia and Accredited Regional Development Agencies, and Turkey through KOSGEB and TÜBİTAK. The Development Agency of Serbia conducts an evaluation of training needs

which is used to improve training delivery and introduce new training (e.g. e-business training). The Ministry of Economy, in co-operation with other institutions, prepares annual reports on SME support and reports on the implementation of the SME strategy. Despite this progress, monitoring and data collection in Serbia are divided across different public agencies, with no official co-ordination structure to oversee, monitor and evaluate all SME skills' development programmes and measures.

Turkey is the only economy in the region with a dedicated body for monitoring and evaluating SME skills. KOSGEB has responsibility for system-level monitoring and collects information to assess progress towards the achievement of the policy objectives, outcomes and impacts of the Entrepreneurship Strategy and Action Plan. Each year KOSGEB delivers a consolidated progress report to the Entrepreneurship Council. However, while the monitoring data are published in the Annual Activity Reports, access to evaluation results remains limited; they are available under the overall framework of the Entrepreneurship Strategy and Action Plan, and through a number of programme-based reports such as the European Bank for Reconstruction and Development's Finance and Advice for Women in Business Programme (EBRD, 2019[17]).

The way forward for enterprise skills

In moving forward, the economies of the Western Balkans and Turkey should consider the following recommendations:

- **Designate a body to strengthen SME skills intelligence.** The recommendation from the last SBA assessment to strengthen skills governance systems still stands. Regular and reliable data on SME skills are vital if policy makers are to align their economy's human capital base with its economic structure – and will be particularly critical in moving forward with smart specialisation. A designated body responsible for generating better and more timely information on SMEs' current and future training needs would close information gaps and help ensure policies respond to these needs. This body's role would be to fill the transmission gap and ensure all actors have access to appropriate information that meets their needs. It would also monitor the implementation and results of policy measures. For such a co-ordination body to function efficiently, it needs appropriate funding and human capacity. Its key partners would include the ministries of economy, education and labour, statistical offices, employment services, SME agencies, regional development organisations, chambers of commerce, innovation agencies and education and training providers.
- **Build SME skills into smart specialisation strategies**. As the economies move forward with smart specialisation, they will need to develop a vision for skills. The development of smart specialisation niches will start to affect demand for labour. It will become increasingly important for workers to have the right expertise and be able to adapt to new working practices and advanced product design. This will apply to businesses throughout the supply chains. The economies will need to adapt their education and training policies and investments accordingly. Addressing the skills needs of SMEs will mean increasing flexibility in education and training provision, raising questions about skills governance and the way economies collaborate across and between administrative levels. VET providers will need to be engaged in the dialogue if they are to translate changes in business sectors into education and training provision that meets SMEs' labour force and lifelong learning needs.

- **Refine and better target the training offer.** Economies like Turkey, where SME skills intelligence is already well developed, could make more effort to analyse the current supply of training by type of demand and consolidate the training offer by linking different suppliers and programmes. For example, in the area of SME internationalisation, there is an opportunity to make existing programmes more comprehensive (see Box 9.1), and the supply of programmes more effective and efficient, by improving co-ordination among providers and support opportunities (see Box 9.2).
- **Make training offer relevant for local growth and competitiveness.** Decentralising the implementation of training policies would make it easier to tailor them to local needs. Micro enterprises in particular are heavily dependent on their regional environment, where proximity plays a key role in innovation, particularly the spread of tacit knowledge. SMEs need policy support to enable them tap into outside resources, principally access to knowledge in the form of advice through innovation support services and tailored counselling, technology or qualified human capital, to face up to the new forms of competition that are developing in the global economy (EC, 2012[18]). VET providers could take on additional roles such as supporting start-ups and SMEs, providing innovation services, contributing to regional development by aligning regional and national priorities.

Box 9.1. Turkey's Ex Point Programme: helping SMEs internationalise through training

In 2009, the Ministry of Trade and the Turkish Exporters Assembly drew up the 2023 Turkish Exports Strategy. Its objective was to increase exports by 12% annually with the wider goal of ensuring Turkey becomes one of the world's 10 largest economies by 2023, accounting for 1.5% of global trade. The core features of the strategy include shifting production from low-tech sectors to high value-added areas and achieving new investments in high-tech sectors. This has significant implications for SMEs.

In order to reach its goals, the Ministry of Trade relies on evidence-based policy making, based on provider-driven training needs analyses which are collected, analysed and disseminated upwards through the chain of governance to inform policy makers about SME skills needs.

The Ex Point Programme by Zobu Consulting is a 6-12 month mentoring programme, supported by the Ministry of Trade, that directly contributes to the success of Turkey's export strategy by aiming to increase both the number of exporting SMEs and the volume of exports by SMEs. The training programme provides mentoring support to companies with an interest in extending into international markets in key sectors such as automotive, maritime, plastics, heating, ventilation and air-conditioning. It also helps existing exporters to improve their performance. To date, the training programme has engaged with 74 SMEs with a total of 90 staff; established 13 000 contacts with potential buyers, resulting in 400 international orders; and helped 14 SMEs start exporting and 25 SMEs improve their export activities.

The Ministry of Trade continuously engages with training providers, allowing policy makers to close the policy loop and learn where their investments have the desired

impact, so they can focus public effort where it adds most value.

Source: ETF (2018[19]), *Turkey: Helping SMEs Internationalise Through Training*, www.etf.europa.eu/en/news-and-events/news/turkey-helping-smes-internationalise-through-training

Box 9.2. Building the international capacity of growth-oriented SMEs

The Middle and 1st Line Management Development Programme (MAGNA) is a management training programme delivered by Optimum Results Ltd. Ireland. It supports SMEs with the interest and potential to access international markets. The programme is adapted to each company or group of companies based on an assessment of their business performance and management skills, and comprises a mix of pedagogic approaches including workshops, sector-specific expert seminars, work-based assignments and online mentoring. The training addresses areas including international business strategy and leadership, e-marketing and social media applications, international supply chain management, and creativity and innovation. A business export plan is a core output for all participating businesses, including capacity in product-pitching for international trade shows and exhibitions.

The training has also been integrated within wider SME development programmes supported by national business development agencies and international aid organisations.

The MAGNA programme has been delivered to over 100 businesses and 1 500 managers across 9 economies in Europe and the Middle East.

Sources: ETF (2018[20]), Good practice fiche MAGNA, https://sharing.etf.europa.eu/sites/dms/ops/el/Documents/Good%20Practice%20Fiche_MAGNA.pdf; Optimum Results (2018[21]), *Optimum Results website*, http://optimumresults.ie/.

- **Boost SMEs' innovation potential by building on the digital and green economies.** These two domains could fuel SME innovation by opening up opportunities as new products, processes and techniques emerge. However, they also create threats, as new skills needs and forms of employment pose new challenges to SMEs. In order to reap the potential benefits, governments should take a proactive approach by facilitating SME access to education and training (e.g. through web platforms) and by ensuring SME skills policies respond to changes in occupations and specialised education and training needs, as well as the need for more advanced vocational skills. Meeting such skills needs will require flexibility in education and training provision. Vocational education and training should be engaged to feed changes in sectors into education and training provision. VET providers could address the horizontal (regional) requirements of the regional innovation system and meet the vertical (national) smart specialisation priorities. VET could be used as a tool to put businesses in the driver's seat for skills development, creating closer co-operation with business through in-company staff training provision and using in-company teacher training to upgrade the skills of VET teachers.

Making better use of the opportunities offered by the digital and green economies could in turn open up opportunities for international trade – a key engine for growth, but one where SMEs are under-represented. Working in international markets opens up more revenue streams for SMEs and as a result provides more employment and tax revenue for the government. Government bodies should work with the training community, particularly in sectors with export potential, to improve the provision and quality of training in the digital and green economies, with a particular focus on accessing EU markets. This should include a review of digital skills capacity of SMEs to allow them to participate in the EU's digital single market.

The Austrian Economic Chamber's SME DIGITAL programme, a new digitalisation programme in co-operation with the Federal Ministry of Economic Affairs, offers an example of how SMEs can be supported in seizing the business opportunities arising from digital transformation. First, it offers the SMEs an online status check, to determine how digital their business is. This analysis tool allows companies to carry out a quick initial check to identify their digital starting place. The programme also includes financial support, consulting services, events, webinars, analysis tools and training programmes (UEAPME, 2018[22]).

- **Build the systems and capacity to monitor SME skills policies and policy interventions** within the priority areas identified in the smart specialisation strategies. Smart specialisation cannot happen without suitable and continuous monitoring and analytical efforts. The WBT economies' monitoring mechanisms should be able to capture the relevant changes foreseen for each smart specialisation priority through the appropriate choice of result indicators; they should also capture the policy outputs that are expected to make the planned changes happen (Gianelle and Kleibrink, 2015[23]).

Estonia's approach could offer insights into monitoring SME skills intelligence. The development of entrepreneurship skills is an increasingly important topic in Estonia. The economy has relatively recently developed an SME policy monitoring and evaluation system for its SME Strategy 2014-20, which includes entrepreneurship support schemes such as business counselling and entrepreneurship training, and a full quantitative evaluation every two years with the support of foreign experts under the responsibility of the Ministry of Economic Affairs and Communication. However, the Estonian government has made less significant progress in using skills intelligence in SME policy monitoring and evaluation to make rigorous assessments of policy effectiveness and to use the results for continuous policy improvement (OECD, 2018[24]).

Conclusions

Overall, despite the limited progress achieved by all of the WBT economies in developing enterprise skills, they have taken some positive steps to improve SME competitiveness and sustainability through their growth phases and technological change.

All of the WBT economies have improved their statistical foundations for analysing companies' skills and continued their efforts to streamline the sharing of information and data. Moreover, they have all recognised the importance of supporting SMEs' ability to trade with the EU Single Market. Implementation of smart specialisation has brought skills to the top of their strategic agendas.

Nevertheless, better monitoring of SME support programmes will be needed to enable decision makers to identify successful and less relevant support measures. Training should particularly focus on supporting SMEs operating within the EU Digital Single Market.

There are currently no examples to learn from in EU or OECD countries, as they have treated skills as an afterthought and are only now considering them in more depth. It is therefore up to the WBT economies to show the way forward and establish good practice.

Addressing the recommendations proposed in this chapter will support the relevant decision makers and institutions in the WBT economies in building SME skills into smart specialisation strategies, as well as boosting the SMEs' innovation potential.

Notes

[1] Since 2015, all EU candidate countries and potential candidates develop ERPs to prepare for their future participation in the EU's economic policy co-ordination procedures (EC, 2018[30]). The ERPs are a key element of the "fundamentals first" approach of the EU's enlargement strategy (EC, 2018[31]). ERPs play a key role in improving economic policy planning and steering reforms to sustain macroeconomic stability, boost competitiveness and improve conditions for inclusive growth and job creation (EC, 2018[30]).

[2] Smart specialisation originated in the EU as a concept for stimulating innovation-driven regional growth. Smart specialisation strategies are about enabling regions to turn their assets, strengths and competitive advantages into marketable goods and services and, ultimately, economic growth. Human capital, knowledge dissemination and transfer, and support to entrepreneurship are all key elements in the successful implementation of smart specialisation strategies.

[3] 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.

[4] The Copenhagen Process (2002) and the Riga Conclusions (2015) underscore the role of VET and skills in the European growth and jobs agenda. The Copenhagen Process focuses on innovation in skill formation and drives forward EU-level co-operation. These are further reiterated in the Riga Conclusions which call to strengthen co-operation in VET and boosting employability and competitiveness.

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Chapter 10. Innovation policy for SMEs (Dimension 8b) in the Western Balkans and Turkey

This chapter assesses policies and infrastructure for fostering innovation in small and medium-sized enterprises (SMEs) in the Western Balkans and Turkey. It starts with an overview of the assessment framework and the progress made since the last assessment in 2016. It then analyses the four sub-dimensions of Dimension 8b: 1) policy framework for innovation, considering the overall strategic approach to innovation; 2) government institutional support services for innovative SMEs, looking at the physical infrastructure to support SME innovation; 3) government financial support services for innovative SMEs, assessing the availability and scale of direct and indirect financial schemes; and 4) SME and research institution collaboration, asking whether policy approaches seek to establish links between academia and industry. Each sub-dimension concludes with key recommendations to support SMEs in becoming more innovative.

Key findings

- **Progress has been made in developing holistic innovation frameworks**, and the majority of the assessed economies have an innovation strategy in place, or are in the process of renewing one.
- **Horizontal co-ordination of innovation policy has improved** across the region, with national councils for innovation established in four economies. However, monitoring and evaluation of policy implementation is largely insufficient.
- **Governments have scaled up financial support for innovation.** While donor support remains critical, a few governments have allocated significant budgets to sustain this type of policy support in the long term.
- **Most economies have introduced a mix of financial instruments to support firms' innovation and technology development**. However, with the exception of Turkey, none of the assessed economies have capitalised fully on the potential of indirect financial support – such as fiscal measures to encourage investments in research and development – as a cost-effective policy tool.
- **Disbursement rates of funds earmarked for innovation are often low**, suggesting there is room to increase SMEs' awareness to absorb available funds, and to improve the design of financial instruments.
- **Young companies increasingly benefit from a solid infrastructure of incubators** that also extends to regions outside the main economic hubs. A small number of accelerators has been developed through private sector initiatives as well.
- **Several economies have established science and technology parks, technology institutes and technology transfer offices,** but it is too early to evaluate their impact.
- **The first regional venture capital fund – the Enterprise Innovation Fund (ENIF)** – **has started operating** in the Western Balkans, backed by the European Union and several international financial institutions. The number of investments made so far has been relatively low – 16 at the time of writing.
- **Effective programmes to encourage industry-academia collaboration remain scattered**. Government efforts to foster collaboration seem to be hampered by the private sector's poor perception of public research institutes' capacity, and the lack of an environment encouraging academic staff to engage in joint activities with the private sector.

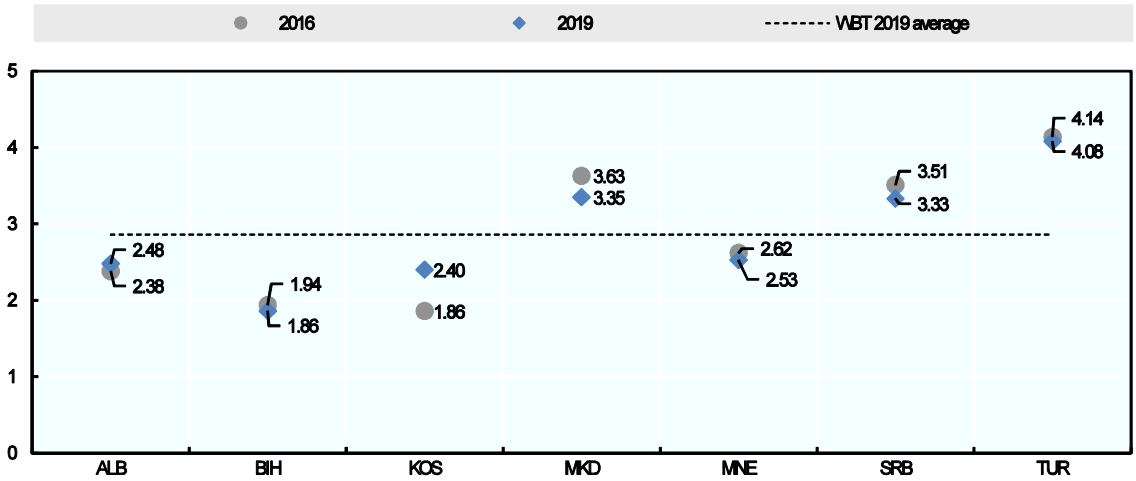
Comparison with the 2016 assessment scores

Overall, the innovation policy scores of the Western Balkan and Turkey (WBT) economies have changed little since the last assessment in 2016. Kosovo* has recorded the largest improvement, yet this partially reflects the fact that it was starting from a low

* 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.

base (Figure 10.1). The assessment found a two-tier performance among the economies, with the Republic of North Macedonia, Serbia and Turkey having more developed innovation ecosystems underpinned by solid public policy tools and instruments.

Figure 10.1. Overall scores for Dimension 8b (2016 and 2019)



Note: Scores for 2019 are not directly comparable to the 2016 scores due to a methodological change increasing the focus on 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 WBT economies have at least partially addressed all the recommendations made in the 2016 assessment (OECD et al., 2016[1]), as shown in Table 10.1. They have taken a number of actions to enhance innovation policy frameworks and governance, while scaling up financial support to boost innovation activities and technology commercialisation. In contrast, concrete measures to ensure the long-term sustainability of financial instruments and reduce donor dependency, or to promote an holistic ecosystem approach to innovation, have been limited.

Table 10.1. Implementation of the SME Policy Index 2016 recommendations for Dimension 8b

Overall 2016 recommendations	SME Policy Index 2019	
	Main developments during the assessment period	Regional progress status
Develop and adopt policy frameworks and well co-ordinated governance structures	- Albania, Serbia and Montenegro have adopted new innovation strategies; Turkey was preparing a new one at the time of writing. - Serbia has established an intra-ministerial council; Kosovo has set up a dedicated Ministry of Innovation and Entrepreneurship.	Advanced
Promote an "ecosystem" approach to innovation	- Little progress has been made to promote an holistic approach to innovation, and initiatives remain fragmented. - Holistic co-ordination mechanisms that include all stakeholders are largely absent, and policy measures are ill-designed to support enterprises throughout all stages of the business cycle.	Limited
Further develop innovation-related	- The hard infrastructure to support innovation has evolved, particularly in Montenegro (Technopolis), Serbia (Belgrade STP) and Turkey, where new	Moderate

infrastructure	incubators, technology parks, technology development zones and STPs are operational.	
Promote co-operation between academia and private sector	- Turkey continues to offer large-scale programmes to support R&D and commercialisation; Serbia has introduced a new instrument to foster industry-academia collaboration. - Serbia and Turkey have or are implementing reforms to the IPR legal framework to encourage patent applications.	Limited
Further promote financial instruments covering the entire financial cycle	- All economies have implemented direct financing instruments for innovation, but scale often remains limited. Most notably, North Macedonia and Serbia have increased the scale of financial instruments, which are well used in Serbia, but disbursements in North Macedonia are quite low. Albania has established a small-scale fund for innovative projects; Kosovo launched its first-ever innovation fund in 2018.	Moderate
When developing innovation-related infrastructure, economies should focus on the development of a sustainable business model	A large proportion of financial and technical assistance continues to be provided through international donors; however, there have been some encouraging trends: - The government provides significant funding in Turkey; Serbia and, most recently, North Macedonia have provided some national budget contributions to more recently launched financial schemes by their respective innovation funds. - Both Albania and Kosovo have allocated small-scale funding to financing schemes. - All Western Balkan economies, except for Bosnia and Herzegovina, have made financial contributions to the Western Balkans Enterprise Development & Innovation Facility. All economies have contributed to the Horizon 2020 programme.	Limited

Note: IPR – intellectual property rights; R&D – research and development; STP – science and technology park.

Introduction

Innovation, as defined by the OECD *Oslo Manual*, is the "implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations" (OECD/Eurostat, 2005[2]).

There is a clear link between firm innovation and productivity. Innovations help firms to boost growth and productivity, even if only a small percentage of them advance to the global technological frontier (EBRD, 2014[3]). Firms' capacity to create knowledge largely depends on external factors. The quality of institutions, rule of law, availability of a skilled labour force and labour regulations are identified as greater constraints to doing business by innovative firms than those that do not engage in product innovation. For smaller firms, these are even more important.

Against this background, supporting the development of a knowledge economy and boosting innovation capacity have become priorities for governments around the globe. While it is imperative for policy makers to build a broader knowledge-enabling business environment, they also need to emphasise supporting innovation at enterprise level, for instance in the form of financial and technical support schemes available to local businesses or by building a strong ecosystem conducive to innovation by firms.

The Small Business Act for Europe identifies a number of practices to support innovation in SMEs, and encourages governments to undertake activities in the following broad areas:

- strengthening programmes to promote innovative clusters and networks, and provide support to high-growth enterprises (particularly SMEs)
- ensuring simplified access to public research infrastructure and national research programmes, and active participation of SMEs in transnational research activities
- fostering innovative activities and the commercialisation of knowledge through the development of financial and non-technological support services for small businesses (EC, 2008[4]).

Assessment framework

Structure

This chapter analyses the innovation policy framework and the available public support to foster innovation in SMEs in the WBT region. The analysis hinges around four sub-dimensions:

- **Sub-dimension 8b.1: Policy framework for innovation** looks at the overall strategic approach of innovation policy and its implementation, and how SMEs are covered by this framework.
- **Sub-dimension 8b.2: Government institutional support services for innovative SMEs** reviews the physical non-financial infrastructure to support innovation in SMEs across all stages of the business cycle.
- **Sub-dimension 8b.3: Government financial support services for innovative SMEs** assesses the availability and scale of direct and indirect financial schemes to stimulate innovation by firms.

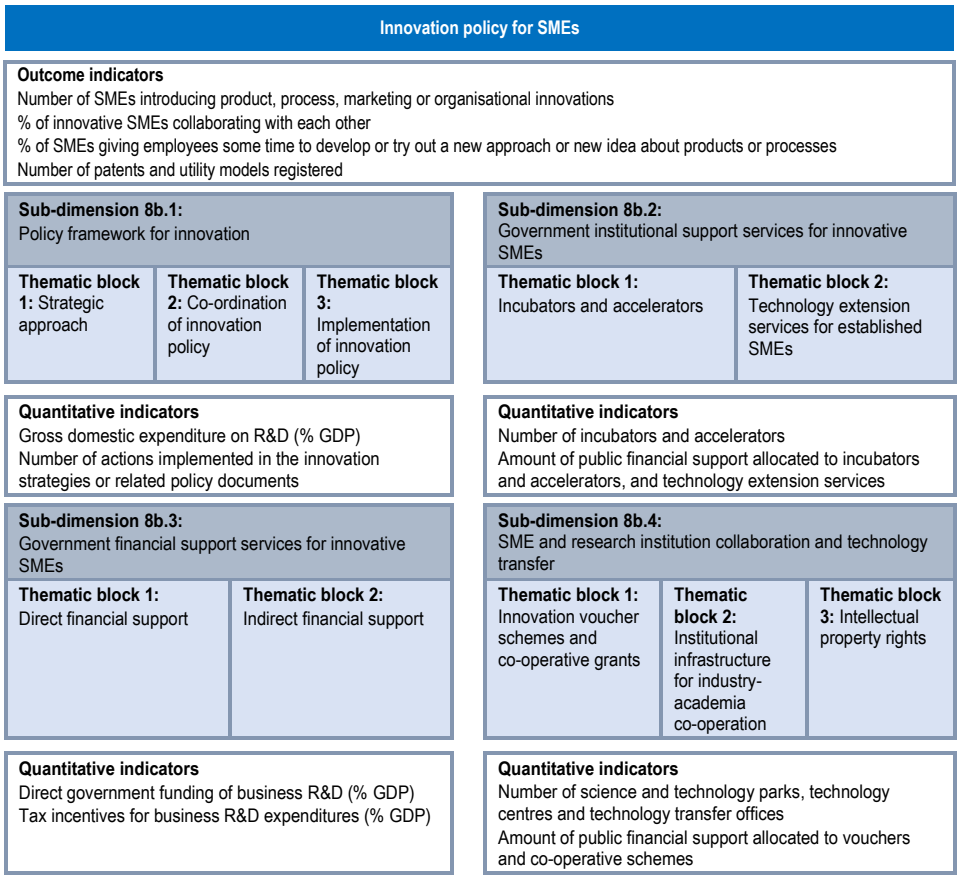
- **Sub-dimension 8b.4: SME and research institution collaboration and technology transfer** examines policy approaches to establishing linkages between academia and industry, both financial and non-financial, and reviews the legal framework for intellectual property protection.

Each sub-dimension assesses the policy performance by dividing it into two or three thematic blocks. Figure 10.2 shows how the sub-dimensions, thematic blocks and their constituent indicators make up the assessment framework for the innovation policy for SMEs dimension.

The assessment was carried out through collection of qualitative data with the help of questionnaires filled-out by governments, as well as face-to-face interviews undertaken with SME owners and managers. In addition to collecting qualitative inputs, an integral part of the assessment was the compilation of quantitative data on certain indicators that were requested from the economies' statistical offices.

Where applicable, findings are confirmed with underlying statistical evidence of firm innovation, R&D activity and development of a knowledge economy. However, statistical data is currently not consistently present across the region. For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

Figure 10.2. Assessment framework for Dimension 8b: Innovation policy for SMEs



Note: The outcome indicators serve to demonstrate the extent to which the policies implemented by the government bring about the intended results, and they have not been taken into consideration in the scoring. By contrast, quantitative indicators, as a proxy for the implementation of the policies, affect the overall scores.

Key methodological changes to the assessment framework

While the content of the analysis remains largely unchanged since the 2016 assessment, the framework has been restructured based on the approach developed in the OECD *Reviews of Innovation Policy* (OECD, 2018[5]). An additional thematic block has been introduced to recognise the importance of effective collaboration between SMEs and research institutions to enhance technology transfer and commercialising innovations. This and other changes are highlighted in Table 10.2.

Table 10.2. Key changes in the composition of Dimension 8b

Sub-dimension	Key changes since the 2016 assessment
Sub-dimension 8b.4: SME and research institution collaboration and technology transfer	New thematic block added: "Innovation voucher schemes and co-operative grants"
	"Institutional infrastructure for industry-academia co-operation" moved out of Sub-dimension 8b.1 and added to Sub-dimension 8b.4.
	'"Intellectual property rights" moved out of Sub-dimension 8b.3 and added to Sub-dimension 8b.4'

Other sources of information

In addition to the assessment framework, the analysis of this dimension also draws on information and data from the European Innovation Scoreboard 2018 (EC, 2018[6]) and other European Commission (EC) sources, such as data on the use of Horizon 2020 funds; as well as the United Nations Educational, Scientific and Cultural Organization (UNESCO) Institute of Statistics. To assess innovation and intellectual property protection, data from the World Economic Forum's Global Competitiveness Index were also used (WEF, 2017[7]).

Analysis

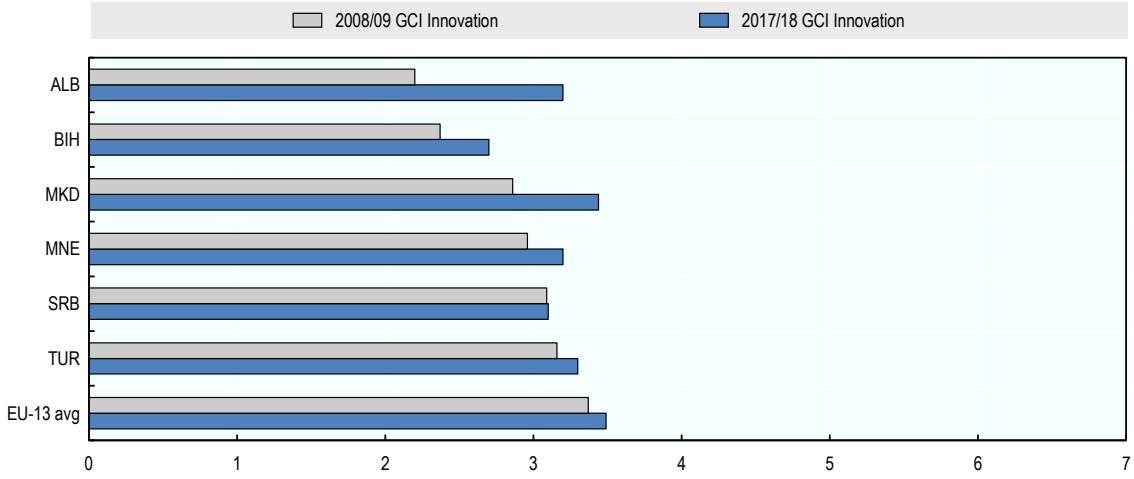
Performance in innovation policy for SMEs

Outcome indicators play a key role in examining the effects of policies, and they provide crucial information for policy makers to judge the effectiveness of existing policies and the need for new ones. Put differently, they help policy makers track whether policies are achieving the desired outcome. This analysis section starts by drawing on the outcome indicators chosen for this dimension (see Figure 10.2) to assess how innovative the Western Balkan and Turkey economies are.

The WBT region has substantially improved its innovation performance in the past decade, but it continues to lag significantly behind European peers.

The European Innovation Scoreboard 2018 identifies those economies included in the EC's assessment – North Macedonia, Serbia and Turkey – as modest or moderate innovators, although it emphasises that they have been starting to strongly catch up the EU countries and improve their overall performance in recent years (EC, 2018[6]). Similarly, the World Economic Forum's analysis in the Global Competitiveness Index confirms that the gap is closing (Figure 10.3). Although the WBT economies continue to perform less well than their European peers in innovation, the last ten years have seen a rise from an average score of 2.8 in 2008/09 to 3.2 in the 2017/18 index. This reflects an overall increase in the economies' capacity to innovate, in their policy frameworks for innovation, as well as in the quality of their scientific research institutions.

Figure 10.3. WBT innovation scores in the Global Competitiveness Index (2008 and 2017)



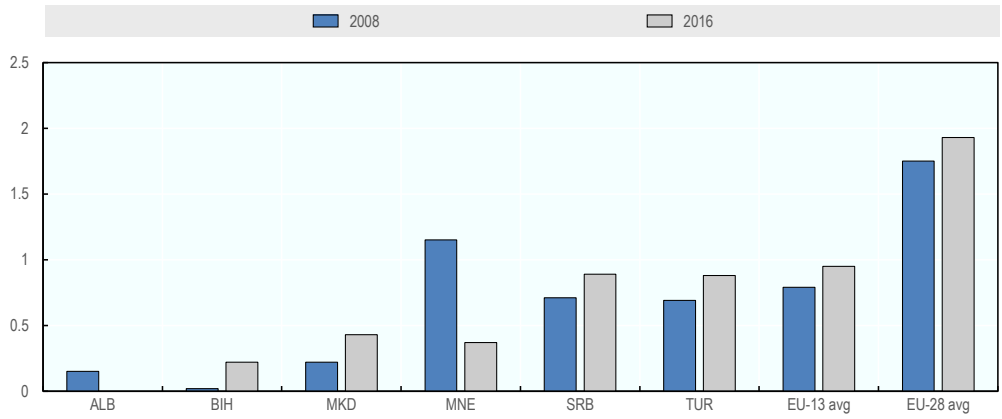
Note: Data for Kosovo not available; data for North Macedonia from 2017; scores range from 1 to 7, where 7 is the highest. EU-13 – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.
** Footnote by Turkey: The 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.
Sources: WEF (2008[8]), *The Global Competitiveness Report 2008-2009*, www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2008-09.pdf; WEF (2017[7]), *The Global Competitiveness Report 2017-2018*, www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.pdf.

StatLink http://dx.doi.org/10.1787/888933937603

However, the region continues to score particularly poorly for private sector spending on research and development (R&D). Overall shares of gross domestic expenditure on research and development as a percentage of gross domestic product (GDP) have increased since the onset of the global financial and economic crisis in 2008 (UIS, 2018[9]). But overall spending on research and development remains negligible, particularly in the business sector. As Figure 10.4 shows, R&D spending is below 1% of GDP in all WBT economies, compared to approximately 2% on average across European Union (EU) countries. As a result, the region falls well short of the target for EU countries to raise overall R&D investments to 3% of GDP by 2020.

Figure 10.4. R&D expenditure as a share of GDP (2008 and 2016)

% of GDP



Note: Data for Albania only available for 2008; data for Kosovo not available. EU-13 – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic 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.
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Source: UIS (2018[9]), *R&D Data Release*, http://uis.unesco.org/en/news/rd-data-release.

StatLink http://dx.doi.org/10.1787/888933937622

All economies participate in the EC's Horizon 2020 programme.[1] Up until mid-2018, the region had participated in over 1 000 projects, receiving financial support in excess of EUR 210 million. Given the size of their economies, Serbia and Turkey have been the most active – participating in over 300 projects (Serbia) and 560 projects (Turkey). Other economies have also taken part, though the low level of funding they have received has not yet exceeded their contributions to the scheme (Table 10.3).

Table 10.3. Horizon 2020 portfolio (2014-18)

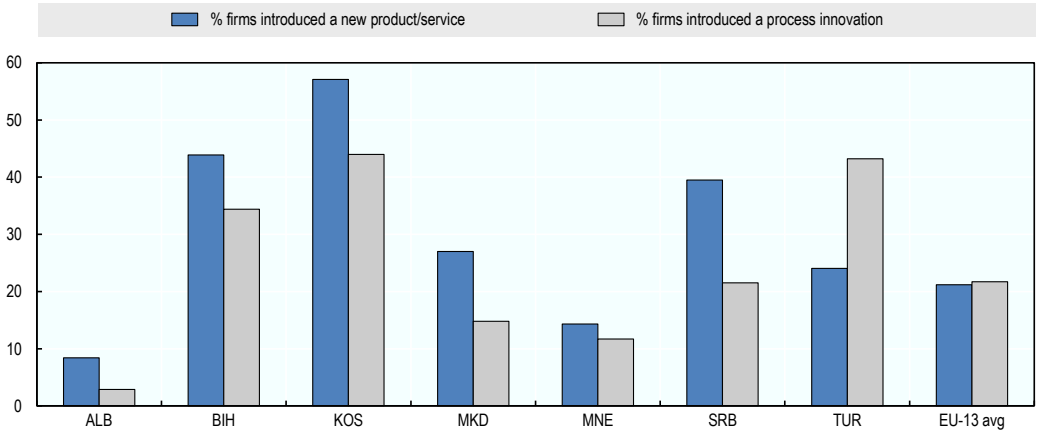
	Project participation (no.)	EU contribution (EUR million)
ALB	25	2.2
BIH	51	4.5
KOS	10	0.9
MKD	61	6.9
MNE	25	1.6
SRB	302	66.5
TUR	562	128.6
TOTAL	**1 036**	**211.2**

Source: EC (2018[10]), *Horizon 2020 Framework Programme (H2020): Projects & Results*, https://ec.europa.eu/info/funding-tenders/opportunities/portal/screen/opportunities/projects-results;programCode=H2020 .

Patent application levels are significantly lower than those of the region's European peers confirming that, overall, innovation that advances the technological frontier remains subdued. However, innovation should go far beyond R&D, as the OECD *Oslo Manual* suggests. It also involves more incremental changes, including adopting existing technologies and services and introducing organisational and managerial changes (OECD/Eurostat, 2005[2]).

Analysing the self-reported levels of innovation by firms suggests a more positive trend (Figure 10.5). The percentage of firms that have introduced new products and services or a process innovation is higher in Bosnia and Herzegovina, Kosovo, Serbia and Turkey than it is on average in the Central European and Baltic countries. Given the low levels of R&D spending, this suggests that these innovations are often imitations, involving adopting existing products and services from abroad.

Figure 10.5. Share of innovating firms in the WBT region (2016)



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.
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Source: EC (2017[11]), Digital Skills to Boost Innovation, http://s3platform.jrc.ec.europa.eu/digital-skills.

StatLink http://dx.doi.org/888933937641

The findings in Figure 10.5 confirm the overall positive innovation trend in the region. External factors, such as an increasingly stable macroeconomic environment in recent years, are important determinants of innovation. However, these promising developments are also the result of policy makers slowly recognising the importance of innovation for productivity and long-term economic growth.

Policy framework for innovation (Sub-dimension 8b.1)

An overarching innovation policy framework is vital to put in place long-term economic goals and lay out strategic directions, while outlining concrete policy measures to build an innovation-supporting ecosystem. Due to the cross-cutting nature of innovation, it is

imperative to have a framework that defines the roles of different public institutions, as well as ensuring that the measures are complementary.

However, treating innovation in isolation is insufficient. While the innovation policy framework may include a standalone, dedicated innovation strategy, it is typically linked to and referenced in other key strategic government documents – including, but not limited to, the SME strategy, education and science strategy or industrial development strategy.

The policy framework should ideally capture both technological and non-technological innovation, and incorporate policy measures such as fostering innovation activity and R&D, commercialisation, and technology transfer. A strong focus should also be placed on supporting small enterprises, which typically face higher obstacles to innovating. Best practice policy frameworks also include a concrete action plan for implementation and quantifiable indicators to monitor progress and evaluate impact.

This section assesses the existence and quality of innovation policy frameworks in the WBT region. It looks at the availability of holistic innovation strategies, policy co-ordination mechanisms, as well as implementation of innovation policy (Table 10.4).

Table 10.4. Scores for Sub-dimension 8b.1: Policy framework for innovation

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Strategic approach	3.60	2.25	2.90	3.80	3.45	3.60	4.60	**3.46**
Co-ordination of innovation policy	2.33	1.44	2.33	3.67	2.33	3.67	5.00	**2.97**
Implementation of innovation policy	2.57	1.86	2.43	4.14	2.57	4.14	3.57	**3.04**
Weighted average	**2.83**	**1.89**	**2.55**	**3.94**	**2.79**	**3.88**	**4.17**	**3.15**

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

Overall, the region has made tangible progress in improving innovation policy frameworks since the last assessment. Legislation has advanced in some economies, but while formal co-ordination and implementation bodies are in place, more effort needs to be put into effective execution and measuring the impact of innovation policies. Turkey, closely followed by North Macedonia and Serbia, are the top performers in this aspect.

Policy frameworks are progressing, but co-ordinated implementation is lacking

Setting up a cross-cutting policy framework is increasingly recognised as the cornerstone to fostering innovation in the Western Balkans and Turkey. Most notably, Albania, Montenegro and Serbia have adopted new innovation strategies and action plans since the last assessment in 2016. Turkey's National Science, Technology and Innovation Strategy expired in 2016; its new national Science and Technology Innovation (STI) Strategy 2017-2023 is yet to become operational. While adoption is pending, other strategic documents refer to innovation policy, including the SME Strategy (2015-2018) and the 10th Development Plan. North Macedonia has had a comprehensive strategy in place since the last assessment. Despite having an action plan for monitoring and evaluating the strategy, however, there is no evidence of ongoing assessment of its implementation. In

Bosnia and Herzegovina, R&D and innovation policy is dealt with at the entity level.[2] In the Republika Srpska, the Strategy for Scientific and Technological Development adopted in 2017 represents the key strategic framework for innovation, whereas in the Federation of Bosnia and Herzegovina, the SME Development Action Plan is the only document that discusses innovation. No progress has been made in Kosovo, where innovation policy frameworks remain at the draft stage.

Turkey remains the top performer in horizontal policy co-ordination and implementation. Its Supreme Council for Science and Technology co-ordinates innovation policy, while the two implementing agencies, the Scientific and Technological Research Council of Turkey (TÜBİTAK) and the SME Development and Support Organisation (KOSGEB), run a number of programmes to support SME innovation.

By contrast, cross-ministerial policy co-ordination remains rudimentary across many of the Western Balkan economies, as several ministries are responsible for innovation policy or co-ordinating bodies do not exclusively focus on innovation. Within the region, Serbia has made the biggest progress by establishing an intra-ministerial council to co-ordinate science, technology and innovation policies in 2017. Kosovo established a dedicated Ministry of Innovation and Entrepreneurship in 2017, although its exact role in co-ordinating and implementing innovation-related policies in relation to other government bodies is not yet clear, and it will need to build capacity. The co-ordination body that North Macedonia set up several years ago has recently become effectively non-operational. In Albania, innovation policy implementation is overseen by the newly created Agency for Scientific Research and Innovation and the Albanian Investment Development Agency (AIDA), its SME agency. It has no clear co-ordination mechanism in place, however. Montenegro, having adopted the Law and Strategy for Innovative Activities, has renamed the Scientific Research Council the Council for Science, Research and Innovation, and entrusted it with the additional task of fostering innovation. Bosnia and Herzegovina has made little progress even though a co-ordination body would be particularly helpful to ensure consistency and alignment of policies across the entities.

All the assessed economies have mechanisms in place to monitor the implementation of innovation policy, albeit at different levels of functionality. However, comprehensive evaluations of measures are very rare across the region, and limited to some donor-funded programmes.

Innovation support activities in the region are predominantly funded by international donors

North Macedonia and Serbia's innovation funds, and Turkey's TÜBİTAK, each serve as the primary implementation agency for the national policy framework on innovation. The Serbian Innovation Fund has continued to build expertise since the last assessment, and North Macedonia's Fund for Innovation and Technology Development (FITD) has started operating, although its capacity remains somewhat limited and its disbursement rates below potential. Other economies have not yet established dedicated innovation agencies and predominately provide support to innovative enterprises through broader SME agencies. In July 2018, an Innovation Fund was established in Kosovo with a budget of EUR 4 million partly co-financed by Gesellschaft für Internationale Zusammenarbeit (GIZ). Disbursement of funds was expected to start before the end of 2018 at the time of writing.

Most financial and non-financial assistance is backed by international donor support, particularly the European Union, but also other bilateral donors such as the World Bank

and GIZ. Only the Turkish Government provides significant national budget support to implement enterprise support schemes. In Serbia, the government has recently provided notable budget allocations to the Innovation Fund, but in the other economies national contributions are largely symbolic. In North Macedonia, with the exception of the FITD's operational costs, all the innovation funds have so far been covered by a World Bank loan. As donor funds start running out, public support will need to kick in if economies are to continue implementing their innovation policy framework.

The way forward for the policy framework for innovation

- **Take an overarching strategic view and co-ordinate policies across the whole of government**. Failure to do so can create overlapping and even contradictory measures, while leaving gaps in government support in crucial areas. Economies without a valid innovation strategy in place should accelerate drafting and adopting one, and more emphasis should be placed on implementation across the region. The economies need better co-ordination with policy areas that impinge on or benefit from innovation. Systematic monitoring and evaluation would also help governments identify bottlenecks and adjustments needed in implementation, and increase policies' long-term impact.
- **Develop sector-specific support and "smart specialisation" frameworks.** As general innovation policy frameworks are improving and SMEs' absorption capacity indicates a long-term potential for innovation, governments can start developing vertical innovation policies targeting specific sectors or thematic areas. To that end, smart specialisation, conceived by the European Commission, can offer a valuable way forward. It identifies high-potential areas in which to specialise, based on an analysis of the economy's strengths and potential involving a wide range of stakeholders (Box 10.1) (EC, 2017[11]).

  Successful implementation of smart specialisation frameworks hinges on designing a more tailored mix of innovation policy measures, by targeting certain segments of SMEs, as well as the main obstacles to innovation that policy makers would like to address. Given the limited financial resources allocated to innovation, prioritising only those areas deemed to be the most competitive and offering the greatest potential can be a cost-effective use of public funds.
- **Improve statistical data to formulate evidence-based policies.** Systematic data collection and more widely available innovation-related statistics will enable effective monitoring and evaluation frameworks, as well as benchmarking. At present, only North Macedonia, Serbia and Turkey are included in the European Innovation Scoreboard, while the remaining economies are not covered due to a lack of statistical data.

Box 10.1. Smart specialisation policies in the Western Balkans and Turkey

Background

The smart specialisation approach combines vertical industrial, educational and innovation policies to address a limited number of priority areas, sectors and technologies for knowledge-based investments, focusing on their strengths and comparative advantages.

The smart specialisation concept is relatively new to economic development, and was first initiated by the European Union. It includes a comprehensive capacity assessment that aims to identify and target the most competitive industries with innovative potential, in order to accelerate the country's economic and scientific development. Smart specialisation is implemented across most EU countries, and is gaining appreciation worldwide.

Notwithstanding its importance, smart specialisation cannot serve as a replacement for a broad innovation policy framework, and is less suitable for countries that are yet to achieve greater innovation capacity and holistic institutional frameworks. However, where a specific sub-sector or technology has been identified as having an indigenous advantage, smart specialisation may complement broader, multiple-sector innovation strategies.

State of play in the Western Balkans and Turkey

Overall, smart specialisation efforts remain in their infancy in the WBT economies, with strategies still in the drafting stage. However, with a strong push from the European Union, smart specialisation is rising to the top of policy makers' agendas in the region.

In 2017, the heads of government of Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia endorsed a Multi-annual Action Plan for a Regional Economic Area in the region. This encompasses economic development strategies based on knowledge and innovation and builds on the experience of smart specialisation from EU Member States and regions. Echoing this ambition, the EU's 2018 strategy for the Western Balkans also outlines how smart specialisation can be implemented through technology transfer and start-up support, in order to boost entrepreneurship and innovation across the entire region (EC, 2018[10]).

Against this background, the EU offers support through the EC's Joint Research Centre to help the WBT economies to develop smart specialisation strategies and apply a dedicated methodology.

Serbia and Montenegro are the frontrunners in the region, with both economies expected to adopt the first two strategies by 2019. Table 10.5 summarises the current status of smart specialisation efforts in the region.

Table 10.5. Overview of smart specialisation in the Western Balkans and Turkey

ALB	Preparations to develop a smart specialisation strategy started in 2017 under the leadership of the Ministry of Education, Sports and Youth with EU support.
BIH	No ongoing or planned activities.
KOS	No current activities but a smart specialisation strategy was being planned at the time of writing.
MKD	Preparations for a smart specialisation strategy began in 2018.

MNE	A smart specialisation strategy is being prepared by the Ministry of Science in collaboration with the Ministry of Economy; adoption is expected by early 2019. An inter-ministerial working group has been set up including business, academia and non-government organisations (NGOs). Priority sectors identified include information and communications technology, renewable energy, sustainable agriculture and food value chains, new materials and sustainable technologies, and sustainable and health tourism.
SRB	Since 2016, the Joint Research Centre has been conducting a pilot project to build capacity for participatory and evidence-based processes in Serbia; insights will provide input for designing and implementing smart specialisation policies in other enlargement economies. As part of this project, a smart specialisation strategy for Serbia is being prepared; adoption is expected in 2019.
TUR	Three out of Turkey's 26 NUTS-II regions[3] have set up smart specialisation strategies (Kocaeli, Manisa and Konya sub-regions). However, there is no strategy at the national level for the whole economy.

Sources: EC (2018[12]), *What is Smart Specialisation?*, http://s3platform.jrc.ec.europa.eu/what-is-smart-specialisation; EC (2018[13]), *Innovation Agenda for the Western Balkans - Tools and Methodologies*, https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/supporting-innovation-agenda-western-balkans-tools-and-methodologies.

Government institutional support services for innovative SMEs (Sub-dimension 8b.2)

This section looks at public sector institutional support services for innovative SMEs, in particular the presence of incubators and accelerators, and the quality of services they provide to young enterprises. In addition, it looks at the availability of technology extension services, such as technology centres or other specialised support services for established enterprises.

Incubators are essential components for supporting companies in the early and seed stages, providing services that would not otherwise be easily available to young companies. The most common and best-known types of incubator services include providing office and collaborative spaces, along with targeted training and mentoring.

Accelerators target innovative start-ups with high growth potential and a preliminary business model in place, and provide them with seed capital funding in exchange for equity. Accelerator programmes usually have a short time span, during which companies receive intensive entrepreneurship-focused business training, access to local and regional mentorship networks, and advice from well-established companies. The programme's completion is usually linked to a pitching event to possible investors.

Accelerators can either be run by the public or the private sector but, due to their nature, are usually commercially driven. In contrast, incubators are open to a broader range of start-up companies that need support to bring an idea to the market. Incubators work over a much longer time span and offer more general business skills. They usually do not provide any capital and are typically established by universities, local governments, economic development organisations or other public sector institutions.

Innovation is not confined to start-ups and high-growth enterprises, however. Many enterprises, particularly SMEs, "purchase" knowledge, rather than "create" it. They outsource R&D to specialised firms and rent patents, licences or other know-how, and new products often emerge from the adoption of existing technologies. While this type of incremental innovation may not advance global technological frontiers, it is however key to developing a knowledge economy and boosting economic productivity, with more established SMEs usually more inclined to adopt an incremental approach. As a result,

policy support measures should be designed to address both types of innovation and recognise incremental innovation as well as breakthroughs.

Dedicated technology extension services (TESs) can help to improve the use of "new-to-firm"[4] innovation in SMEs through technological and other solutions. These do not focus on creating new technologies, but aim instead to increase access to existing innovative products and processes. By stimulating the diffusion of modernised ways of manufacturing, TESs can raise SMEs' adoption capacity, and thus pave the way for future innovations.

Overall, public institutional infrastructure supporting SME innovative activities has expanded in the region, but there is much room for further development. Incubators operate in all WBT economies, including outside major economic hubs, while accelerators are less common (Table 10.6). Comprehensive TESs are largely absent across the Western Balkans, while Turkey offers these services for SMEs operating in certain sectors. Turkey continues to outperform the rest of the region in this sub-dimension.

Table 10.6. Scores for Sub-dimension 8b.2: Government institutional support services for innovative SMEs

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Incubators and accelerators	1.71	2.24	3.00	3.14	3.00	3.43	4.43	**2.99**
Technology extension services for established SMEs	2.50	1.00	1.00	2.67	1.00	1.00	3.00	**1.74**
Weighted average	**2.03**	**1.74**	**2.20**	**2.95**	**2.20**	**2.46**	**3.86**	**2.49**

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

Institutional support services are expanding, especially incubators

Turkey continues to have the most developed infrastructure for incubators and accelerators, running a comprehensive Incubation Centre and Accelerator Support Programme that supports start-ups. A total of 60 technology development zones (TDZs) now operate throughout the country, hosting thousands of innovative start-ups and providing them with incubation services. Additional incubators, run by KOSGEB and TÜBİTAK, are also available throughout the country. In addition, KOSGEB has been operating more than 20 technology incubators (TEKMERs), the majority of which are based outside of economic hubs. However, TEKMERs are currently being restructured, and many were not operating at the time of writing. TÜBİTAK supports accelerators through the Bireysel Genç Girişim Programme.

Incubators are also common throughout the Western Balkans region. However, the services provided usually do not go beyond office space, basic information and communication technology (ICT) equipment and general business and management training, without extending technical skills or a specific focus on innovation. They largely lack product and prototype development facilities, such as fabrication laboratories, leading to a proliferation of start-ups in the ICT sector that do not require these advanced facilities. Moreover, many incubators are donor-supported and need to increase their scale and impact to ensure self-sustainability in the medium term. In Albania and Bosnia and

Herzegovina, a limited number of incubators operate but are not yet properly developed beyond a few pilot experiences.

Governments have scaled up financial support for incubators, albeit from low levels. In Kosovo, the Investment and Enterprise Support Agency (KIESA) operates a number of incubator services, located in a growing number of industrial parks and economic zones. In addition, the newly established Ministry of Innovation and Entrepreneurship has recently allocated a budget of EUR 1.1 million to establish regional innovation centres. In Montenegro, incubators have no specific focus on innovation for high-growth companies and their scale has reduced since the last assessment. Due to the government's increasing focus on science and technology parks (STPs), there is no public sector support for incubators in place. However, recently established incubators have been supported financially at the local level. North Macedonia operates a few incubators and accelerators throughout the economy (Seavus, CEED, NewMans, YES incubator in Skopje and SEEU incubator in Tetovo), although the only genuinely operational incubator is YES and, to some extent, CEED. The scope of services is limited and activities remain largely donor dependent. FITD has launched a public co-financing grant scheme to support business incubators and accelerators in North Macedonia, and four providers were chosen during the scheme's first call in October 2018. In Serbia, the support infrastructure for innovative SMEs has also expanded since the last assessment. The University of Belgrade co-funds a well-established Business Technology Incubator, which has produced several successful companies now operating in the Belgrade Science and Technology Park.

At the time of writing, Serbia hosted the only accelerator programmes in the Western Balkans. StartLabs has already operated successfully for several years, while Start-It and ImpactHub are gradually establishing themselves. However, equity ticket[5] sizes remain small, at below EUR 50 000 in most cases, and more seed funding is needed.

Across the region, the emerging infrastructure of institutional support services to help developing innovation is primarily focused on start-ups and developing the potential for high-tech innovations. In contrast, little support is available for established enterprises, with TESs largely unavailable in all WBT economies. Most economies offer consultancy services and training in business skills to SMEs (for more information, see Chapter 5 on support services for SMEs). However, these are primarily focused on general business skills rather than specialised technology extension. They also remain relatively small scale and are not co-ordinated with policies that present SMEs with "new-to-firm" innovation opportunities, e.g. in quality standards and resource efficiency.

The European Bank for Reconstruction and Development's Advice for Small Businesses programme, operating in all seven economies, provides additional advisory support to established SMEs, including, though not exclusively, in areas related to innovation and technology transfer (EBRD, 2014[3]).

As for public programmes aimed at technology diffusion among SMEs, there are very few initiatives across the region. In Turkey, SMEs can access technology extension services offered through TEKMERs. However, at the time of writing, TEKMERs are being transformed into incubation centres. North Macedonia launched a grant scheme for technology extension in 2018. In Albania, a programme is available to businesses in manufacturing offering innovation audits of their innovation capacity and gaps. However, this funding is largely underused.

Notwithstanding the proliferation of institutional support services, policy makers in the Western Balkans and Turkey do not, by and large, have an all-encompassing picture of

their economies' infrastructure landscape. Therefore, they are usually unable to assess their infrastructure needs in order to determine the priority areas for future investment.

The way forward for government institutional support services for innovative SMEs

- **Explore cross-border collaboration and promote an ecosystem approach to innovation.** There have been considerable efforts to build a conducive ecosystem for innovation since the last assessment, but demand continues to exceed supply. Regional institutional and firm co-operation could bolster cross-national R&D and innovation activity, and provide high-potential firms with the services they need. Governments should build greater awareness of European programmes that support innovation in the WBT region – for instance, through the Enterprise Europe Network and Horizon 2020 – and build local capacity to increase their take-up. On the other hand, regional co-operation could be harnessed to create innovation infrastructure at the regional level, which would be a cost-efficient way to promote an ecosystem approach for Western Balkan economies.
- **Step up the efforts to accelerate technology diffusion among SMEs**. Most SMEs in the Western Balkans and Turkey are users of new technology, rather than creators of them. Therefore, policy makers in the region should give increased emphasis to promoting "new-to-firm" innovation that would contribute to improving SMEs' productivity and competitiveness. Overemphasis on new-to-market innovation can prevent the region from capitalising on the broader gains to be made from facilitating the absorption and adoption of technology. The region could consider offering technology extension services through the types of arrangements operating in some OECD countries (Box 10.2).
- **Map the innovation infrastructure**. A complete picture of the research and innovation infrastructure in the Western Balkan economies and Turkey is, by and large, not available. Given that donors and civil society are actively involved in providing innovation services and infrastructure, it is not always clear where governments should step in. Therefore, there is a clear need to create a long-term research and innovation infrastructure investment roadmap for each economy based on an understanding of existing infrastructure. This would enable policy makers to better grasp the innovation needs and gaps, and also avoid potential duplication of efforts, most notably by donors.

Box 10.2. Selected technology extension programmes in OECD countries

In OECD countries, technology extension services are not only provided by public institutions, but also by private or public-private entities. In many countries though, firms are still directed to public financing (co-financing or credit lines) to finance these services.

Examples of technology extension programmes targeted at SMEs in OECD countries include:

1. **United States**: the Manufacturing Extension Partnership focuses on direct interventions at the firm level to increase the productivity, competitiveness and innovation potential of SME manufacturers. With 1 300 technical experts operating out of over 60 regional centres, the partnership provides resources and

in-depth audits to SME manufacturers across the United States.

2. **Mexico**: the Technological and Business Assistance System (SATE) was created in 2001 as a US-Mexico Foundation for Science programme funded by the Ministry of Economy's Support Fund for SMEs (Fondo PYME). Its mission is to provide managerial and technological assistance for the technological upgrading of SMEs through a network of certified advisors. Initially focused on the automotive and machinery industry, it extended its activities in 2004 to cover all technology-based SMEs, to include services related to certification and intellectual property, and to facilitate the integration of these SMEs in regional or national value-added production networks. SATE also has an important role in facilitating technology-based SMEs' access to sources of knowledge in research institutions and to federal and state sources of support for innovative investment. SATE built its competences through adopting best practices for the provision of technology assistance and transfer services developed in North American institutions.
3. **Japan**: manufacturing extension programmes in Japan are provided by 262 *kohsetsushi* centres (public industrial technology research institutes), which offer a range of services to Japanese SME manufacturers, including technology guidance; technical assistance and training; networking; testing, analysis and instrumentation; and access to open laboratories and test beds.

Sources: Adapted from OECD (2017), Innovation Policy Platform (2019[14]), *Innovation Policy Platform website*, www.innovationpolicyplatform.org/; Andes, Ezell and Leal (2013[15]), *An Alternative to Mercantilism: Manufacturing Extension Services in Latin American and Caribbean Countries*, www2.itif.org/2013-manufacturing-extension-services-latin-america-caribbean.pdf.

Government financial support services for innovative SMEs (Sub-dimension 8b.3)

Access to finance remains one of the most significant obstacles to SMEs in the Western Balkans and Turkey, as discussed in Chapter 7 on access to finance for SMEs. High-growth and innovative companies, in particular start-ups, are disproportionally affected by funding constraints, mainly due to having fewer tangible assets and less collateral.

Innovation is often costly, as innovative firms require significant funding throughout all stages of the innovation process, including salaries for high-skilled employees, developing prototypes, legal fees for patent applications or even purchasing equipment needed to implement innovations.

As the local banking sector continues to impose steep requirements for collateral and credit histories, public sector financial support schemes can help fill the financing gap for early-stage innovative SMEs.

Policy measures that support enterprises to innovate and invest in R&D can come in a variety of forms. Direct financial support can include grants, subsidised loans, loan guarantees or investments in pioneer venture capital and business angel financing. In addition, governments can provide indirect financial assistance in the form of fiscal incentives, such as tax breaks and credits on R&D spending or purchases of innovative equipment. Other forms of indirect financial support include demand-side instruments such as emphasising innovation in public procurement, which can both stimulate firms to

innovate to deliver the services demanded and encourage the early use of pre-commercialised innovations.

This section reviews both direct and indirect financial support to stimulate innovation in small businesses in the Western Balkans and Turkey. Reflecting the importance of financial support, the section analyses in detail the existence and structure of financial schemes or grants and their accessibility. In addition, it looks at indirect channels of financial assistance, such as fiscal support and demand-side policies such as public procurement.

All economies have made progress in this area, as they have all introduced or scaled up financial schemes to support innovative SMEs (Table 10.7). In contrast, indirect financial incentives remain significantly underused, except by Turkey. As a result, Turkey scores highest in this sub-dimension, followed by Serbia and North Macedonia.

Table 10.7. Scores for Sub-dimension 8b.3: Government financial support services for innovative SMEs

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Direct financial support	3.80	2.53	3.40	4.20	3.40	4.20	4.80	**3.76**
Indirect financial support	1.00	1.00	1.00	1.22	1.00	1.00	3.44	**1.38**
Weighted average	**2.68**	**1.92**	**2.44**	**3.01**	**2.44**	**2.92**	**4.26**	**2.81**

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

Direct financial support for innovation and R&D has been scaled up, but its impact is low

All economies have made progress in this area and have put financial schemes in place to support innovation in SMEs. Some economies have dedicated institutions to co-ordinate financial support schemes for innovation. While in Turkey, Serbia and increasingly in North Macedonia these institutions are well established, other economies need to make efforts to increase their bodies' capacities, or even to establish them.

Most programmes are implemented with international donor support, although increasingly some are co-financed through national budgets, thereby strengthening their long-term sustainability and local ownership. However, the scale, level of disbursements and impact vary significantly across the region.

SMEs in Turkey can access a large variety of direct funding to support innovation activities and R&D. Both KOSGEB and TÜBİTAK offer a number of comprehensive financing programmes focused on all stages of the innovation process, such as the R&D and Innovation Support Programme and the R&D Start-up Funding Programme for SMEs.

The Serbian Innovation Fund has accelerated disbursements and has, during this assessment period, successfully completed the pilot of the EU-funded Mini and Matching grant programme to support enterprises in developing technical innovations. This has awarded over EUR 6 million to 52 innovative projects and has started to yield results

during the assessment period. To meet business demand it has expanded its financial support through a EUR 2.7 million World Bank loan, and has introduced two additional financial instruments of almost EUR 10 million in total, geared at increasing industry-academia collaboration (see SMEs and research institution collaboration and technology transfer (Sub-dimension 8b.4) below). In addition, the Ministry of Education, Science and Technological Development of Serbia supported 397 innovation projects through 8 public calls between 2007 and 2017.

Following its inauguration in 2015, the FITD in North Macedonia is now fully staffed and operational. Through funding provided by a World Bank loan of EUR 17.7 million in 2014 under the Skills, Development and Innovation Support Project, it offers a variety of financing options for innovation, including grant support for start-ups and commercialising innovation. By early 2018, 52 companies had received support. Moreover, as part of the Economic Growth Plan, FITD also provided co-financing grants for high-growth companies, among others.

Albania, Bosnia and Herzegovina, Kosovo and Montenegro provide small-scale financial instruments for innovation. In early 2018, the Albanian government allocated approximately EUR 115 000 to the Innovation Fund administered by AIDA. Enterprises can now benefit from up to EUR 3 100 for a project, and around EUR 4 700 for the purchase of technological equipment.

Innovative SMEs in Bosnia and Herzegovina can benefit from small-scale grant support at both state and entity level, including through the recently established Challenge to Change project supported by Sweden. In 2018, Kosovo rolled out a new fund for innovation dedicated to start-ups, SMEs and NGOs. Its Opportunity Fund grant scheme targets companies in certain sectors that introduce innovations relevant to export markets. In Montenegro, there were several small-scale funds up to 2018, but these instruments were generally designed to support the acquisition of services rather than fully fledged R&D or commercialisation activities. The Ministry of Economy extended its programme of innovation support for SMEs beyond the processing industry in 2018, and allocated a total of EUR 340 000 for 2018.

In addition, all economies in the Western Balkan region, except for Bosnia and Herzegovina, have made investments in the donor-supported Enterprise Innovation Fund (ENIF), sending an important signal about their motivation to invest in innovation in local economies. ENIF is implemented under the framework of the Western Balkan Enterprise Development and Innovation Facility (WB EDIF), and has become fully operational since the last assessment. As of late 2018, ENIF had made 16 investments, mostly in North Macedonia and Serbia, amounting to more than EUR 14 million.

In Turkey, venture capital is relatively well developed and actively supported through KOSGEB, particularly in and around the economic hubs to the west of the country. Between 2014 and 2016, venture and growth capital in Turkey nearly tripled; however the level of venture capital, at TRY 343 million (around EUR 104 million) in 2016, was still lower than the highest level reached in 2011, at TRY 373 million (around EUR 160 million) (for more information, see Chapter 7 on access to finance for SMEs).

Tax incentives to foster innovation remain unused in the WBT

Research and development tax incentives aim to encourage beneficiary firms to invest in R&D by reducing their effective costs. Unlike most types of direct subsides, R&D tax incentives tend to be designed to allow firms to decide the nature and orientation of their

R&D activities, on the assumption that the businesses themselves are best placed to identify research areas (OECD, 2016[16]). R&D tax incentives are in principle more market-friendly and neutral than direct support instruments (Box 10.3)

Box 10.3. Tax incentives for R&D and innovation

Tax incentives for business R&D can involve either advantageous tax treatment of R&D expenditure (expenditure-based provisions) or preferential treatment of incomes from licensing or asset disposal attributable to R&D or patents (income-based provisions).

Expenditure-based R&D tax incentives are widely available to businesses across most OECD countries and many other economies. Within the OECD, only Estonia, Germany and Switzerland do not currently offer specific tax relief for R&D at central or federal level. Tax relief is available to individuals acting as companies (unincorporated businesses) in most of these countries, and some (e.g. Colombia, Denmark, Korea and Turkey) also provide direct relief to individuals for their earnings as employees, for example, to encourage the inward mobility of highly qualified personnel and indirectly reduce the costs incurred by firms or other organisations in attracting those individuals. Tax relief for charitable giving by individuals and corporations often refers explicitly to donations intended to support research and related activities (e.g. Denmark and Hungary).

Income-based incentives are currently less widely used than expenditure-based schemes but, in recent years, their adoption rate has increased within and outside the OECD area. Recent examples include the patent box introduced in Italy, Ireland's Knowledge Development Box regime and the Tax Exemption for Income from Technology Acquisition scheme introduced by Korea in 2015 as a temporary measure for SMEs and high-potential enterprises. The OECD Action Plan on Base Erosion and Tax Profit Shifting seeks to limit the potential harmful effect of such provisions by setting a number of rules that limit their use, and links tax relief to substantive knowledge-development activity (OECD, 2015a). Appelt et al. (2016[17]) discusses the rationale for and emerging evidence on the effectiveness of such schemes.

The distinction between expenditure and income-based incentives can also apply to innovation activities in general and the outcomes of such activities. A few countries, such as France and Spain, provide explicit forms of tax relief for companies that engage in innovation activities other than R&D. Overall, it is more difficult to identify schemes as being innovation-oriented because they tend to adopt very different perspectives for the eligible innovation activity for which relief is provided. The range of tax support measures with a potential incentive effect on innovation is significantly broader, especially in relation to the treatment of capital gains or start-up business activity.

Source: adapted from OECD (2016), Appelt et al. (2016[17]), "R&D tax incentives: Evidence on design, incidence and impacts", https://doi.org/10.1787/5jlr8fldqk7j-en.

As governments across the WBT economies focus on scaling up and implementing direct financial support schemes, tax policies remain nascent.

Albania and Kosovo provide tax relief for purchasing ICT equipment or value-added tax (VAT) exemptions for certain categories of scientific equipment – neither of these, however, are directly aimed at boosting innovation. Some strategic documents have mentioned the possibility of conducting feasibility studies for R&D fiscal incentives, but no concrete steps have yet been taken.

The Turkish Government, in contrast, offers small-scale fiscal measures such as R&D tax incentives and VAT exemptions. In addition, legal regulations exempt revenues stemming from the R&D activities of companies located in TDZs from income and corporate taxes until 2023 (Box 10.4.).

Box 10.4. Turkey's tax incentives to foster R&D and innovation

On 1 March 2016, the Turkish Government introduced an extensive support package for research and development and innovation-related activities, in an effort to become an innovation-driven, high-tech economy. The R&D and Innovation Reform Package was first unveiled by the Prime Minister in January 2016 with the aim of increasing the competitiveness of vital industries, strengthening university-industry co-operation and increasing R&D spending.

As part of this package, an allowance is available until 31 December 2023 to companies that carry out qualifying R&D and design activities. The allowance is equal to 100% of the R&D and design expenditure, and is in addition to a deduction for this expenditure in the statutory accounts. Moreover, 80% of the income tax on the wages of R&D and design personnel is exempt from income-withholding tax – 90% for employees with a PhD or master's degree in any field and a bachelor's degree in the liberal arts.

Half of the social security premium contributions paid for each R&D and design employee will be reimbursed by the Ministry of Finance (up to 10% of the total number of full-time R&D employees), and documents prepared with respect to R&D and innovation and design activities are exempt from stamp duty.

In addition, capital spending on certain machinery is also eligible for tax relief.

To qualify for the benefits, the R&D and design centre must have at least 15 full-time R&D and 10 full-time design centre employees.

Sources: STIPCOMPASS (2016[18]), *R&D and Innovation Reform Package*, https://stip.oecd.org/stip/policy-initiatives/2017%2Fdata%2FpolicyInitiatives%2F17030; Deloitte (2018[19]), *International Tax: Turkey Highlights 2018*, www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-turkeyhighlights-2018.pdf.

Public procurement is an untapped policy tool to promote innovation

In the field of innovation policies, governments have traditionally directed their efforts towards the supply side, ensuring that the private sector operates in an environment conducive to innovation. In recent years, however, demand-side policies to support innovation have gained a more prominent role (OECD, 2011[20]). Among such policies, public procurement is increasingly recognised as a potentially strategic instrument and a policy lever for stimulating innovation. Public procurement for innovation has the potential to improve productivity and to meet social needs. For example, it can steer future investments in a way that addresses existing or future social challenges, or it may allow potential vendors to enter the market with new, innovative goods or services, thus encouraging innovative solutions to pressing challenges (OECD, 2017[21]).

The strategic use of public procurement to boost innovation is closely connected to a government's power to shape and create market conditions. In fact, given the size of

public procurement, governments, among other actors, can influence demand at national or sub-national levels.

Against this backdrop, no policies exist in the Western Balkans to harness the potential of public procurement to encourage innovation. With the exception of North Macedonia's innovation strategy, no official strategies or documents even refer to procurement for innovation. Even North Macedonia has yet to develop any concrete actions in that regard. Nevertheless, it also needs to be acknowledged that given the small size of most Western Balkan economies and their public institutions, the pull effect of public procurement for innovation on a particular product or service would be limited.

In Turkey, however, public procurement is well established as a tool to stimulate innovation in SMEs. The Programme for Technology Development and Domestic Production through Public Procurement is one of 25 primary transformation programmes within the framework of 10th National Development Plan (2014-18), approved in 2013. The programme aims to use public procurement to promote innovation, domestic production, technology transfer and innovative entrepreneurship. Following its adoption, a stand-alone action plan – the Programme for Technology Development through Public Procurement – has also been prepared, co-ordinated by the Ministry of Science, Industry and Technology. The action plan consists of 17 policy issues in 5 main components and 17 actions assigned to a consortium of ministries, public bodies, NGOs and chambers of industry.

To foster R&D-based procurement methods, Turkey launched the Public Institutions Research and Development Projects Support Programme in 2005. This programme has been designed to fulfil the R&D needs of public institutions via dedicated calls for projects by universities, industry and public research institutes. The public sector's R&D-based requirements are met by results-oriented R&D projects with no budgetary limitations. However, public procurement procedures under this programme are not entirely compliant with the EU *acquis*, since they give preference to domestic operators (for more information, see Chapter 6 on public procurement). There are no impact assessments, evaluation studies and/or accounts of the state of play for any type of procurement for innovation undertaken in Turkey.

The way forward for government financial support services for innovative SMEs

- **Consolidate financial support measures and increase disbursements**. Regular monitoring and evaluation of financial schemes would enable governments to identify those instruments most needed and demanded. As financial support remains small in most economies, governments should aim at accelerating disbursement rates, focusing both on building the absorption capacity of local markets and also on increasing the skills and expertise of local innovation agencies. Moreover, the instruments need to be flexible, meaning that they should be adjusted as lessons are drawn from experience. They should also be predictable, ensuring that calls for proposals occur regularly and the necessary budgets are earmarked annually.
- **Diversify public support to business R&D.** OECD countries' experience shows that direct funding to SMEs is not the only policy tool available to foster innovation in firms. With a view to stimulating business R&D, they use a mix of instruments that include both direct funding programmes and tax incentives. Given the over-reliance on direct funding in the Western Balkans, policy makers

should gradually diversify their policy tools, and make more use of tax incentives as is done in OECD countries.

SMEs and research institution collaboration and technology transfer (Sub-dimension 8b.4)

A strong partnership between the private sector and academia can help accelerate value creation for innovation. Research institutes can be driven by demand, and receive feedback from businesses on the commercial viability of their research; firms get first-hand access to research. These partnerships would also benefit from the involvement of relevant public actors – in other words, a "triple helix" approach. Such involvement can give governments valuable insights into the obstacles preventing knowledge transfer, which helps them to develop policy measures in response to spur industry-academia collaboration.

In reality, however, there are several practical challenges in implementing triple helix partnerships and creating effective co-operation among the three stakeholders. Academics may have limited time to co-operate with businesses, and may not receive support from their institutions to engage in partnerships. Besides, while academics' priorities may be to translate research into products with tangible impact, financial goals are usually the focus of businesses. This may result in problems with ethics and IPR rights, among other issues. An environment that encourages engagement between businesses and research is needed to overcome these barriers, requiring governments to step in to create a framework fostering co-operation.

Public support for the transfer of knowledge and commercialisation can come in various forms. To alleviate funding barriers and boost R&D, governments can provide financial support, for instance through innovation voucher schemes and co-operative grants. Innovation vouchers enable enterprises to purchase small-scale services from research institutions or universities, often for preliminary research purposes and to test the ground for further co-operation. In contrast, co-operative R&D grants are more substantial and aim at competitive multi-institutional R&D and partner matching.

Policy tools also include enhancing the physical infrastructure to create better links between academia and the private sector. For instance, this can be done by establishing competence centres, technology transfer offices, and science and technology parks. All of these aim to facilitate knowledge transfer between academia and businesses, and often provide R&D services, access to equipment and other business services. STPs in particular can be an important tool to implement high-tech cluster policies and can serve as a platform of co-innovation among incubating enterprises.

Finally, a comprehensive legal framework for protecting intellectual property rights is critical for boosting technology transfer and commercialisation. Regulating ownership of IPR and how royalties are split for publicly funded research creates certainty and increases incentives for R&D and patent applications.

This section looks at policy measures in the WBT region to encourage R&D and linkages between academia and industry. In particular, this sub-dimension assesses the availability of voucher schemes and collaborative grants and the institutional infrastructure for industry-academia co-operation, such as STPs, technology transfer offices and competence centres. It also reviews the legal IPR framework (Table 10.8).

Table 10.8. Scores for Sub-dimension 8b.4: SME and research institution collaboration and technology transfer

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Innovation voucher schemes and co-operative grants	2.00	1.67	2.00	3.00	2.00	4.00	3.00	**2.52**
Institutional infrastructure for industry-academia co-operation	1.80	1.67	2.40	2.80	2.80	3.00	4.60	**2.72**
Intellectual property rights	2.50	2.50	2.50	3.00	2.50	3.50	4.50	**3.00**
Weighted average	**2.02**	**1.83**	**2.26**	**2.92**	**2.42**	**3.50**	**3.94**	**2.70**

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

Overall, collaboration between academia and industry remains below potential in all WBT economies, and evidence from the interviews conducted as part of this assessment suggests that there is low demand from both sides to form partnerships. Turkey and Serbia significantly outperform the rest of the region in this area.

Most economies operate basic voucher schemes, whereas some have introduced more sophisticated collaborative grants. These, however, need to be well designed to meet the absorption capacity of local markets. The institutional infrastructure to support industry-academia collaboration has developed further since the last assessment, but a clear impact is not yet fully evident. Some economies have reformed or are currently reforming their intellectual property rights framework, which may lead to further patent applications in the medium term.

Although all economies have made efforts to bridge the gap between academia and industry, co-operation between the two is still quite limited. Interviews with SMEs revealed a generally negative perception of the research capabilities of universities, leaving them unconvinced of the benefits of collaborating with academia. Intellectual property protection exists in the legal framework of all economies, but does not sufficiently stimulate technology transfer and commercialisation.

Voucher schemes and collaborative grants exist across the region

Innovation vouchers are small lines of credit provided by governments to SMEs to purchase services from public knowledge providers with a view to introducing innovations in their business operations (OECD, 2010[22]). The main purpose of an innovation voucher is to build new relationships between SMEs and public research institutions which will stimulate knowledge transfer directly, and act as a catalyst for the formation of longer-term, more in-depth relationships. In a nutshell, innovation vouchers are intended as pump-priming funding through which initial industry-university relationships can be established.

Some governments have introduced financial incentives for collaboration in the form of innovation voucher schemes and other co-operative grants, though they are largely underused. Albania and Kosovo have launched small-scale innovation vouchers, but both programmes have failed due to insufficient capacity and awareness among local SMEs.

Montenegro has been running a small-scale fund similar to innovation vouchers since 2012; however, between 2015 and 2017 it only supported four firms. Due to the low interest, the Ministry of Economy decided in 2018 to extend the support to all SMEs, instead of just those operating in the processing industry. In 2018, the Ministry of Science also allocated EUR 1 million for a new collaborative grant programme, in which individual projects can be awarded up to EUR 100 000. In Bosnia and Herzegovina, no grants are available or planned.

North Macedonia also has a voucher scheme; however it remains heavily underfunded. In May 2018, the FITD launched a call for co-financed grants and conditional loans for commercialising innovation, and awarded EUR 490 000 to six projects by mid-2018.

The most progress in this area has been made in Serbia, where the Innovation Fund launched an innovation voucher scheme as part of its broader Technology Transfer Facility in 2016, as well as the Collaborative Grant Scheme. The Technology Transfer Facility provides a blend of financial and technical assistance to bring new ideas to market, providing grants of up to EUR 50 000 to facilitate commercialising research projects. To complement this effort, the fund provides small-scale financial incentives to SMEs to use services from public research institutes, triggering great demand for this type of service in the market. In addition, the Collaborative Grant Scheme provides co-financing of up to EUR 300 000 for joint industry-academia R&D projects (see Box 10.5 for more details).

In Turkey, TÜBİTAK runs a collaborative grant scheme to stimulate university-industry collaboration, for instance through the Frontier R&D Laboratory Support Programme and the Support Programme for R&D projects. TÜBİTAK also offers a dedicated patent grant programme, providing financial support for patent applications. However, despite the ongoing work, there is no evidence yet of greater capacity to commercialise research outcomes.

Box 10.5. Fostering industry-academia collaboration in Serbia

Following its successful pilot of two grant programmes for innovative companies, the Serbian Innovation Fund recognised that over 30% of all project proposals had included some form of co-operation with R&D institutions. In response, the fund designed a new grant programme, the Collaborative Grant Scheme for R&D Organisations and Private Sector Enterprises, with the aim of encouraging SMEs and public sector R&D institutions to engage in joint scientific research and development projects. The programme, launched in 2016, is supported by EUR 2.4 million in EU Instrument for Pre-accession Assistance funds, and an additional EUR 1 million from the Ministry of Education, Science and Technological Development of the Republic of Serbia.

Under the programme, the Innovation Fund provides co-financing of up to 70% of the cost of commercially oriented research and development projects. It has a cap of EUR 300 000 per project, helping to significantly reduce the financial risk of failure. Funds are disbursed on a quarterly basis against deliverables, ensuring transparent financial management of the grant financing and procedural compliance.

The projects are selected through a highly competitive international, independent and meritocratic two-step evaluation process, including both technical peer reviewers and a five-member investment committee with ample international expertise in technology and investments.

During the pilot, the Innovation Fund received 96 applications, greatly exceeding the originally expected turnout. Of these, 28 projects were pre-selected for consideration, and 14 projects were awarded EUR 3 million in total. This was complemented with an additional EUR 1.37 million in private sector co-financing. By mid-2018, after approximately 1.5 years of development, 5 projects had already seen new products developed and 4 had successfully adopted transferred technology.

The design and functionality of the programme is very much demand driven and responding to specific market failures identified during the implementation of previous programmes. The two-stage independent and international evaluation processes ensured selection was based on merit and the potential for commercialisation and market impact. The programme also benefitted from a strong communication campaign, including the organisation of open days and matchmaking activities between SMEs and R&D institutions, to raise awareness and encourage applications.

Source: Serbian Innovation Fund (2018[23]), *Collaborative Grant Scheme Program*, hwww.innovationfund.rs/cgs-program/.

The infrastructure to link industry and academia is limited

All WBT economies continue to invest in creating infrastructure that enhances linkages between businesses and academia, but the impact is yet to be seen. In Albania, Bosnia and Herzegovina and Kosovo, the OECD has organised triple helix competitions bringing together academia, business and public sector institutions but the hard infrastructure to support more intensive engagement, such as STPs, is still weak. Albania's Triple Helix action plan mentions a feasibility study to explore ways to increase industry-academia collaboration and Kosovo has recently opened an Office for Sponsored Programmes and Research at the University of Pristina. In Bosnia and Herzegovina, some support is provided through INTERA, a private foundation; however, it functions more like an incubator.

Both Montenegro and Serbia have made progress, but despite these efforts, synergies are only slowly emerging. Montenegro is in the process of completing an STP at the University of Montenegro, and the innovative entrepreneurship centre Technopolis has become fully operational. Serbia has numerous technology institutes and STPs, including some with a sectoral focus. The largest STP in Belgrade, opened in 2016, now hosts over 60 companies.

Turkey continues to operate large-scale programmes to increase collaboration between academia and industry and enhance commercialisation. TEKMERs have been established at various universities and the TDZs support business-academia co-operation. In addition, KOSGEB involves local researchers in the evaluation of innovation projects.

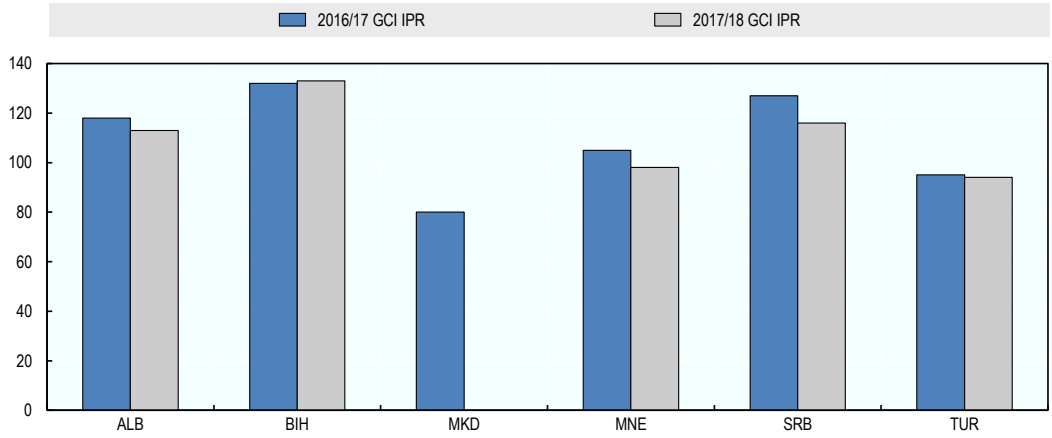
Poor awareness of the importance of an IPR regime is a common limitation

In order to increase SMEs' innovative capabilities and stimulate innovation through different channels, for instance by encouraging R&D collaboration, it is vital to enhance SMEs' awareness of the potential of an IPR regime. Firms must be advised on how to benefit from IPR systems to achieve their innovation policy goals (Ordowich et al., 2012[24]).

Despite legislation for intellectual property protection largely being in place, all WBT economies perform poorly in the World Economic Forum's Global Competitiveness

Index (GCI) for intellectual property protection, suggesting that enforcement is weak and not aligned with best practice (Figure 10.6). The region's poor performance in this area may also be a reason for the overall low level of patent applications.

Figure 10.6. Intellectual property protection scores in the Global Competitiveness Index (2016-18)



Note: Data for Kosovo not available. Data for North Macedonia are from 2017. Performance is ranked on a scale from 1 to 137, with 1 being the highest possible.
Sources: WEF (2016[25]), *The Global Competitiveness Report 2016-2017*, www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf; WEF (2017[7]), *The Global Competitiveness Report 2017-2018* ,www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.pdf.

StatLink http://dx.doi.org/10.1787/888933937660

Some economies have taken steps to improve their IPR frameworks to provide more certainty and encourage R&D. Serbia has established rules governing the splitting of IPR between individuals and institutions, which should encourage researchers to patent their discoveries in the future. Turkey is also carrying out legislative reform that has the potential to boost patent applications. Other economies have not clearly defined the split of royalties. North Macedonia envisages measures to increase awareness of IPR among SMEs in its Competitiveness Strategy, but has yet to take any concrete steps to do so.

Despite the improved IPR frameworks across the region, interviews with stakeholders revealed that lack of awareness about IPR and of a coherent IPR strategy are common limitations for SMEs. A large majority of SMEs do not integrate IPR into their overall business strategy, and they struggle to grasp which intellectual property instruments are relevant for them to enhance their competitiveness.

The way forward for SMEs and research institution collaboration and technology transfer

- **Intensify co-operation between academia and the private sector.** Policies have emerged to encourage research institutions to develop applied technologies; however, synergies with the private sector are few and incentives for firms to commercialise new technologies are underutilised. More efforts are needed to close the gap, for instance through more dialogue and joint project development

under a triple helix framework or active work exchange placements. Better use of innovation voucher schemes could offer further incentives to businesses and academic institutions to start collaborating, by reducing the risks involved in initial exploration. Sweden's experience can offer valuable lessons for the Western Balkan and Turkey economies (Box 10.6).

- **Scale up IPR support services for SMEs.** Only a small number of SMEs use IPRs, either because they lack the necessary knowledge and expertise, or they find procedures to protect their rights too costly (EC, 2016[26]). There is a real need for SMEs to better grasp what intellectual property is and how they can make effective use of it. In this context, policy makers should raise awareness of the strategic opportunities offered by IPRs with the help of tailored information and training programmes. These programmes should also be customised so as to better meet the needs of SMEs operating in different sectors. The programmes could be designed by SME agencies in co-operation with the existing institutions, such as STPs and incubators.

Box 10.6. Sweden's National Incubator Programme: Performance-based support

Sweden is an innovation leader, according to the EC's 2018 Innovation Scoreboard (EC, 2018[6]). Private sector investment in R&D, non-R&D innovation expenditure and ICT training are higher than the EU averages, and the country benefits from an attractive research system.

This achievement is the result of a targeted and holistic policy framework to support innovation which Swedish governments have pursued consistently over the past two decades. In 2001 the Swedish Innovation Agency VINNOVA was established, consolidating the scope of three former innovation and R&D funding agencies and providing a unique common vision for Sweden's knowledge economy. Following a triple helix approach, the agency's focus (particularly in its early years) has been on strengthening innovation co-operation among government, businesses and academia. While this focus has broadly remained, increasing emphasis has also been given to supporting entrepreneurship and business innovation.

In 2003, the authorities established the large-scale National Incubation Program (NIP), originally under VINNOVA's leadership, with the aim of boosting the innovation ecosystem for start-ups by providing funding to incubators. The NIP has gone through various iterations and changes of leadership over the years, but was reassigned to VINNOVA in 2015. Throughout this time, a consistent focus of the programme was on quantitative and qualitative performance measurement, aiming at identifying and supporting those incubators generating impact and effectiveness. The NIP broadly comprises three dimensions of funding for incubators:

- **Basecamp**: widely available to most incubators that meet basic requirements related to operations and number of firms served.
- **Explorer**: facilitating joint programmes to enhance collaboration between individual incubators on innovative projects.
- **Summit**: performance-based funding to selected incubators that have

successfully achieved a variety of performance metrics.

The NIP's three-tiered approach allows for a flexible deployment of funding in a transparent and comprehensive way. The design also takes into consideration regional discrepancies in overall innovation and start-up performance, and provides incentives to incubators to develop long-term strategies to improve their performance and impact. The NIP also ensures that funding is well synchronised and available to start-ups at different stages of development and capacity.

Today, Sweden enjoys one of the most active and comprehensive networks of incubators operating relatively evenly across economic hubs and less developed regions.

In addition to providing funding, the main goal – and subsequent success – of the NIP has been the creation of a large-scale incubator community which is based on benchmarking and performance monitoring and evaluation. A self-reporting database tool, accessible to incubators and both current and graduated companies, assesses key performance indicators, both at incubator and firm level. It includes key metrics such as public or private funding received, sales, employment, client satisfaction and survival rates. In 2010, a qualitative assessment in the form of on-site visits to incubators was further incorporated into the monitoring and evaluation framework.

Sweden's approach provides not only an efficient internal management tool for incubators that allows them to benchmark their performance against peers, but also a comprehensive set of performance data for Sweden's start-up community, which is an essential baseline for formulating future policy interventions in this space.

Sources: Sweden's Innovation Agency (2018[27]), *Sweden's Innovation Agency website*, https://www.vinnova.se/en/; Swedish Incubators and Science Parks (2018[28]), *Swedish Incubators and Science website*, https://www.sisp.se/; Centre for Digital Entrepreneurship and Economic Performance (2015[29]), *Centre for Digital Entrepreneurship and Economic Performance website*, http://deepcentre.com/

Conclusions

Since the last assessment, it is evident that the WBT economies have recognised the importance of innovation policies for their development. They have made significant progress in developing holistic innovation frameworks, and the majority have an innovation strategy in place. However, implementing the strategies effectively is still proving to be a challenge. Horizontal co-ordination among the relevant ministries and agencies has room for improvement.

All the governments have implemented new policy measures to support innovation in SMEs, though scale and output has been somewhat mixed. The disbursement of funds allocated for innovation remains low, pointing to the need to better inform SMEs on how to access and absorb the available funds.

Incubators and accelerators have become more widespread, but the public funds supporting them remain scarce. Co-operation between academia and the private sector remains an ongoing challenge which warrants further attention across the region.

Notes

[1] Horizon 2020 is the biggest EU-funded research and innovation programme, and covers the period from 2014 to 2020. The overall objective of the programme is to ensure Europe produces world-class science, removes barriers to innovation and makes it easier for the public and private sectors to work together in delivering innovation. With nearly EUR 80 billion of funding it promotes research and innovation by facilitating the commercialisation of innovative ideas from the lab to the market. In particular, Horizon 2020 provides grants to research and innovation projects through open and competitive calls for proposals. Legal entities from any country are eligible to submit project proposals to these calls. Participation from outside the European Union is explicitly encouraged (EC, 2020[31]).

[2] 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.

[3] The NUTS classification (Nomenclature of Territorial Units for Statistics) is a hierarchical system for dividing up the economic territory. For more information see Eurostat (2018[30]).

[4] This refers to innovations which are only new to the firm but available on the market.

[5] An equity ticket represents the amount of funding that an accelerator, incubator or any other investor gives to a startup in exchange for equity in the firm.

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Chapter 11. SMEs in a green economy (Dimension 9) in the Western Balkans and Turkey

This chapter assesses the provision of policies that promote green behaviour among small and medium-sized enterprises (SMEs) in the Western Balkans and Turkey. It starts by providing an overview of the assessment framework and progress since the last assessment in 2016. It then focuses on the two sub-dimensions of Dimension 9: 1) framework for environmental policies targeting SMEs, which considers the greening aspects in national SME, sectoral and innovation policy frameworks; and 2) incentives and instruments for SME greening, which looks at the various tools and instruments in place – such as regulatory and information-based instruments, financial incentives and green public procurement – to support SMEs in their greening efforts. Each sub-dimension concludes with key recommendations to tackle the challenges identified and help to facilitate SME greening in the region.

Key findings

- **SME greening measures and policies are now included in overall SME strategies in almost all the Western Balkans and Turkey (WBT) economies.** Resource efficiency and eco-innovation lie at the forefront of new SME greening measures, which mostly contain clear targets, planned budgets and timeframes.
- **The implementation of SME greening policies remains limited in the Western Balkans**. This is mainly due to the limited budgets allocated for the envisaged greening measures, creating a high dependence on external donor support. The unpredictability of funds results in frequent interruptions and delays in programme implementation, contributing to the overall underperformance in realising the measures.
- **Advice and guidance programmes on SME greening are slowly emerging in the region and greening practices are becoming recognised and awarded.** In particular, these programmes aim to share information and provide expertise to help SMEs take advantage of the opportunities from emerging green markets and improved resource efficiency – most notably, energy efficiency. Some WBT economies are also recognising SMEs for their achievements in the area of environmental protection.
- **Some WBT economies plan to introduce financial incentives for SME greening in their new SME strategies,** but what type of incentives, and how they will be implemented, remains unclear.
- **Incremental progress has been made in introducing non-financial tools for SME greening.** Regulatory instruments are almost non-existent in the entire region, except Turkey. Green public procurement is slowly gaining momentum in some WBT economies.
- **Business associations are increasingly involved in developing and implementing SME greening policies and their supporting instruments**, for example providing information and guidance to SMEs on adopting environmental practices.

Comparison with the 2016 assessment scores

Overall, the regional average score in this dimension stands at 2.61, similar to the 2016 assessment (Figure 11.1). However, this average masks the notable improvement by Montenegro, which has become the second-best performer of the seven assessed economies. The Republic of North Macedonia has also introduced a number of measures aimed at enhancing the environmental performance of its SMEs, but changes in the methodology for calculating the scores have somewhat masked its real improvement. Turkey continues to be the regional leader, reflecting its comprehensive and well-designed government approach to SME greening.

These three economies aside, progress in the Western Balkans has been rather limited, highlighting the need for governments to step up their efforts; particularly in implementing their policy frameworks.

Figure 11.1. Overall scores for Dimension 9 (2016 and 2019)

Note: The comparison of scores between the 2016 and 2019 assessments should be interpreted with caution because of the change in assessment methodology and the introduction of new questions. 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 relative stagnation of the economies' scores is reinforced by the mostly limited implementation across the region of the recommendations in the last SME Policy Index (Table 11.1). A number of the WBT governments have started to provide some kind of information and training for SMEs on environmental issues and they are introducing financial incentives, mainly as part of SME strategies developed since the last assessment. Nevertheless, with the exception of Turkey, all these initiatives are still at an early stage and further actions are needed.

Table 11.1. Implementation of the SME Policy Index 2016 recommendations for Dimension 9

Overall 2016 recommendations	SME Policy Index 2019	
	Main developments during the assessment period	Regional progress status
Make information about environmental practices easier for SMEs to obtain	- Bosnia and Herzegovina, Montenegro and North Macedonia have established some web-based systems and printed material to help SMEs obtain the environmental information they need, but without targeted efforts to disseminate these to a wider group of SMEs. - SME guidance on how to comply with environmental regulations and implement green practices is provided through websites and brochures. However, with the exception of Turkey, this practice is still at an early stage of development and further actions are needed.	Limited
Help finance SMEs to make the transition to greener practices	- Financial incentives are now being introduced through the new SME strategies of Montenegro and North Macedonia, but the type of incentives and how these will be introduced remain unclear. - In Bosnia and Herzegovina, the introduction of financial incentives is envisaged, but has not yet been implemented. - Serbia has developed a donor-based financial instrument, Green Innovation Vouchers.	Limited

Introduction

Long-term economic and social development depends on the ability of a country to grow while safeguarding the natural assets which provide it with vital resources and environmental services. The cross-cutting nature of the environment demands a co-ordinated approach across policy areas.

Environment policies that specifically address SMEs are important for two main reasons. First, although SMEs individually have a smaller environmental impact than large companies, their aggregated environmental footprint is quite significant and often surpasses that of large corporations. According to a recent study, SMEs were responsible for 64% of the total industrial pollution in Europe (Sáez-Martínez, Díaz-García and González-Moreno, 2016[1]).

Second, SMEs' overall potential contribution to economic growth and employment is significant, while their particular characteristics can enable them to adapt to fast-changing market conditions and give them the flexibility to develop new products and practices, including green ones (Moore, 2009[2]). Their less formal communication style and flatter hierarchical structures can offer a favourable environment for new and innovative approaches to green business practices. These features make SMEs good candidates for introducing eco-friendly products and more environmentally friendly practices and services, whilst also helping them develop new business opportunities and build a competitive advantage.

However, SMEs face a number of challenges in adopting sustainable practices and complying with environmental standards. Recent studies show that only large corporations tend to adopt proactive environmental strategies, while SMEs tend to be reactive, only striving to comply when under external pressure (Conway, 2015[3]). This suggests that SMEs face different barriers to adopting environmentally friendly practices and standards than larger enterprises. Internal barriers include insufficient human and financial resources; limited time; and a lack of awareness of their negative environmental impacts or the benefits and business opportunities of "going green". In addition to these internal constraints, external factors such as inadequate institutional support, complex regulatory requirements and the lack of public infrastructure are further obstacles to the green transition (OECD, 2018[4]).

Addressing these challenges requires strategic policies and government action to support SMEs in their pursuit of environmentally friendly practices and business models. Well-designed and tailored policies in this area should create an environment which allows SMEs to seize the opportunities offered by greening, such as improving their resource efficiency, exploring new markets, and building their brand recognition and customer relationship. To start with, SMEs need to know that improving their environmental performance brings tangible economic and financial benefits. As surveys undertaken in the European Union (EU) demonstrate, more than 80% of SMEs that have invested in resource efficiency are satisfied with their returns (EC, 2018[5]).

In contrast, disregarding SME greening opportunities may lead to widening productivity gaps between the companies that improve resource efficiency and those that do not, as well as an overall weakening of firms' competitiveness. At the national level, economies risk losing momentum in their efforts to increase their general productivity and competitiveness, thus diminishing their overall growth opportunities.

Policy makers can use a range of policy options and tools to support the development of environmentally conscious firms: regulatory frameworks, access to finance through support and incentives, green business support services and capacity-building programmes. They need to take concerted public action across these policy areas, including in SME development policies, but in order to avoid the danger of crowding out SMEs' incentives to invest their own resources in "going green", this support should be time-bound and limited in terms of size (OECD, 2018[4]).

Assessment framework

Structure

This chapter assesses the quality of governments' SME-specific policies and actions to foster green growth and development through the following sub-dimensions:

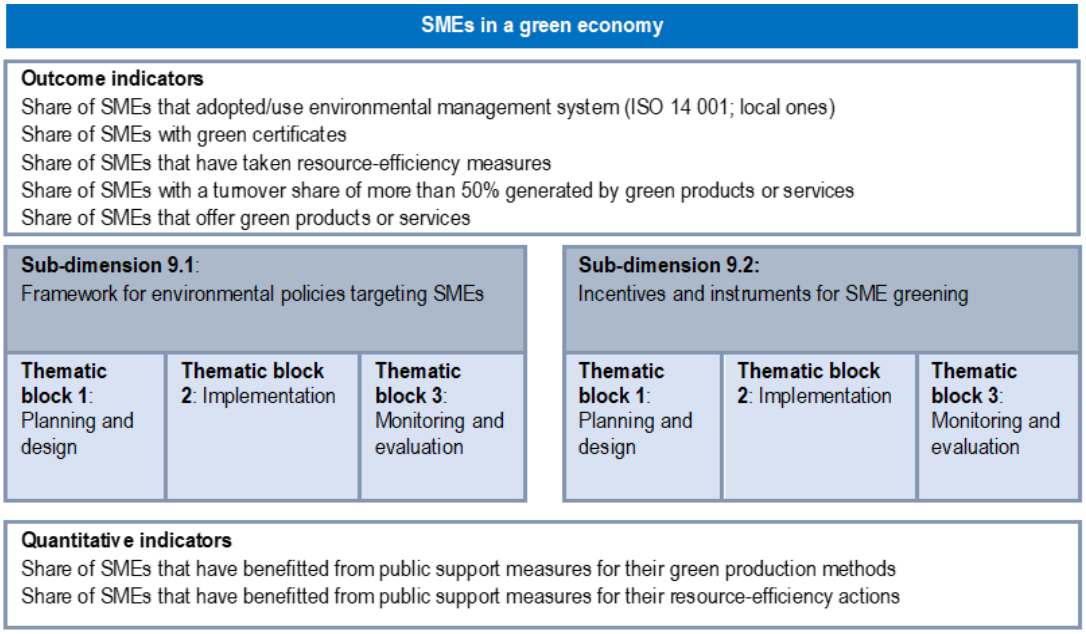
- **Sub-dimension 9.1: Framework for environmental policies targeting SMEs** assesses to what extent the national SME, sectoral and innovation policy frameworks are environmentally friendly.
- **Sub-dimension 9.2: Incentives and instruments for SME greening** evaluates whether tools to complement environmental policies for SMEs are in place and how efficiently and effectively they are implemented.

Each sub-dimension assesses three aspects of policy performance, namely 1) planning and design; 2) implementation; and 3) monitoring and evaluation (Figure 11.2).

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 undertaken with SME owners and managers.[1] In addition to collecting qualitative inputs, an integral part of the assessment involved compiling quantitative data on certain indicators requested from the economies' statistical offices and environmental protection agencies.

Figure 11.2 shows how the sub-dimensions and their constituent indicators make up the assessment framework for this dimension. For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

Figure 11.2. Assessment framework for Dimension 9: SMEs in a green economy



Note: ISO – International Organization for Standardization. The outcome indicators serve to demonstrate the extent to which the policies implemented by the government bring about the intended results, and they have not been taken into consideration in the scoring. By contrast, quantitative indicators, as a proxy for the implementation of the polices, affect the overall scores.

Finally, it is worth adding that the assessment framework has been prepared in full alignment with the Small Business Act Principle 9 (Enable SMEs to turn environmental challenges into opportunities), which calls for the provision of "information, expertise and financial incentives for full exploitation of the opportunities for new 'green' markets and increased energy efficiency" (EC, 2008[6]).

Key methodological changes to the assessment framework

The assessment framework is largely unchanged from the 2016 one. However, in each sub-dimension, some policy aspects have been expanded in order to better gauge the actual state of play in those areas (Table 11.2).

In Sub-dimension 9.1 (framework for environmental policies targeting SMEs), the key changes were an enhanced focus on the promotion of eco-efficiency and eco-innovation in national strategic policy frameworks, as well as on whether economies had specific environmental policies for sectors likely to have greater environmental impact and/or green opportunities, such as construction, transportation and agriculture. Sub-dimension 9.2 (incentives and instruments for SME greening) was updated to encompass a broader range of regulatory and other market-based instruments, including performance standards, and environmental taxes and charges. This assessment also evaluated SME greening promotion and guidance more thoroughly.

In order to underline the importance of effective implementation, the scoring weight for implementing policy frameworks has been increased.

Table 11.2. Key changes in the composition of Dimension 9

Sub-dimensions	Key changes since the 2016 assessment
Sub-dimension 9.1: Framework for environmental policies targeting SMEs	Stronger emphasis put on the concepts of eco-efficiency and eco-innovation, as well as on sector-specific environmental policies
Sub-dimension 9.2: Incentives and instruments for SME greening	Expansion of the assessment framework in order to include a larger number of instruments relevant to SME greening policy making
All sub-dimensions	The weights of the thematic blocks in the overall scores have been altered. Greater focus has been placed on implementation (5% increase in the allocated weight).

Analysis

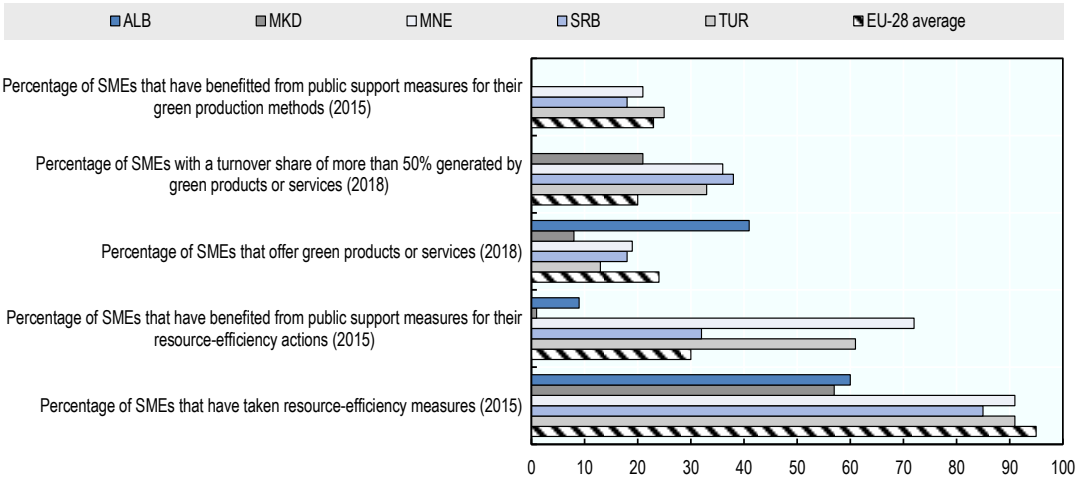
Performance in SME greening

Outcome indicators play a key role in examining the effects of policies, and they provide crucial information for policy makers to judge the effectiveness of existing policies and the need for new ones. Put differently, they help policy makers track whether policies are achieving the desired outcome. The outcome indicators chosen for this dimension (see Figure 11.2) are designed to assess the performance of the Western Balkan economies and Turkey in creating the conditions that make SMEs' transition into a green economy easier. This analysis section starts by drawing on these indicators to describe the level of greening among SMEs in the WBT region.

In general, the seven WBT economies lag behind EU and OECD countries in achieving SME greening. This is particularly the case with the six Western Balkan economies. Policy frameworks supporting resource productivity[2] in the six Western Balkan economies are under development but still need to be adopted (OECD, 2018[7]). In particular, efforts to promote a circular economy[3] are almost non-existent. Although the six Western Balkan economies have "markedly lower levels of material productivity (economic output per unit of domestic material consumption) than the OECD average" (OECD, 2018[7]), very little is being done to improve this. Recycling rates are very low, ranging from less than 5% of total solid waste in Montenegro and Serbia to around 20% in Albania, compared to the EU average of over 50% (OECD, 2018[7]). All these suggest there is room to improve the development of SME greening practices and support them through an effective environmental policy mix.

Nonetheless, there is also some encouraging evidence of SMEs' increased efforts towards greening across the region. The *SBA Fact Sheets* prepared by the European Commission illustrate how the economies of Western Balkans and Turkey performed compared to the EU in 2015 and 2018 in the area of SME greening and assisting SMEs to improve their environmental performance (EC, 2017[8]). As shown in Figure 11.3[4], Turkey, Montenegro and Serbia stand close to the EU average in terms of the share of SMEs that have taken resource-efficiency measures. In addition, the share of SMEs offering green products or services in Montenegro and Serbia is similar to the EU average, while the share in Albania is even higher than in the EU. This demonstrates that SME greening has been recognised as a valuable business opportunity – in terms of developing new products and services, achieving significant cost savings and increasing overall productivity. However, these findings should be interpreted with caution. First, for some economies the sample size was relatively small, meaning a greater margin of error[5] (EC, 2015[9]; EC, 2018[5]). Second, some of the findings are based on the responses gathered from SME surveys conducted back in 2015, and the results might be subjective since responders may have different interpretations of the questions.

Figure 11.3. SME greening business activities and support in Western Balkans and Turkey



Note: Data for Bosnia and Herzegovina and Kosovo* are unavailable. Updated data are available for two SME greening indicators (percentage of SMEs with a turnover share of more than 50% generated by green products or services; and percentage of SMEs that offer green products or services). The rest of the indicators are from 2015. In Bosnia and Herzegovina, the Republika Srpska systematically collects data on the percentage of SMEs that have benefitted from public support measures for their resource-efficiency action, and in 2017 (the latest available data) this share stood at 0.02%. The percentage of SMEs with a turnover share of more than 50% generated by green products or services and the percentage of SMEs that have benefitted from public support measures for their green production methods are zero for Albania and North Macedonia.

Source: Adapted from EC (2017[8]), *SBA Fact Sheets: Albania, Montenegro, North Macedonia, Serbia and Turkey*; EC (2018[5]), *Flash Eurobarometer 456: SMEs, Resource Efficiency and Green Markets*, http://data.europa.eu/euodp/en/data/dataset/S2151_456_ENG.

StatLink https://doi.org/10.1787/888933937679

The private sector interviews that complemented our assessment pointed to the overall lack of government action in the area of SME greening and its underperformance compared to EU and OECD countries. SMEs and business associations from the region pointed to the overall lack of support mechanisms for enhanced environmental performance, except in Turkey. According to the interviews, SMEs in the region were willing to engage in greening activities, and they would welcome stronger government action and support in this regard.

Framework for environmental policies targeting SMEs (Sub-dimension 9.1)

Supporting SMEs in their greening efforts calls for a holistic and cross-cutting approach that addresses multiple factors. The first step in adopting such an approach is to develop a coherent policy framework targeting SMEs, which encompasses the public policy tools and initiatives needed for maximum effectiveness.

* 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.

This section gauges the extent to which the existing national and strategic policy frameworks target SME greening. It examines whether current environmental policies include SME-specific targets – and whether national SME strategic documents focus on environmental issues. It also looks at the content of the policies: how well they promote eco-efficiency and eco-innovation, and whether there are sector-specific policies, particularly for those sectors such as construction, transport and agriculture with a direct impact on the environment. The assessment also covers the implementation, monitoring and evaluation of the policies, and whether there is a body responsible for implementing them (Table 11.3). Finally, it considers private sector involvement in both the design and implementation of activities targeting SME greening.

Table 11.3. Scores for Sub-dimension 9.1: Framework for environmental policies targeting SMEs

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	3.40	3.47	3.67	3.67	3.80	3.80	4.87	**3.81**
Implementation	1.80	2.50	2.20	2.91	2.70	2.00	3.80	**2.56**
Monitoring and evaluation	1.50	2.00	1.50	1.85	2.50	1.50	4.00	**2.12**
Weighted average	**2.22**	**2.69**	**2.50**	**2.93**	**2.99**	**2.44**	**4.16**	**2.85**

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

The average score in this sub-dimension stands at 2.85 (Table 11.3). Since the previous assessment, almost all the WBT economies have introduced environmental policies for SMEs in their national strategic frameworks, resulting in high scores for the planning and design thematic block. However, implementation of these policies remains limited.

Environmental policies are increasingly mainstreamed into SME strategies in the region

The existing SME strategies of Albania, Serbia and Turkey, as well as newly adopted ones in Montenegro and North Macedonia, include measures related to providing advice and guidance to SMEs on improving resource efficiency (in particular energy efficiency), promoting eco-innovation and introducing financial incentives for SME greening.

In Turkey, improving energy efficiency has been emphasised as one of the main goals, and SMEs are provided with a variety of types of support to achieve this. This includes guidance documents and online advice, as well as direct assistance provided as part of SME Development and Support Organisation (KOSGEB) support programmes.

Serbia's SME development strategy puts a greater focus on promoting eco-innovation, envisaging organising awareness-raising workshops and providing expert support to those companies preparing eco-innovation project proposals under the Horizon 2020 programme.[6]

Montenegro's new micro, small and medium-sized enterprise (MSME) strategy incorporates measures for promoting the application of eco-standards through educational and promotional workshops and seminars for SMEs on eco-labelling. The MSME strategy complements the well-designed and comprehensive National Strategy for

Sustainable Development until 2030 (NSSD). The NSSD was adopted in 2016 and it lists the introduction of the green economy as one of its six priority themes.

In North Macedonia, disseminating information and providing expertise to help SMEs take advantage of the opportunities from emerging green markets and improved resource efficiency lie at the forefront of the new SME strategy, as well as other national policies. Resource efficiency and eco-innovation are promoted through the Draft Waste Prevention Plan 2018-2024, whose main objectives are strengthening the waste management capacities at both the national and local level, transposing the EU's environmental regulations, and working towards a zero-waste target. The focus is equally on preventing waste generation and benefitting from green market opportunities, such as exporting waste.

In Bosnia and Herzegovina,[7] SME greening policies are devised and implemented at the entity level, and only the Republika Srpska (RS) has policies tailored to SMEs. Information provision on SME greening is one of the key measures introduced in the Republika Srpska's SME development strategy. In the Federation of Bosnia and Herzegovina (FBiH), environmental policies are separate from SME policies, and there are no clearly defined environmental policies targeting SMEs. The FBiH's comprehensive environmental protection strategy does not contain any SME-specific actions or targets, but it indirectly promotes eco-efficiency and eco-innovation among the business population, and hence indirectly among SMEs.

In Albania, the Business Investment Development Strategy (2014-2020) emphasises the need to increase the range of ecological products based on the effective use of resources for cleaner production. It also includes a variety of measures and instruments intended to develop the recycling industry.

In Kosovo, no government strategic document explicitly focuses on SME-specific environmental policies. However, elements of environmental policies that are relevant to SMEs are included in different strategies and action plans, namely the Strategy for Environmental Protection (2013-2022), the Strategy for Development of Energy Sector by 2030 and the Waste Management Strategy (2013-2022). Of these, the main strategy is the Strategy for Environmental Protection (2013-2022), which places a strong emphasis on measures to improve energy efficiency.

Sector-specific policies targeting SMEs are non-existent in the region. However, regional strategic documents and policies that regulate industrial development, energy management, environmental protection, agriculture and rural development, as well as climate change, contain some measures that could equally apply to SMEs.

Policy implementation remains largely limited with almost no systematic monitoring and evaluation

Even though the region's green policies are mostly well designed, and even target SMEs, their implementation remains restricted. Limited budget allocation for planned SME greening measures, combined with delays in mobilising funds for implementation, present major impediments in this area. Several economies are highly reliant on donor funding, throwing the long-term sustainability of these initiatives into question. In most of the region, the government funding earmarked for the promotion of SME greening is so restricted that international agencies and donor agencies are regularly approached to explore co-financing for planned public initiatives in these areas. The resulting volatility

in funds allocated to SME greening causes frequent interruptions and delays in programme implementation, and arguably hampers overall performance.

In Montenegro and North Macedonia, greening efforts are still to be fully implemented – given that their new SME strategies were only adopted in April 2018 (North Macedonia) and July 2018 (Montenegro). Montenegro's NSSD strategy has no separate budget allocated for implementing its action plan. However, it is expected that each ministry will provide funds from their own budget for those NSSD measures for which they are responsible. The report on implementing the NSSD should be prepared biannually, with the first one expected to be published during 2019.

Since the last assessment, none of the Western Balkans economies have created government bodies to co-ordinate work in the area of SME greening. Nonetheless, following the introduction of new SME strategies (in Montenegro and North Macedonia), the SME agencies are poised to take over co-ordination responsibility as well. KOSGEB is the main implementation body in Turkey, but there are some concerns over the co-ordination of SME greening-related activities. In particular, there are a number of different bodies in charge of realising the projects on energy efficiency, raising concerns in this area. It will be vital to ensure appropriate inter-organisational co-ordination to avoid potential overlaps in some areas and the lack of action in others.

There are almost no systematic monitoring and evaluation processes in the Western Balkan economies. Despite including a set of performance indicators in the SME strategies of Albania, Bosnia and Herzegovina and Serbia, they lack proper monitoring of SME greening policies and measures. At the time of writing, monitoring mechanisms were in the process of being introduced in Montenegro and North Macedonia, in parallel to the development of their new SME strategies. In contrast, Turkey regularly monitors the environmental policies targeted towards SMEs, but it has not yet carried out an impact analysis of its SME greening policies and programmes.

The private sector is increasingly involved in developing and implementing effective SME greening policies and supporting instruments

In most economies, the private sector was consulted when developing environmental policies and SME greening strategies and action plans. The governments in the region also co-operate with business associations and local councils over the delivery of environmental guidance to SMEs. According to the SMEs interviewed, this co-operation is quite successful in Montenegro, North Macedonia, Serbia and Turkey.

North Macedonia's new Waste Prevention Plan is a good example of public-private co-operation, where private sector representatives are part of the working group aimed at providing concrete advice and guidance to the interested SMEs (see the section on advice and guidance programmes for SMEs below).

Montenegro, Serbia and Turkey have very active chambers of commerce that advocate for SME greening and participate in the strategy development process. In Turkey, the Turkish Union of Chambers and Commodity Exchanges provides inputs into the development of environmental policies for SMEs. Given the local character of the environmental projects KOSGEB implements, it also systematically co-operates with local chambers of commerce and industry. Non-government organisations (NGOs) and business associations are present at the workshops, training courses and meetings organised under the SME greening projects, often providing direct technical support along with the KOSGEB experts.

The Montenegrin Chamber of Commerce has a committee on energy efficiency that organises quarterly meetings aimed at raising awareness on the opportunities that good environmental practices bring to both businesses and society. One of the latest initiatives of this kind, conducted in co-operation with the government, was to promote greater energy efficiency in the construction industry through improvements in waste management, i.e. achieving savings by using construction materials that generate less waste.

The Chamber of Commerce and Industry of Serbia (CCIS) has been supporting a variety of SME greening initiatives in co-operation with the Serbian government. Since August 2016, the CCIS has been implementing a project to promote eco-innovation by providing training and grants to start-up companies and entrepreneurs to develop their new green business ideas. In addition, in September 2018 the CCIS implemented a pilot programme, the Academy for Circular Economy, which provided advice to SMEs on how to make the transition towards a more circular business model. The CCIS also established an Eco-portal, which offers important information on environmental standards, eco labelling, and green public procurement. Another CCIS portal intended to provide information on energy-related greening issues – the Green Energy Portal – is in the final stage of preparation.

The way forward for environmental policy frameworks targeting SMEs

SME greening policies are gaining momentum in the WBT region. Environmental policies have become an integral part of almost all the economies' SME strategies, but these objectives have not been translated into concrete actions, and regular implementation needs to be ensured. Overall, all the Western Balkan economies need a more robust approach towards SME greening and a greater focus on implementation.

Specifically, policy makers in the WBT region should:

- **Ensure effective cross-sectoral co-ordination**. Given the cross-cutting nature of SME greening policies, effective co-ordination among the relevant stakeholders is essential for successful policy design and implementation. While economies ideally should have a co-ordination body for SME greening, this does not need to be created from scratch – it could easily be a body that is already in charge of SME policy implementation. Co-ordination should not stop at policy design and implementation, but should continue for regular monitoring and evaluation, as well as for collecting data on SME greening.
- **Facilitate partnerships among businesses to support SME greening activities, such as increasing resource efficiency**. The government should encourage the creation of business networks to enhance peer-to-peer learning and collaboration – including, but not limited to, networking among large firms and their smaller suppliers. To facilitate such exchanges, the government could also encourage and engage with business associations to play a greening support role, given their direct contact with SMEs. This could help foster a circular economy while improving individual environmental performance. As the example of the Turkey Material Marketplace (Box 11.1) shows, these networks increase the overall transaction value for both the buyer and the seller, while at the same time increasing their total environmental performance. Another example is Scotland's circular economy initiative, Zero Waste Scotland, which established the Scottish Circular Economy Business Network (SCEBN) in co-operation with the Scottish Environment Protection Agency.[8] The SCEBN is a platform that provides

opportunities for businesses based in Scotland to come together in a productive forum to focus on collaborative action and work together to develop the circular economy in Scotland. The platform also provides the space and opportunity to help build responsive supply chains, by facilitating co-operation along the value chain. SCEBN is overseen by an active and responsive steering group that provides expert support to its members.

- **Align energy-efficiency measures that are part of the SME greening policy mix with other energy-related policies and strategies**. Given its multidisciplinary nature, achieving improved energy efficiency – one of the key objectives of SME greening policies – should be combined with actions in the area of energy management. In particular, while setting prices for electricity and other major energy inputs in the WBT region, policy makers should consider whether they might discourage enterprises from taking cost-efficiency measures. National regulatory authorities should ensure that transmission and distribution tariffs are non-discriminatory and cost-reflective (EC, 2009[10]).

Box 11.1. Increasing resource efficiency: Turkey Materials Marketplace

The circular economy concept is about decoupling natural resource extraction and use from economic output, resulting in the more efficient use of resources. The concept is gaining momentum in OECD and EU countries. Turkey has recognised the potential of changing the linear economic model of "take, make, dispose" to a circular one in order to improve its country-wide resource efficiency and increase its material productivity.

The Turkey Materials Marketplace (TMM) project was established by the Turkish Ministry of Environment and Spatial Planning and the Ministry of Science, Industry and Technology, with financial support from the European Bank for Reconstruction and Development (EBRD) and the EU.

The TMM is a secure online marketplace platform through which project members are invited to share data on materials used or left over from their operations. With support from the TMM project team, companies work together to identify, evaluate and carry out material reuse opportunities. There are significant economic benefits for buyers in the platform in purchasing industrial by-products, waste or alternative raw materials at moderate prices. Similarly, those selling by-products and production outputs can charge a higher fee than for traditional recycling and disposal, since the materials will be used by another member of the platform and therefore become an upcycled product. Another benefit is the reduced costs of storage. The total social benefits are better waste management and environmental performance.

TMM membership is free of charge while the EBRD funds the project. The TMM team provides technical assistance to members; reviews innovative best practices in materials management from around the world and Turkey; explores the potential use of the members' materials across different sectors; and identifies potential synergy opportunities among platform members. In June 2018, the EBRD also launched the Circular Vouchers Scheme, which members can apply for. These vouchers are grants to help companies purchase consultancy services to assess the feasibility of material exchanges, and are worth up to EUR 25 000.

This good practice could serve as a model for the rest of the WBT region in improving their waste management and enhancing material flows. The model is also important in the context of the region's planned EU accession. The EU's Circular Economy Initiative and the related waste management directives point to a growing emphasis on this topic in the EU and potential projects and funds that could foster the adoption of circular economy practices in the WBT region.

Sources: McCarthy, Dellink and Bibas (2018[11]), "The macroeconomics of the circular economy transition: A critical review of modelling approaches", https://doi.org/10.1787/af983f9a-en; EBRD (2016[12]), *NØW – Near zero waste*, www.now-turkey.org/; TMM (2018[13]), *Turkey Materials Marketplace website*, http://turkey.materialsmarketplace.org/, OECD (2018[7]), *Competitiveness in South East Europe: A Policy Outlook*, www.oecd.org/about/sge/competitiveness-in-south-east-europe-9789264298576-en.htm.

Incentives and instruments for SME greening (Sub-dimension 9.2)

Incentives and instruments are very important to help SMEs apply cutting-edge and environmentally sustainable practices. As mentioned above, this is primarily due to SMEs' lack of awareness of greening opportunities, combined with the inherent complexity of implementing green practices caused by a variety of internal and external factors. Studies show that environmental regulation imposes heavier burdens on SMEs than on larger businesses.

This section looks at the provision of regulatory instruments and financial incentives for SMEs to adopt environmentally friendly practices. It examines whether information-based instruments are in place, and if there are guidance programmes to support SMEs making the transition to greener practices. The section also assesses the existence of government programmes and actions aimed at promoting environmental management systems and standards, and compliance with environmental regulations. It looks at the entire policy cycle – planning, implementation, and monitoring and evaluation (Table 11.4).

With an average score of 2.42, the WBT economies have made some progress since the previous assessment (Figure 11.1), although they still perform rather poorly. As in the previous assessment, Turkey remains the regional leader, with well-developed regulatory and financial instruments for SME greening in place. Since the previous assessment, North Macedonia has introduced some initiatives for non-financial instruments and Montenegro and Serbia have launched some financial support projects for SME greening and green public procurement, but these are yet to be fully implemented.

Table 11.4. Scores for Sub-dimension 9.2: Incentives and instruments for SME greening

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	1.67	1.67	1.67	2.38	2.98	2.19	3.67	**2.32**
Implementation	2.17	2.42	1.50	2.91	3.41	2.17	4.75	**2.76**
Monitoring and evaluation	1.00	2.25	1.00	1.85	1.53	1.40	3.00	**1.72**
Weighted average	**1.78**	**2.16**	**1.45**	**2.54**	**2.91**	**2.02**	**4.08**	**2.42**

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

Advice and guidance programmes on SME greening are emerging and greening practices are being recognised and rewarded

As underlined before, SMEs usually lack awareness of the negative environmental impacts of their activities or the benefits of "going green" and green business opportunities. This is why it is important that the government provides advice and guidance programmes that offer SMEs the information they need on green practices. Advice means active, direct engagement with a business face-to-face during inspection visits or audits; answering telephone, e-mail or website help requests; or addressing business representatives at seminars and similar events (OECD, 2018[4]). Guidance is the provision of information to regulated entities, typically in written form, whether printed or electronic (OECD, 2018[4]).

In the WBT region, advice and guidance programmes are slowly being introduced. As part of its new SME strategy, the Government of Montenegro plans to introduce programmes to raise enterprises' awareness and strengthen their capacity to deal with energy management issues and energy system optimisation. The strategy also envisages information dissemination and the provision of expertise to help SMEs take advantage of opportunities in emerging green markets and improved resource efficiency. Some activities in this regard are also being carried out by the Chamber of Commerce (see the section above on private sector involvement).

In Albania, the new Environmental Cross-cutting Strategy (2018-2022) focuses on raising awareness about SME greening and increasing resource efficiency, while the main emphasis of Serbia's SME greening policies is promoting eco-innovation and awareness-raising activities. To this end, the Government of Serbia also co-operates with business associations for developing eco-certification projects (see the section above on private sector involvement).

A notable example of advice and guidance programmes comes from North Macedonia, whose Ministry of Environment and Physical Planning offers support to SMEs to obtain the environmental licences they need. It also organises presentations and meetings with interested companies to help them implement regulations. Programmes are developed in consultation with businesses and NGOs, especially ecological organisations. The ministry is the focal point for SMEs and other stakeholders regarding advice and guidance on these matters. In addition, the Waste Prevention Working Group consisting of government members, private sector representatives and experts has been created to represent and encourage all stakeholders in the industry to implement waste prevention actions. In this area, the EU-funded Twinning Project plans to hold training courses for waste producers and SMEs about waste prevention and the circular economy in partnership with the ministry.

In Turkey, KOSGEB endeavours to provide advice and guidance on SME greening under its General Support Programme. KOSGEB also audits firms to determine whether they comply with the environmental procedures and rules specified for each sector according to the risk level. It also promotes the use of environmental management systems (EMSs) by SMEs through environmental audits. In addition to this, the Global Cleantech Innovation Programme (GCIP) offers training and mentoring to young entrepreneurs and SMEs working in the field of clean technologies (environment and energy). GCIP is conducted by the United Nations Industrial Development Organization, the Global Environment Facility fund and the Scientific and Technological Research Council of Turkey, with the aim of developing entrepreneurship ecosystems in the field of clean technologies. Since its establishment in 2014, GCIP has awarded around 80 projects;

mainly in the areas of waste management, water efficiency and renewable energy. Moreover, the Turkish government has established Energy Management Units in its Organised Industrial Zones (OIZs) to provide direct mentoring support to interested companies operating in the zones (see Box 11.2). Information dissemination and promotional activities are planned to become core activities of these units.

Information campaigns and training that aim to raise SME awareness on environmental issues and help them obtain all the necessary information on "going green" are the focus of governmental actions in BiH, particularly in the RS. SME greening-information is available both in print and on line. In addition to this, the RS government envisages introduction of eco-labels so as to increase recognition of good environmental practices in the market.

Good environmental practices in Turkey are recognised through awards offered by chambers and sectoral associations (e.g. the Istanbul Chamber of Industry). Notably, each year KOSGEB names an enterprise the "Environmentally-friendly SME of the Year" in its annual entrepreneurship awards. Moreover, in North Macedonia, the Ministry of Environment and Physical Planning awards SMEs for their achievements in the area of environmental protection and improvement. These awards also exist in Serbia and Bosnia and Herzegovina (but only in the Federation of BiH).

Box 11.2. Enhancing SME energy efficiency in Turkey: creating energy management units in Organised Industrial Zones

As part of the Energy Efficient Industry Project, the Turkish government has formed energy management units in special economic zones (known as Organised Industrial Zones or OIZs). The units aim to reach out to particular production-oriented SMEs and encourage them to adopt energy-efficiency measures. OIZs are designed to allow companies to operate within an investor-friendly environment with ready-to-use infrastructure and social facilities. The infrastructure provided in OIZs includes roads, water, natural gas, electricity, communications, waste treatment and other services.

The project is implemented by the Energy Efficiency Association in partnership with the Ministry of Energy and Natural Resources of Turkey and an Organised Industrial Zones Higher Institution. The project aims to enhance energy efficiency in SMEs in the OIZs by raising awareness, promoting a culture of efficiency among their staff, and introducing small-scale changes in the industry (reducing electricity/water consumption and achieving savings through simple modifications of certain parts of the manufacturing processes). To develop the expertise to establish energy management units, the government co-operated with the local office of the Japan International Cooperation Agency and other partners.

For the last couple of years, energy efficiency has become more pronounced in Turkey – a growing number of SMEs are benefitting from the programmes and savings are being achieved by the beneficiaries.

The measures implemented by Turkey could also be emulated by the Western Balkan economies – especially those such as Bosnia and Herzegovina, North Macedonia and Serbia, that have well-established industrial zones. Co-operation with international organisations on capacity building and to organise programmes and projects for increasing businesses' energy efficiency is already happening in the region, and efforts could now be directed towards SMEs inside the zones.

Sources: Bütüner, H. (2014[14]), Organised Industrial Zones in Turkey - SWOT analysis,

https://www.linkedin.com/pulse/20141020214614-114102137-organized-industrial-zones-in-turkey-swot; Energy Efficient Industry (2014[15]), *Our Project*, Energy Efficient Industry website, http://enerjiverimlisanayi.com/en/icerik/projemiz/41; Government of Turkey (n.d.[16]), Invest in Turkey, http://www.invest.gov.tr/en US/investmentguide/investorsguide/Pages/SpecialInvestmentZones.aspx.

Financial incentives are rarely used to support SME greening in the region

Once SMEs decide to adopt environmentally friendly practices, they then face some difficult financial options. First, there are very few options generally in the region and, second, the costs of capital for environmental loans are high – reflecting the high risk of borrowing for green investments (OECD, 2018[4]).

Financial incentives for SME greening are still non-existent in the WBT region, with the exception of Turkey and, to a limited extent, Serbia. The new SME strategies of the Republika Srpska in Bosnia and Herzegovina, Montenegro and North Macedonia foresee the introduction of financial incentives, but what type of incentives, and how they will be implemented, remain unclear.

Turkey has developed a range of financial incentives to support SME greening. One of its key goals is to improve SMEs' energy efficiency. To this end, KOSGEB provides financial support to companies through various programmes. One of them – the Efficiency Increasing Programme – is run in co-operation with the Ministry of Energy and Natural Resources' Directorate, General Renewable Energy. Companies with energy consumption over a certain threshold can apply to the programme, which will support their energy efficiency projects by up to 30%, to an upper limit of TRY 1 million (Turkish lira; around EUR 170 000). Voluntary Agreements is another programme, under which the government covers 20% of companies' energy costs, up to TRY 200 000 annually (around EUR 33 100), on the condition that they reduce their energy costs by 10% of their five-year consumption average. KOSGEB also provides financing for SME energy efficiency audits and for consultancy and training costs under the General Support Programme. This support covers 50%, 60% or 70% of the costs, depending on the region, up to TRY 75 000 (around EUR 12 400). KOSGEB also provides financing for energy efficiency projects under the SME Development Support Programme, which covers between 60% and 80% of project costs. In addition to this, the government subsidises energy efficiency consultancy services for SMEs. Monitoring of these programmes is conducted regularly, while the impact of financial incentives on SME greening has not yet been carried out.

In Serbia, a new donor-based and one-off instrument, Green Innovation Vouchers, was launched in December 2017. The project was implemented by the EBRD and funded by the Austrian Delivering Resource Efficiency Investments programme. Green Innovation Vouchers are grants of up to EUR 20 000 (excluding value-added tax) and cover 90% of eligible research and development (R&D) service costs. This allows SMEs to develop new products, services and processes, or innovate existing ones, in order to increase resource efficiency; thus supporting the transition to the green economy. Four years after the previous Fund for Environmental Protection was shut down, the Serbian Green Fund, a government fund to support environmental projects, was set up at the beginning of 2017. However, it focuses on large infrastructure projects, and offers no incentives for SMEs. The situation is quite similar in the rest of the region – environmental funds provide financial support to local municipalities and large companies, while SMEs are usually beyond their scope.

Regulatory instruments are almost non-existent in the region

Regulatory instruments can be useful for reducing the administrative burden on SMEs of complying with environmental standards and rules. Smaller businesses, which often have limited in-house regulatory capacity, can benefit from a standardised, rules-based approach to setting environmental requirements (OECD, 2018[4]). Regulatory instruments also help to sustain balance among competing resources and to protect the environment.

Appropriate instruments include simplified permit procedures and rules, reduced inspection frequency for low-risk facilities, technology standards (e.g. best-available technology) and performance standards (limits on air emissions, water effluents or noise levels; requirements for material recycling and solid waste management regulations; and energy efficiency or fuel economy standards).

As the previous assessment found, the WBT economies do not provide regulatory instruments to simplify permit procedures or reduce the inspection frequency of low-risk facilities. Turkey alone offers performance standards – requirements for recycling the material used for packaging. The Regulation on Packaging Waste Control identifies how much of each material used by manufacturers should be recycled: 54% of glass, plastic, metal and paper packages. Under this regulation, authorised organisations and municipalities collect and recycle the packaging waste. Companies need to be a member of these authorised organisations and have to pay membership fees to reuse these recycled materials.

In the Western Balkans, only the Montenegrin National Strategy for Sustainable Development includes some elements of a circular economy and related regulatory instruments, but the strategy sets no timeframe for these actions, and information on their implementation remains limited.

Public procurement is starting to be used to stimulate green products and services by SMEs

Where there is limited demand for green products and services, SMEs may also need additional support. Green public procurement can be used to boost demand for green products in markets where private consumer demand is insufficient, and can also increase their market acceptance by demonstrating their commercial feasibility. Despite its effectiveness as a policy instrument, it should be noted that the demand-pull effect of green public procurement is likely to be limited in the small WBT economies, with the exception of Turkey.

The region has started to make attempts to capitalise on green public procurement. Montenegro's MSME strategy envisions introducing environmental impact criteria in public procurement. Turkey is introducing green public procurement policies through the promotion of the purchase of goods and services with minimum energy efficiency criteria. However, these are still at an initial stage. In Serbia, environmental policies are recognised in the law on public procurement, but in practice this aspect of public procurement is not being implemented.

The way forward for incentives and instruments for SME greening

Even though SME greening policies seem to have gained some momentum in the WBT region since the last assessment, they are still not fully backed up by regulatory instruments and financial incentives for SMEs to adopt environmentally friendly practices. Going forward, governments are invited to:

- **Step up efforts to provide advice and guidance to SMEs on green practices.** These activities should include disseminating guidance on good practices and conducting outreach programmes to promote eco-friendly practices. Workshops, training, industry fairs, distributing successful case studies and fostering co-operation over environmental issues could be particularly successful in disseminating information and generic advice on how to apply green practices. Targeted, concise, user-friendly guides focusing on the business benefits of adopting environmentally friendly practices can be another very effective information-based tool (OECD, 2018[4]). In practice, one of the most important aspects of these information-based assistance programmes is to concentrate all the information (advice, informational and methodological materials) in one place. These activities are not very budget-intensive, but they can have a strong impact. Ireland's experience could offer a blueprint for how to effectively go about such activities and enhance SMEs' resource efficiency (see Box 11.3).

Box 11.3. Green Business Ireland: raising awareness of greening advantages to SMEs and enhancing resource efficiency

In 2008 the Environmental Protection Agency of Ireland formed the Green Business Programme under its National Waste Prevention Programme. Its aim was to deliver substantive resource efficiency improvements and cost savings through waste prevention and reductions in water and energy consumption. The programme is managed by the Clean Technology Centre (CTC) at the Cork Institute of Technology. The CTC, established in 1994, has a team of experts in resource efficiency and waste prevention.

The Green Business Programme has provided a range of services to help SMEs increase their resource efficiency: site visits, guidance documents, online tools, seminars and community networking. By registering at www.greenbusiness.ie and using the online audit tools, users can identify opportunities for implementing resource efficiency in their business and identify where cost savings could be made. Businesses can request a site visit, during which a Green Business Advisor will visit their premises and identify free and low-cost measures that will lead to cost savings. The service is free of charge, and operated by the CTC on behalf of the Environmental Protection Agency.

Between 2008 and 2018, with an annual budget of EUR 350 000, the Green Business Programme has visited 400 enterprises from a range of sectors (food processing, banking, public sector, small retailers) and identified an estimated around EUR 15 million of savings for its member enterprises (EUR 8.8 million in energy, EUR 3.8 million in waste and EUR 2.8 million in water). The individual savings identified ranged from EUR 2 000 to EUR 200 000.

Some of the lessons learned from the experience of Green Business is that SMEs are not monitoring their utility costs and are unaware of the extent of waste. In addition, they are unaware of the opportunities to reduce waste at no cost or low cost as well as the opportunities to improve their bottom line and enhance their image. They often also have no awareness of the assistance available to improve their environmental performance.

The example of Green Business demonstrates how a cost-efficient and effective support mechanism can be designed, involving co-operation between the government and academia, which brings various benefits just by identifying potential savings that businesses are usually unaware of. The model underlines the importance of providing

advice and guidance to SMEs to "go green".

Sources: Green Business Ireland (2019[17]), *Green Business Tree*, http://greenbusiness.ie/; (Clean Technology Centre, 2019[18]); EPA (2014[19]), Green Business Initiative, http://www.epa.ie/waste/nwpp/gbi/#.W1opW_ZuI2w; EPA (2019[20]), *National Waste Prevention Programme*, http://www.epa.ie/waste/nwpp/.

- **Introduce regulatory instruments into the SME greening policy mix.** Awareness-raising activities and programmes offering advice and guidance on "going green" should be underpinned by regulatory instruments tailored to the specific context of each economy. First, regulatory requirements for environmental investments by SMEs need to be simplified and streamlined. Governments could introduce standardised permits to reduce the regulatory burden of such investments (OECD, 2018[4]). The frequency and scope of inspections, monitoring and reporting could also be reduced for those SMEs with a more successful environmental record, or which have adopted environmental management systems. For instance, in Norway companies with a certified EMS have less frequent inspections, whereas in France such companies are totally exempt from compliance inspections. Similarly, in Korea, companies with better environmental performance face less frequent routine inspections (OECD, 2018[4]).
- **Address financial barriers to SMEs' greening efforts**. The WBT governments could introduce dedicated loan guarantee schemes to support the approval of green project loans and encourage lenders to make their loan terms more attractive to borrowers. If a client defaults on a loan for green investments, these guarantees would partly compensate lenders. There are already loan guarantee schemes in the region (see Chapter 7 on access to finance for SMEs), but none of them give priority to green projects. Therefore, legally the funds can be mandated to dedicate a percentage of total financing available only for "green projects". In light of the recent legacy of bad loans and conservative bank lending in the region, loan guarantee schemes could significantly increase the current supply of loans for SME greening.

  In addition to loan guarantee schemes, policy makers could also develop programmes that would allow loans to be converted into grants when the expected environmental performance is demonstrated (OECD, 2018[4]). Similarly, governments could facilitate access to finance through loans with reduced interest rates for environmental investments. These loans could be conditional on commitments to go beyond regulatory requirements and on demonstrating satisfactory environmental performance by SMEs. For instance, in Georgia's state programme "Produce in Georgia", Enterprise Georgia[9] provides 10% co-financing for bank loan interest rates and a partial collateral guarantee of up to 50% for the first 48 months, among other services (UNIDO and OECD, 2018[21]). Supporting soft loans or interest rate subsidies should be explored with a critical eye, since there is a risk of lending institutions keeping interest rates high if expectations of subsidies leave no incentive to lower them (OECD, 2018[4]). Governments can also offer direct subsidies to SMEs to introduce environmentally friendly technologies, or fiscal measures such as favourable tax policies and exemptions on import charges for investments in green equipment.

- **Fill the funding gap through the support of state investment banks to SME greening.** Given the relatively limited market presence of commercial banks in the Western Balkans in the area of green investment, measures facilitating SME access to finance could also be introduced through state investment banks. Such banks have recently risen to become lead funders of mission-oriented innovation in various OECD countries' agendas (Mazzucato and Penna, 2016[22]), and they can also be influential drivers of "green growth", bridging the funding gap left by commercial banks. Germany's public bank Kreditanstalt für Wiederaufbau and France's Banque publique d'investissement (Bpifrance) are two good examples (Box 11.4).

Box 11.4. Financial support for green investments: France's Banque publique d'investissement

Banque publique d'investissement (Bpifrance) is a French investment bank formed as a joint venture of two public entities: Caisse des dépôts et consignations and EPIC BPI-Groupe.

Bpifrance's green loan (*Prêt Vert*) provides up to EUR 3 million over seven years to SMEs at a subsidised interest rate, with no guarantees made against company assets. The loans are used to finance investments in more resource-efficient production or the development of eco-efficient products, including investments in intangible assets (R&D, certifications, etc.) and optimisation. The loan is co-financed by the SME's existing financial institution, at one "green euro" for every euro from another lender or equity investment in the company.

SMEs can also get smaller low-rate loans (*Prêt Eco-Energie*) of up to EUR 100 000 to improve energy efficiency, including lighting, heat and other electricity systems, on similar terms to green loans. Moreover, Bpifrance provides a range of other debt and equity green financing products for SMEs, such as equity financing (growth) for SME renewable energy developers; venture capital financing for green start-ups; and grants and reimbursable advances for R&D for innovative projects at early stages.

In addition to its financial services, Bpifrance also helps SMEs to better understand and implement sustainability strategies for their businesses, including dedicated advisory services to help them to self-diagnose their sustainability profiles (integrating environmental issues in business processes, product design, etc.) and define corresponding action plans. Bpifrance also engages in permanent shareholder dialogue with invested companies, in order to help them anticipate the opportunities that could result from a better assessment of environmental issues relevant for their business.

Source: UN Environment (2017[23]), *Mobilising Sustainable Finance for Small and Medium-Sized Enterprises: Reviewing Experience and Identifying Options in the G7*.

Conclusions

Overall, this assessment has demonstrated that the WBT region is moving forward with SME greening policy and developments have picked up pace. Nevertheless, progress remains uneven across economies and across different aspects of policy.

The biggest development is the introduction of SME greening measures and policies into SME strategies in almost the entire WBT region. The main emphases of the SME greening policies are on promoting resource efficiency and eco-innovation, as well as providing information and direct support to SMEs on how to undertake environmentally friendly actions. However, although environmental policies are generally well developed and increasingly address SMEs' specific needs, their implementation remains restricted – especially in the Western Balkans. This is mainly due to the unpredictability of funds, which results in frequent interruptions and delays in programme implementation; but it is also caused by the absence of designated institutions and administrative bodies to co-ordinate SME greening work. Another obstacle is the lack of instruments and incentives for SMEs to adopt environmentally friendly practices. Some financial incentives are starting to be introduced in the new SME strategies, but their full implementation is still lacking.

Addressing the recommendations presented in this chapter will help the WBT governments to support SMEs in their pursuit of environmentally friendly practices and business models, while at the same time increasing prospects for overall economic growth and sustainable development.

Notes

[1] In this SBA assessment cycle, in order to better understand how effective the SME policy implementation is and what its outcomes are, the assessment was complemented by 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). In the context of Dimension 9, the aim was to understand the level of SMEs' awareness about current government programmes designed to encourage SMEs to improve their environmental performance, and ascertain the private sector's view of their quality. It was also important to discover if the various instruments and incentives did encourage SMEs to "go green" as envisaged, and which of the current services the SMEs find most efficient, as well as what other services SMEs would consider effective and supportive.

[2] Resource productivity is measured through three qualitative indicators that assess the existence and degree of implementation of frameworks which support resource productivity: 1) climate change adaptation and mitigation; 2) circular economy initiatives; and 3) municipal solid waste management.

[3] Even though there is no single, commonly used definition of the concept, the circular economy is generally regarded as one in which resources are used more efficiently throughout their life cycle by closing, extending and narrowing material loops to ultimately decouple the consumption of primary raw materials from economic growth. For further discussion on concepts including the circular economy, resource efficiency, secondary materials and decoupling see McCarthy, Dellink and Bibas (2018[11]), pp. 11-12, Box 1.

[4] In addition to the outcome indicators, the quantitative indicators selected under this policy dimension are also presented in Figure 11.3.

[5] The sample size was relatively small for some of the small Member States (Cyprus** Malta and Luxembourg) and most of the non-EU countries surveyed (Albania, Iceland, Montenegro, Moldova, North Macedonia and Serbia), particularly Albania, Moldova and Montenegro where, due to the nature of the economic sector, fewer than 100 businesses were interviewed. The survey was carried out by the TNS Political & Social Network in the 28 EU Member States, Albania, Iceland, Moldova, Montenegro, North Macedonia, Norway, Serbia, Turkey and the United States during 1-18 September 2015. Some 15 020 enterprises were interviewed via telephone (landline

and mobile phone) on behalf of the European Commission, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs.

** 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.

[6] Horizon 2020 is the biggest EU-funded research and innovation programme covering the period from 2014 to 2020. The overall objective of the programme is to ensure Europe produces world-class science, removes barriers to innovation and makes it easier for the public and private sectors to work together in delivering innovation. With nearly EUR 80 billion of funding, it promotes research and innovation by facilitating the commercialisation of innovative ideas from the lab to the market. In particular, Horizon 2020 provides grants to research and innovation projects through open and competitive calls for proposals. Legal entities from any country are eligible to submit project proposals to these calls. Participation from outside the European Union is explicitly encouraged.

[7] In Bosnia and Herzegovina, there are no institutions at the state level that are responsible for promoting a green economy. Strategies and action plans that include goals for a green economy are adopted at the entity level. The relevant entity institutions in this field are the Environmental Protection and Energy Efficiency Fund of the Republic of Srpska and the Environmental Fund of the Federation of Bosnia and Herzegovina. Environmental policies that target SMEs exist only in the Republika Srpska – these are included in its SME development strategy. 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.

[8] For more information on the Scottish Circular Economy Business Network, see https://www.zerowastescotland.org.uk/circular-economy/scottish-network.

[9] For more information on the "Produce in Georgia" programme, see http://www.enterprisegeorgia.gov.ge/en/home.

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Chapter 12. Internationalisation of SMEs (Dimension 10) in the Western Balkans and Turkey

This chapter assesses the performance of the Western Balkans and Turkey in supporting the internationalisation of small and medium-sized enterprises (SMEs). It starts by providing an overview of the assessment framework and progress since the last assessment in 2016. It then analyses the three sub-dimensions of Dimension 10: 1) export promotion, which explores government support and initiatives to help SMEs export their goods and services; 2) integration of SMEs into global value chains, which asks whether governments have planned and implemented programmes to help SMEs integrate globally; and 3) promoting the use of e-commerce, which examines the economies' frameworks for facilitating SMEs' engagement with the digital economy. Each sub-dimension section makes specific recommendations for increasing the capacity and efficiency of systems to support SME internationalisation in the Western Balkans and Turkey

Key findings

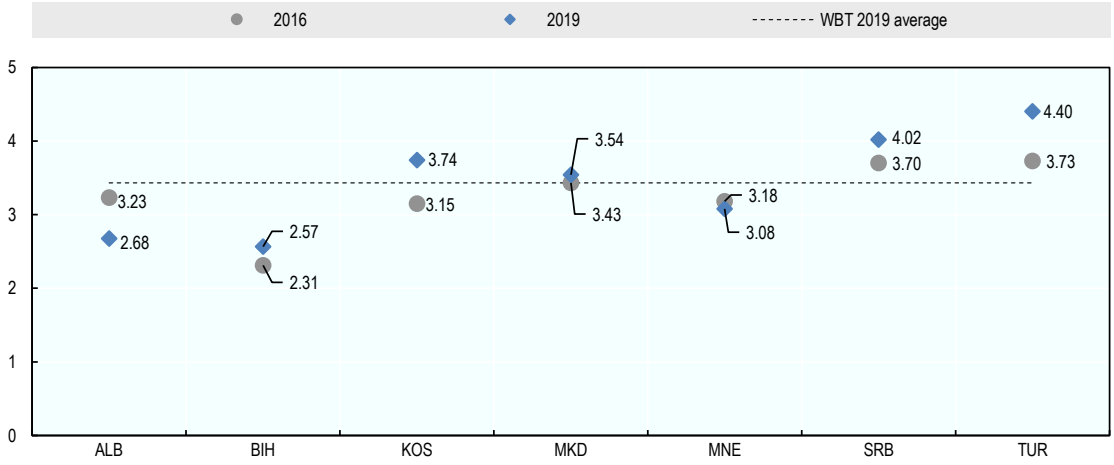
- **All the WBT economies have dedicated institutions to carry out export promotion programmes**. However, in just over half, the provision of export promotion programmes is hampered to some extent by resource constraints on these bodies. Moreover, there is room for increasing the uptake of export promotion programmes across the region, since budgets earmarked for them are not always fully used.
- **Almost all economies have monitoring mechanisms in place for their export promotion programmes and export promotion agencies**. The economies have also improved their collection of data by enterprise size, as nearly all of them now regularly collect data recording SME-specific imports and exports.
- **All the economies now address SME integration in global value chains in their relevant strategic documents and all have programmes planned.** Nonetheless, only five of the WBT economies have operational programmes with mobilised budgets.
- **In most WBT economies, independent evaluations are not carried out of targets achieved and the extent to which export promotion services are efficient or cost-effective in enhancing SMEs' internationalisation**. Albania is the only economy that has benefitted from an independent review of its export promotion activities, however.
- **During the assessment period, only Turkey implemented a programme to encourage SMEs' uptake of e-commerce.** Four of the WBT economies have an established institution responsible for e-commerce promotion. Four economies also have websites dedicated to providing information on the opportunities for and challenges of e-commerce.
- **Legal frameworks for e-payments and consumer protection in e-commerce are in place across all WBT economies**. However, not all of the economies' legal frameworks are fully aligned with the European Union's.

Comparison with the 2016 assessment scores

Since the last assessment, Kosovo* and Turkey have improved the most in their promotion of SME internationalisation (Figure 12.1). While Bosnia and Herzegovina has progressed, its score is still the lowest of all the assessed economies. Albania and Montenegro have made the least progress between 2016 and 2019.

* 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 12.1. Overall scores for Dimension 10 (2016 and 2019)



Note: Scores for 2019 are not directly comparable to the 2016 scores due to a methodological change increasing the focus on 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 previous assessment – the *2016 SME Policy Index* (OECD, 2016[1]) – made a number of recommendations to the WBT economies for internationalising SMEs (Table 12.1). Regulatory trade barriers remain a key impediment to trade facilitation. Progress has been strongest in increasing support for export promotion programmes. Improvement has been more incremental in developing programmes supporting SME integration into global value chains, while monitoring and evaluation remains underdeveloped.

Table 12.1. Implementation of the SME Policy Index 2016 recommendations for Dimension 10

Overall 2016 recommendations	SME Policy Index 2019	
	Main developments during the assessment period	Regional progress status
Reduce regulatory barriers to trade	The WBT economies have made some progress on this 2016 recommendation. Between 2014 and 2017, the costs of importing and exporting due to border compliance remained stagnant or even increased across most of the WBT economies. According to the OECD Trade Facilitation Indicators, most of the WBT economies are challenged in terms of internal and external border agency co-operation. Yet the areas of improvement heavily outweigh the areas of degradation, except for the Republic of North Macedonia. For a detailed summary of the performance of the WBT economies as measured by the OECD Trade Facilitation Indicators between 2015 and 2017, consult Trade facilitation performance.	Moderate
Develop and strengthen export promotion activities and strategies	During the assessment period, Montenegro and North Macedonia adopted new national SME strategies, and Kosovo has prepared a new Private Sector Development Strategy, all touching upon export promotion. Economies have increased the financial support mechanisms available	Moderate

	to SMEs for export promotion, and programmes supporting export promotion for SMEs have become operational. However, Montenegro relied almost exclusively on the Enterprise Europe Network to carry out its export promotion activities.	
Monitor and evaluate existing initiatives	Most economies have not yet moved on from annual reporting towards evaluating their existing initiatives in a way that accurately assesses whether they are effective and tailored to SMEs' needs. Since 2016, only Albania has benefitted from an independent evaluation of the effectiveness of its export promotion programmes (see Chapter 5 on support services for SMEs).	Limited
Provide trade finance tools for exporting SMEs	Trade financing tools have become more widely available in all economies. These include export credit guarantees, export credit insurance and export working capital to help meet the needs of exporting SMEs.	Advanced
Establish programmes to support the integration of SMEs into global value chains	Whereas no economies had tools in place to support SME integration into global value chains in 2016, all of them have now introduced programmes to address this, whether by generating support for industrial clusters, industrial zones, and promoting business linkages, or supplier upgrading schemes. Bosnia and Herzegovina and Montenegro continue to implement cluster support programmes, while Kosovo has established one cluster in the metal industry and renewable energy sector (KIMERK). Serbia and Turkey have developed the most robust programmes to assist SMEs in upgrading their positioning in global value chains by offering schemes for financial support to upgrade machinery.	Moderate

Introduction

The successful internationalisation of SMEs can increase their productivity, accelerate their innovation and enhance their competitiveness. Given that most of the economies of the Western Balkans are relatively small, access to global markets can support SMEs' long-term viability. Their market reach can be broadened and strengthened through exposing them to international competition and greater economies of scale.

Compared to large firms, SMEs face a number of unique internal and external barriers to internationalisation. Many of these are related to the relatively higher fixed costs for smaller firms of several aspects of conducting business. Internal barriers include information, human resources, finance, product and prices, and distribution and logistics. Externally, SMEs are impeded by procedural barriers, government customer and foreign competitor barriers, and business environment barriers. Government support can help SMEs to overcome these economic and technical hurdles inherent to small enterprises and allow them to access foreign markets more easily (OECD, 2018[2]; Asian Development Bank, 2015[3]).

Government support to SMEs in the areas of export promotion, integration into global value chains and e-commerce can help SMEs to internationalise in a way that enhances their visibility, optimises their productivity and harmonises their activities with the growing digital economy.

Facilitating SMEs' access to and competitiveness in international markets requires removing barriers to trade, particularly those that impose fixed costs; increasing access to the information necessary for SMEs to compete and succeed on the international playing field; providing logistical support to establish contacts with external buyers and sellers; and assisting in developing products and services that meet international market demand. This also includes providing financial and technical support for exporting activities and procurements/acquisitions of technology in order to increase SMEs' productive capabilities and quality to upgrade their positioning in supply chains.

Furthermore, SME internationalisation policies should aim to promote targeted programmes that comprehensively assess the needs and potential of SMEs by identifying the specific approaches through which they can engage in exports, become more integrated into global value chains, and participate in e-commerce. This requires in-depth needs analyses that take into consideration the core competences of SMEs as well as the opportunities for linkages into global value chains, whether via larger domestic exporters or multinational enterprises (MNEs).

Assessment framework

Structure

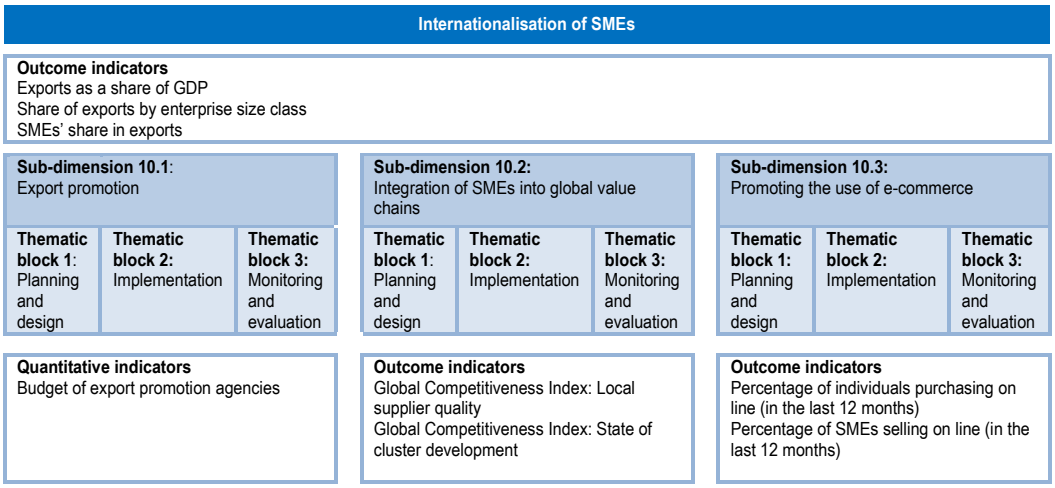
The assessment framework for Dimension 10 consists of three sub-dimensions:

- **Sub-dimension 10.1: Export promotion** assesses governments' support to SMEs for export promotion, examines whether governments have operational export promotion programmes in place that target SMEs and considers the provision of services to help SMEs penetrate international markets.

- **Sub-dimension 10.2: Integration of SMEs into global value chains** evaluates governments' support for SMEs wanting to integrate into global value chains, as well as programmes to promote linkages with larger exporting domestic firms or MNEs.
- **Sub-dimension 10.3: Promoting the use of e-commerce** examines government promotion of the use of e-commerce by SMEs. It considers the prevalence of legal frameworks to secure payments and consumer protection on line, and further analyses the supports in place to facilitate SME uptake of e-commerce.

Figure 12.2 shows how these three sub-dimensions make up the dimension's assessment framework. Each sub-dimension assesses the performance in three thematic blocks: 1) planning and design; 2) implementation; and 3) monitoring and evaluation.

Figure 12.2. Assessment framework for Dimension 10: Internationalisation of SMEs



Note: The outcome indicators serve to demonstrate the extent to which the policies implemented by the government bring about the intended results, and they have not been taken into consideration in the scoring. By contrast, quantitative indicators, as a proxy for the implementation of the policies, affect the overall scores.

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 undertaken with the owners and managers of SMEs.[1] Alongside these qualitative inputs, quantitative data on certain indicators – provided by the economies' statistical offices, relevant ministries and SME agencies – formed an integral part of this assessment. 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 2016 assessment, several changes have been introduced to the assessment framework (Table 12.2). The 2019 assessment now includes a new sub-dimension on the use of e-commerce to incorporate the technological tools that can rapidly accelerate SME efficiency and internationalisation in today's digital economy.

Furthermore, whereas the previous edition of the SME Policy Index considered trading performance as a sub-dimension, it is no longer scored as a sub-dimension in itself, but its content is included in Trade facilitation performance.

Consistent with the change to the weighting of scores across all the other dimensions in this assessment round (see the Policy Framework and Assessment Process chapter and Annex A), the weight allocated to the implementation thematic block has been increased by 5 percentage points. This alteration to the scoring methodology highlights the urgent need to move forward to put strategies into action.

Table 12.2. Key changes in the composition of Dimension 10

Sub-dimension	Key changes since the 2016 assessment
Sub-dimension 10.3: Promoting the use of e-commerce	This new sub-dimension on e-commerce has been added to the assessment.
Performance analysis	The previous sub-dimension on trading performance has been eliminated. The content matter is now analysed under the performance section.
All sub-dimensions	The weights of the thematic blocks in the overall scores have been altered. Greater focus has been placed on implementation (5% increase in the allocated weight).

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

Other sources of information

The section below on performance analysis also draws upon data from the World Economic Forum's *Global Competitiveness Report* (WEF, 2017[4]) and the World Bank's *Doing Business Report* (World Bank, 2017[5]), while key indicators from these reports have also been used to complement the analysis in the relevant sub-dimensions.

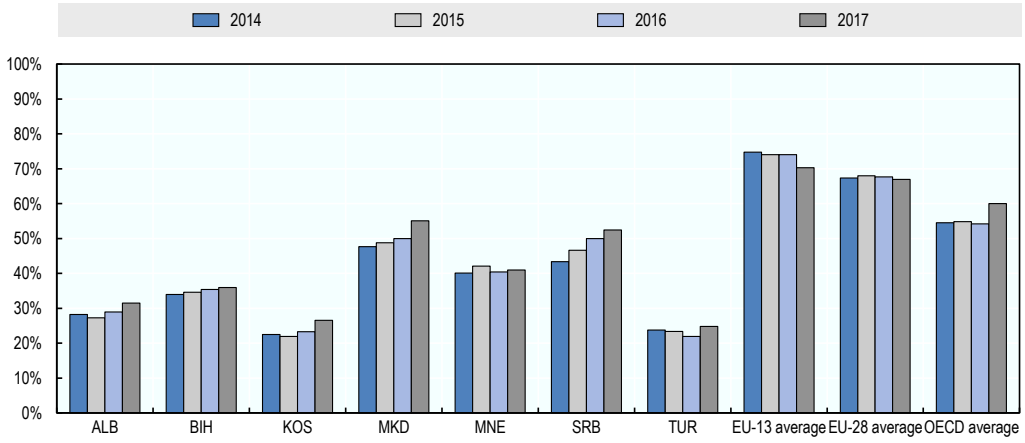
Analysis

Performance in internationalisation of SMEs

Outcome indicators play a key role in examining the effects of policies, and they provide crucial information for policy makers to judge the effectiveness of existing policies and the need for new ones. Put differently, they help policy makers track whether policies are achieving the desired outcome. The outcome indicators chosen for this dimension (see Figure 12.2) are designed to shed light on the WBT economies' export performance in general terms. This section draws on those outcome indicators.

It begins by comparing the WBT economies' shares of exports of goods and services in gross domestic product (GDP) with those of the European Union (EU) and OECD economies (Figure 12.3). Among the WBT economies, North Macedonia had the highest rate of exports as a share of GDP in 2017 (55%), while Turkey had the lowest rate (25%). While exports relative to GDP increased in all WBT economies, Serbia (9 percentage points) and North Macedonia (7.5 percentage points) witnessed the strongest growth between 2014 and 2017. However, exports as a percentage of GDP were higher in 2017, on average, in the EU-13, EU-28 and OECD than they were in the WBT economies.

Figure 12.3. Exports as a percentage of GDP (2014-17)



Note: OECD and EU averages are calculated as simple averages. Due to unavailability of data, the 2017 EU averages do not include Malta. Due to unavailability of data, the OECD average does not include Israel, Japan, New Zealand and the United States. EU-13 – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic 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.
Sources: Statistical offices, ministries and SME agencies of the Western Balkan economies and Turkey.

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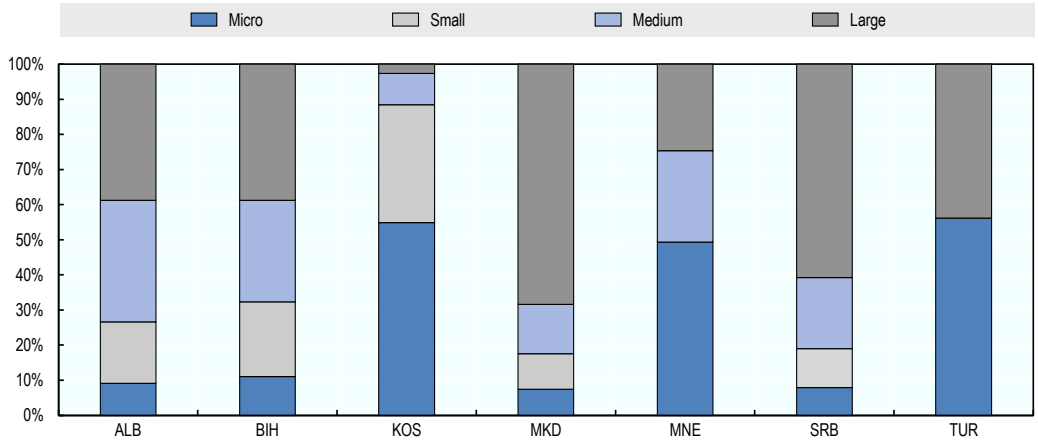
Large enterprises, i.e. those with more than 250 employees, are the size class with the greatest share of exports in all the WBT economies except Kosovo and Montenegro (Figure 12.4).

Figure 12.4. Share of exports by enterprise size class (2017)

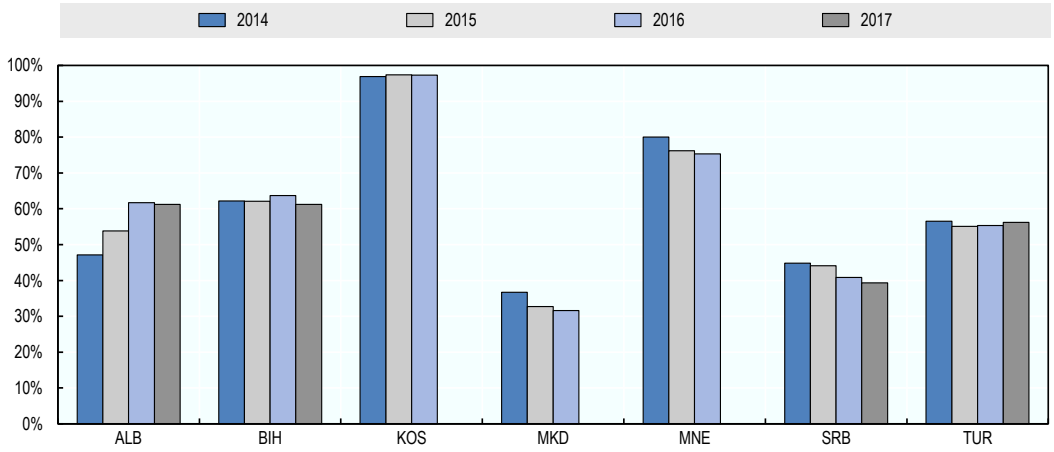


Note: For Bosnia and Herzegovina (BiH) data do not include unincorporated enterprises. Due to unavailability of state-level data, data for BiH have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska. Data for Kosovo, Montenegro and North Macedonia are for 2016. Data for Albania are based on the Albanian size class definitions. For Montenegro, disaggregated data for micro and small enterprises were not available. For Turkey, disaggregated data for micro, small and medium-sized enterprises were not available.
Sources: Statistical offices, ministries and SME agencies of the Western Balkan economies and Turkey.

StatLink http://dx.doi.org/10.1787/888933937717

SMEs' share of exports remained relatively constant throughout the region during 2014-17 except in Albania, whose share increased from 47% to 61% (Figure 12.5). Among the WBT economies, SMEs' share of exports was highest in Kosovo (97% in 2016), and lowest in North Macedonia (32% in 2016).

Figure 12.5. SMEs' share of exports (2014-17)



Note: SMEs are defined as businesses with fewer than 250 employees. For Bosnia and Herzegovina (BiH) data do not include unincorporated enterprises. Due to unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by averaging the data of the Federation of Bosnia and Herzegovina and the Republika Srpska. Due to unavailability of data from the Republika Srpska for 2014 and 2015, the data of Bosnia and Herzegovina depicted in the figure for those two years only reflect the data of the Federation of Bosnia and Herzegovina. 2017 data for Kosovo, Montenegro and North Macedonia are not available. Data for Albania are based on the Albanian size class definitions.
Sources: Statistical offices, ministries and SME agencies of the Western Balkan economies and Turkey.

StatLink http://dx.doi.org/10.1787/888933937736

Although the share of exports by SMEs as a whole remained relatively constant throughout the region between 2014 and 2017, SMEs' exports have the potential to grow – both in absolute value and as a share of total exports – in light of the deepening regional integration. At the Trieste Summit of 12 July 2017, the leaders of the six Western Balkan economies endorsed the *Multi-annual Action Plan for a Regional Economic Area (REA) in the Western Balkans Six*, which puts forward a strategic joint agenda to further regional economic co-operation (MAP, 2017[6]). If fully implemented, this promising initiative for the region could significantly facilitate SMEs' capacity to internationalise.

Export promotion (Sub-dimension 10.1)

SMEs are often at a disadvantage when exporting compared to large firms due to their limited productive capacities and smaller networks. Market failures arise when lack of information leads SMEs to underestimate the benefits of exporting, or to overestimate the barriers, resulting in lower participation in exports than would otherwise be the case (BIS / DFID, 2011[7]). The successful implementation of government export promotion strategies can help SMEs boost their productivity and become better integrated into global value chains (OECD, 2016[8]).

This section assesses governments' support services for SMEs with export potential. It analyses the design and planning of export promotion programmes in accordance with national SME strategies, and assesses the implementation of services in areas such as trade policy and commercial information, representation at major trade fairs, marketing, product development and training, provision of financial support for export activities, and the organisation of export promotion events for SMEs. Finally, it considers the extent to which these programmes and activities are monitored and evaluated.

Overall, all the seven economies perform relatively well in this sub-dimension (Table 12.3). Most of the progress made during this assessment period can be traced to the proliferation and implementation of programmes and services for export promotion. In the case of Bosnia and Herzegovina and Montenegro, the provision of export promotion programmes is hampered by resource-constrained agencies, and relatively weak monitoring and evaluation practices.

Table 12.3. Scores for Sub-dimension 10.1: Export promotion

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	5.00	4.33	5.00	5.00	5.00	4.67	5.00	**4.86**
Implementation	4.29	3.70	4.81	4.06	3.12	4.91	4.76	**4.24**
Monitoring and evaluation	3.71	2.19	3.57	2.86	1.57	3.71	3.43	**3.01**
Weighted average	**4.39**	**3.59**	**4.62**	**4.10**	**3.37**	**4.60**	**4.57**	**4.18**

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

National SME strategies all include export promotion

All the WBT economies have government export promotion programmes in place which support SMEs and have links to national SME strategies or an equivalent document. While most economies do not have SME-specific export promotion programmes by name, they support export promotion for SMEs through their activities and include SME export promotion objectives in their relevant strategies (Table 12.4).

Table 12.4. Main national strategies covering export promotion

Economy	Relevant national strategy
Albania	Business and Investment Development Strategy 2014-2020
Bosnia and Herzegovina	*Federation of Bosnia and Herzegovina:* Development of Small and Medium Enterprises in the Federation of Bosnia and Herzegovina 2009-2018 *Republika Srpska:* Strategy for the Development of Small and Medium Enterprises 2016-2020 Foreign Investment Encouragement Strategy 2016-2020
Kosovo	Private Sector Development Strategy 2018-2022 (still a draft at the time of writing)
Montenegro	Strategy for the Development of Micro, Small and Medium-Sized Enterprises 2018-2022
North Macedonia	National Small and Medium Enterprise Strategy 2018-2023
Serbia	SME Development Strategy 2015-2020
Turkey	SME Strategy 2015-2018 Export Strategy 2023 The Industrial Strategy of 2015-2018 The e-Export strategy

All the WBT economies consulted the private sector during the design and development of their export promotion programmes. Formal consultations in which the proceedings were recorded have been held in all the economies except Serbia, which held continuous informal consultations through its Chamber of Commerce in creating its pilot programme for export promotion. However, as both the private sector and government representatives noted, institutional co-ordination in the planning and design of programmes remains weak in Bosnia and Herzegovina.

Despite the existence of regular consultations, the interviews with SMEs conducted for this assessment indicate that they still do not feel that their interests are adequately taken into consideration in the planning and design of export promotion programmes, resulting in overly general programmes that are not sufficiently tailored to their needs. Therefore, the effectiveness of consultations held with the private sector across the WBT economies could be further improved by making sure more representative groups of SMEs are included.

Limited staff and funds hinder comprehensive export promotion activities

Export promotion agencies are important vehicles for boosting SMEs' capacity to export. Their design, funding and collaboration with the private sector can have a significant impact on their capacity to promote exports successfully (see Box 12.1).

Box 12.1. Evidence for the impact of export promotion agencies on exports

The seminal paper "Export promotion agencies: Do they work?" demonstrated that export promotion agencies (EPAs) have a statistically significant impact on exports and that their services can be important in overcoming foreign trade barriers and solving asymmetric information problems associated with exports (Lederman, Olarreaga and Payton, 2010[9]). A related group of researchers extended this research to shed light on the factors which lead to successful export promotion programmes. The resulting report, "Export promotion: What works?" (Sperlich, Trachsel and Olarreaga, 2017[10]) merges information from three rounds of surveys conducted by the World Bank and International Trade Centre on EPAs' budgets, sources of funding, governance, and activities over 2005-14. The surveys gathered responses from 94 EPAs and allowed for an analysis of each national EPA budget, sources of funding, governance, and activities.

Main findings

The main findings of this longitudinal study highlight the factors that make some EPAs successful in stimulating their economies' exports:

- A 1% increase in export promotion budgets generates an average increase in exports of between 0.046 and 0.076%.
- Initially, increases in the share of EPAs' funding coming from user fees tend to increase the impact of export promotion on exports, but when the share of funding from user fees is very high, further increases marginally decrease export returns.
- Spending a larger share of the budget on companies which do not yet export initially increases marginal export returns, but reduces them in the longer run.
- Focusing on established exporters rather than occasional exporters increases marginal export returns.
- Targeting small firms rather than large and medium-sized ones reduces marginal export returns.
- Having a larger share of the executive board from the private sector increases marginal export returns.
- Targeting a few sectors, firms or destinations rather than promoting all sectors and destinations increases marginal export returns.

Conclusion

Taken together, the findings from these linked studies evaluate the effectiveness and identify the successful characteristics of EPAs. Governments would do well to take these findings into consideration in the strategic design and dedication of budgeting for their EPAs.

Sources: Lederman, Olarreaga and Payton (2010[9]), "Export promotion agencies: Do they work?", *Journal of Development Economics*, https://doi.org/10.1016/j.jdeveco.2009.09.003; Sperlich, Trachsel and Olarreaga (2017[10]), "Export promotion: What works?", www.ferdi.fr/sites/www.ferdi.fr/files/publication/fichiers/p184_ferdi-_olarreaga-sperlich-trachsel_0.pdf.

There are dedicated institutions carrying out export promotion programmes in all the WBT economies. However, the design and implementation of programmes vary across the region, and in some cases are greatly hindered because the export promotion agencies either do not have the autonomy to decide how to allocate their budget and manage their human resources, or are insufficiently funded.

Of all the WBT economies, Serbia and Turkey's export promotion institutions are the most appropriately staffed and funded. The Serbian Development Agency (RAS) has been responsible for export promotion in Serbia since 2016 (overseen by the Ministry of Economy). In 2017, 15 of its 70 employees were working on implementing its Export Promotion Programme and its Support Programme for Exporters, with a budget of RSD 105 million (Serbian dinar; EUR 885 000) for these two programmes. Additionally, over 2017-18 RAS implemented a total budget of EUR 96 000 from the European Enterprise Network (EEN; see Box 12.2) to organise business-to-business (B2B) meetings in Serbia and abroad, connect domestic SMEs with those abroad, and provide information about foreign markets.

Turkey has over 15 different export promotion programmes as a result of numerous communiqués and parallel national strategies. The primary institution responsible for exports in Turkey is the Directorate General of Exports (DG Exports) of the Ministry of Trade. The SME Development and Support Organisation (KOSGEB) implements SME-specific programmes and has recently introduced an Internationalisation Support Programme.[2] The Turkish Exporters Assembly and Turk Eximbank also provide financial and technical support for export promotion. DG Exports implements support mechanisms for trade policy information; marketing services, including foreign market research and reports on market access; and consultancy and training to SMEs on exports and internationalisation.[3] The budget of DG Exports totalled TRY 989.5 million (Turkish lira; EUR 235.6 million) in 2017. Furthermore, the Ministry of Trade will establish 25 new export support desks across 16 provinces with proven export potential, which will significantly broaden support coverage and target export mobilisation through e-exports and e-commerce (Ministry of Trade of Turkey, 2018[11]).[4]

However, the other WB economies lag behind in their operational capacity to carry out extensive export promotion activities with a broad outreach.

The Albanian Investment Development Agency (AIDA) has been implementing export promotion activities since 2010. AIDA has operational autonomy to carry out its activities, but has relatively limited funds and only five employees working on export promotion. It has a fully government-funded annual budget of EUR 95 000 for export promotion.

Kosovo's Investment and Enterprise Support Agency (KIESA) had three employees and an allocated budget of EUR 351 000 for its export promotion and support sector in 2018. In North Macedonia, the Agency for Foreign Investment and Export Promotion of the Republic of Macedonia (Invest Macedonia) implemented a budget of approximately EUR 10 000 in 2017 and had EUR 70 000 allocated for its activities in 2018. Changes in staff are frequent, and have delayed the implementation of its 2018 work plan.

In Bosnia and Herzegovina, the Export Promotion Chamber of the Foreign Trade Chamber supports the development of export promotion policies with the Ministry of Trade and Economic Relations at the state level. It also co-operates with other agencies, such as the Foreign Investment Promotion Agency, regional chambers of commerce, and entity-level ministries.[5] Although it has autonomy over its budget and human resources, it is limited in both staff and funds. In the Federation of Bosnia and Herzegovina (FBiH), the Federal Ministry for Development, Entrepreneurship and Crafts (FMRPO) provides support schemes for SMEs, some of which also include export promotion activities. The Foreign Trade Chamber also acts as EEN co-ordinator in the FBiH.

In the entity of the Republika Srpska (RS), export promotion is carried out by the Ministry of Economic Relations and Regional Co-operation and the Republic Agency for Development of SMEs (RARS), which acts as EEN co-ordinator and works to implement EEN activities to support export promotion.[6] Budget figures for the respective institutions in charge of export promotion in Bosnia and Herzegovina are not available.

In Montenegro, the Ministry of Economy, via the Directorate for SME Development, was responsible for carrying out export promotion programmes under the previous SME Development Strategy (2011-2015). However, the directorate did not organise export promotion events or provide financial support to exporting SMEs, and relied almost exclusively on the EEN to carry out export promotion activities. Following a larger restructuring process of the ministry, the Directorate for Investments, Development of Small and Medium Enterprises and Management of EU Funds was set up in 2018 to provide SMEs with a one-stop shop for business support services (BSSs). In 2018, it had 20 employees and a budget of about EUR 600 000.

The average budget figures earmarked for export promotion activities in the Western Balkan economies are significantly lower than for other economies in the region. For example, in 2016, Slovenia's export promotion agency SPIRIT Slovenia had an operational budget of EUR 2.1 million and spent EUR 2.7 million on internationalisation activities (SPIRIT Slovenia, 2017[12]).

The insufficient financial resources devoted to export promotion in the Western Balkans are further exacerbated by the fact that export promotion agencies, in most cases, do not have a clear focus on certain activities or sectors. This poorly targeted support spreads the already limited budgets too thinly, hampering the effectiveness of the economies' export promotion efforts.

Box 12.2. SME support through the Enterprise Europe Network

SMEs in the WBT economies can benefit from support services offered by the Enterprise Europe Network (EEN). Since its launch by the European Commission in 2008, EEN has helped SMEs innovate and grow on an international scale. It is co-financed under the European Union's Competitiveness of Enterprises and Small and Medium-sized

Enterprises (COSME) programme.

EEN operates in over 60 countries worldwide and co-ordinates more than 3 000 experts and 600 member organisations, making it the world's largest support network for SMEs with international ambitions.

The network manages Europe's largest online database of business opportunities, allowing SMEs to search for business or academic partners to manufacture, distribute, co-develop and supply products, ideas and services. SMEs can access the site directly to find a partner abroad for their business, and can also use the European Innovation Council (EIC) wizard to identify which innovation funding instrument is best suited to their needs.

Between 2018 and 2020 an EIC pilot will provide EUR 2.7 billion to breakthrough, market-creating innovations. The largest portion of this is dedicated to the SME Instrument, which has a total budget of more than EUR 1.6 billion. This support is aimed at people and companies with ideas or innovations which are radically different from existing products, services or technologies; are highly risky; and need additional investment to get to market.

The SME Instrument is for small businesses – including start-ups – with a radical innovation that could disrupt established value networks and markets. The companies should have the ambition and potential to scale up. The SME Instrument provides full-cycle business innovation support. It has three phases, including a coaching and mentoring service.

Sources: EC (2018[13]), *Enterprise Europe Network website*, https://een.ec.europa.eu/ (accessed on 22 January 2019); EC (2018[14]), *EIC Pilot Funding*, https://ec.europa.eu/research/eic/index.cfm?pg=funding (accessed on 22 January 2019).

Export promotion programmes are widely operational but their uptake by SMEs could be further increased

Currently, all the economies provide some form of assistance to SMEs to foster their exports and access to international markets. This ranges from providing tailored information on trade policy and commercial intelligence, to financially supporting SMEs' attendance at trade fairs, organising customised training courses on marketing, and product development. Alongside these government efforts, SMEs can access support from EEN (Box 12.2).

SMEs repeatedly underlined in the private sector interviews that they require substantial support to conduct international market analysis in order to identify relevant export opportunities, and also noted their need for greater assistance to acquire product certifications in order to export. Some of the WBT economies offer these services more widely than others.

In Albania, AIDA's technical support covers the provision of market information, assistance in drafting marketing plans, and identifying SMEs' needs and training deficiencies. In 2017, 77 SMEs benefitted from financial support for export promotion through the Competitiveness Fund managed by AIDA. This included covering 70% of export costs related to product improvements (e.g. packaging, product conformity and certification), international trade fair participation and promotional materials.

In Serbia since March 2017, RAS has supported SMEs to foster their export competitiveness through its two pilot programmes described above: the Export Promotion

Programme and the Exporter Support Programme. The Export Promotion Programme has two components: 1) support for individual exhibits at international fairs abroad, covering up to 50% of companies' individual costs, with a total budget of RSD 40 million (EUR 329 500); and 2) the organisation of company visits abroad, with RSD 20 million (EUR 164 800) set aside to cover 50% of costs in each programme in the form of grants of up to RSD 1 million (EUR 8 300).[7] The Exporter Support Programme, launched in March 2017, also has two components: 1) Preparing for the First Export (EUR 100 000), which provides co-financing to the value of 60% in grants for organising thematic workshops on exporting for SMEs; and 2) Improving the Capacity of Exporters (EUR 335 000), which provides 50% in co-financing to SMEs for implementing international standards, certification and re-certification, export plan development, and tailored training for exporting and for designing new products or packaging.[8]

Turkey supported around 185 projects under the Supporting the Development of International Competitiveness programmes between 2011 and 2016, the umbrella organisations which benefitted each had around 15 companies.[9] Under the Ministry of Trade's call for projects to improve exports, 185 individual projects have been carried out. DG Exports also implements the Participation to Trade Fairs Organised Abroad, Market Research and Access to Market, International Branding, and the TURQUALITY projects.

North Macedonia targets its financial and technical support on SMEs that generate a certain amount of turnover and that have been identified as "fast-growing", having increased both their number of employees and turnover by at least 20% in one year. Moreover, the Ministry of Economy provides co-financing to SMEs at a rate of 75% up to the maximum amount of EUR 3 000 for market research, marketing strategy, training and promotional materials.

In Kosovo, KIESA's department for export promotion maintains a database for exporting companies and provides detailed sector reports for export-seeking SMEs on its website, with guidelines on exporting and information on creating a marketing plan (KIESA, 2018[15]). Over 300 SMEs received financial assistance to participate in conferences, trade fairs and consultancy services for exports in 2017, while 47 export-related contracts were signed in the same year. Several donor-funded programmes are also underway, such as the EUR 3 million Creating Employment through Export Promotion programme funded by GIZ and implemented by KIESA (GIZ, 2018[16]).

Export promotion for SMEs has been weakest in Bosnia and Herzegovina and Montenegro. As mentioned in the previous section, the Ministry of Economy's former SME Directorate in Montenegro did not organise export promotion events or provide financial support to exporting SMEs, and relied almost exclusively on EEN to carry out export promotion activities. Future export promotion activities will continue to be provided through EEN, co-ordinated by the Ministry of Economy. However, in 2019 the new Directorate for Investments, Development of Small and Medium Enterprises and Management of EU Funds plans to develop a new programme which will be dedicated to enhancing export promotion for SMEs.

Financial support for SMEs in export promotion remains inconsistent across Bosnia and Herzegovina. At the state level, the Foreign Trade Chamber supported grants to the sum of EUR 385 000 for the organisation of trade fairs within Bosnia and Herzegovina and EUR 187 000 for participation in international trade fairs in 2017. In the FBiH, the FMRPO has provided SMEs with trade policy information, commercial intelligence, and co-financing support, e.g. for product development support and training. Under its

Strengthening the Competitiveness of SMEs scheme, it also provides export promotion support. In total, it allocated BAM 2 million (Bosnia and Herzegovina convertible mark; about EUR 1 million) to this scheme in 2017, of which BAM 300 000 (about EUR 154 000) were allocated to export promotion support. In the Republika Srpska, RARS itself provides mostly technical support and organises SME promotion events, while funding opportunities for SMEs remain limited. Meanwhile, the Chamber of Commerce and Industry of the Republika Srpska also supports the annual participation of business entities in domestic and international trade fairs in co-operation with chambers of commerce in the region and abroad, and the representation offices of the RS and international organisations.[10]

However, it is evident that the uptake of export promotion programmes among SMEs could be improved, since the budgets allocated across the Western Balkans and Turkey are not always fully used by SMEs. For instance, in a recent survey conducted by Turkey, 62% of the surveyed SMEs reported that although they were aware of the various support programmes, they did not believe that they could actually receive financial support under them even if they applied (see Box 12.3). The most commonly cited reasons were the complex application procedures and their lack of political connections. Although such surveys have not been undertaken in the Western Balkans, SMEs in these economies are likely to suffer from similar barriers. Recognising the SMEs' poor perceptions of export support programmes, Turkey embarked on a new project in 2017 using behavioural economics to design mechanisms to increase uptake of its export promotion support and revive interest among SMEs (Box 12.3).

Box 12.3. Nudge Turkey: Designing user-friendly policies for exporting SMEs

Nudge Turkey was established in 2017 with funding from the British Embassy in Turkey. A Behavioural Insights Team from the United Kingdom provided consultancy support and Ernst & Young Turkey managed the implementation.

Challenges

The major goal of this project was to increase public support use, particularly by SMEs. A number of different programmes exist in Turkey that support firms to export. However, the analysis of Nudge Turkey, which is an official department within the Ministry of Trade, showed that 86% of registered exporters which were eligible for at least one type of public support had not received any support. The median export value of those which did not receive a public support was below USD 30 000 in 2017, and the median number of employees was 8 in 2016, which indicates that public support are used by large companies which are familiar with the processes and have the necessary resources to manage the application process. Meanwhile SMEs, which need financial support the most, have remained largely unreached.

Scope

Nudge Turkey began with face-to-face interviews with exporters based in Ankara who had never received a public support, in order to find out why these firms had not applied. The results indicated that 73% had heard of at least one of the public supports, 77% did not know how to apply and 43% had heard positive feedback about the support. Most importantly, 62% believed that even if they applied, they would not receive the support.

For this last group, the reasons included being unable to complete the application process

due to either complex procedures or insufficient resources, and concerns that the total subsidy budget may not be sufficient for all applications.

The project, in collaboration with the Behavioural Insights Team, designed an intervention to increase awareness of the available public support programmes and to encourage SMEs to apply. It aimed to address SMEs' cognitive biases when applying for the subsidies, indicated by their identified concerns and prejudices. A randomised control trial was carried out, and different e-mails containing behavioural messages were sent to 30 000 firms who did not apply to public support programme before. The preliminary results indicate that the messages, using behavioural economics principles, increased applications by more than 20% relative to the control group.

Nudge Turkey launched a new website (kolaydestek.gov.tr) in March 2018 to provide information to SMEs. It explains the application process using infographics with a few steps, rather than referring to sophisticated legislation; provides direct downloads of application documents, and gives direct contact details of experts for each public support programme. Finally, there are nine different animations, summarising the incentives, as well as a video that features the Minister of Trade addressing firms' concerns as identified through the interviews. Since the website's launch, more than 140 000 users have visited it.

Project completion and future initiatives

The team is currently seeking new intervention areas for better policies in Turkey by running randomised control trials. Nudge Turkey has published its first official guide in Turkish titled *Senin Kararın mı*? (Is it your Decision?) on behaviourally informed public policies.

Source: Based on information provided by the Ministry of Trade of Turkey.

Trade financing support mechanisms for exporting SMEs are widely available

Trade financing, such as through export guarantees, is especially relevant to help SMEs bridge the gap between exporters' and importers' differing expectations about when payment should be made. Such differences are an acute impediment for SMEs in accessing international markets (WTO, 2016[17]). SMEs in all the WBT economies could benefit from trade financing mechanisms.

In North Macedonia, the Macedonian Bank for Development Promotion provides export credit and insurance, while all major banks and some other non-bank financial institutions provide trade finance loans, guarantees, and letters of credit.[11]

Serbia's Export Credit and Insurance Agency operates jointly with other financial and development institutions to offer export credit insurance, financing, factoring and guarantees.[12]

In Turkey, Turk Eximbank offers a credit line for export preparation for SMEs to enhance their export capacity.[13] The Credit Guarantee Fund also provides letters of credit and export credit to insurance for SMEs in manufacturing and exporting. Between 2014 and 2018, the World Bank also granted USD 250 million to the Innovative Access to Finance project, which offers access to longer-term Islamic finance and factoring for SMEs and export-oriented enterprises. The project is being intermediated by the Industrial

Development Bank of Turkey and participating banks and factoring companies (World Bank, 2014[18]).

Albania provides support for the export of goods and services through export credit guarantee funds, while trade financing products such as trade finance loans, guarantees, and letters of credit are available through all major banks and some non-bank financial institutions.

Kosovo's Credit Guarantee Fund, established in 2016, offers trade finance tools through local commercial banks mainly supported by donor funding. However, SMEs in Kosovo exhibit little awareness of or demand for trade finance products (EIB, 2016[19]).

In Montenegro, the Investment and Development Fund assures exports of goods and services against non-market risks and supports SMEs in obtaining credits and guarantees. Most banks offer trade finance loans, guarantees and letters of credit.

In Bosnia and Herzegovina, trade finance guarantees to SMEs are available through banks, and many banks also offer letters of credit (EIB, 2016[20]). In the RS, trade finance guarantees are available through the Guarantee Fund of the Republic of Srpska, which offers a repayment period of up to two years for working capital and up to one year for loans for pre-export financing. The guarantee is up to BAM 300 000 (approximately EUR 154 000) for working capital and has a grace period of up to 12 months for working capital to prepare exports (Guarantee Fund of the Republic of Srpska, 2015[21]).

The European Bank for Reconstruction and Development's (EBRD) Trade Facilitation Programme provides trade finance in the form of short-term loans to selected local banks in all economies across the region (EBRD, 2018[22]).

Comprehensive and performance-based monitoring is largely lacking

All the economies except Montenegro have monitoring mechanisms in place for their export promotion programmes and export promotion agencies. The economies have also improved their collection of data differentiated by enterprise size, as nearly all of them now regularly collect data that track SME-specific imports and exports (see Figure 12.4).

Nevertheless, comprehensive and performance-based monitoring remains largely absent in the region. In most economies, monitoring does not include independent evaluations of targets achieved, nor does it assess the extent to which the services are efficient or cost-effective in increasing exports.

Albania is the only economy to benefit from an independent review of its export promotion activities. AIDA's Board of Directors and the Ministry of Economy and Finance regularly monitor AIDA's activities for effectiveness in achieving exports, and an independent evaluation of the funds used by AIDA was carried out by independent experts in 2017 (Memi and Shkodrani, 2017[23]). The report analysed quantitative data on the uptake of each funding scheme (number of applicants and number of beneficiaries) and evaluated the funds' administration based on two sources of qualitative information.[14] While it did not evaluate the quantitative impact on exports, the report provided a qualitative evaluation of the strengths and weaknesses of each fund and made appropriate recommendations for each weakness identified. It represents a positive first step towards more comprehensive evaluations of programmes.

Only the export promotion agencies in Kosovo, North Macedonia, Serbia and Turkey make annual reports on their activities publicly available. In some cases where SMEs receive direct financial support, the names of the beneficiary SMEs are not directly

available to the public, which impairs transparency. For example, in North Macedonia the beneficiaries of financial support are not made public, while in Turkey business associations such as the Chamber of Commerce group SMEs together by sector and apply on their behalf for financial support. Only the name of these umbrella organisations are made public, not the names of the SME beneficiaries themselves.

Unlike the other assessed economies, Kosovo's KIESA does publish the actual signed and stamped evaluation form of each applicant on its website, offering full transparency on the beneficiaries and assessment scores of all applicants. This initiative was introduced in 2018, and it is believed that it will help to increase the transparency and accountability of the government officials who conduct evaluations and decide on the beneficiaries of various support programmes. Likewise, by providing publicly available examples of successful applications, it can also allow other SMEs to identify the qualities that make applicants successful and adapt their own applications accordingly.

The way forward for export promotion

- **Increase the human and financial capacity of export promotion agencies to provide more effective support to SMEs.** Government and private sector stakeholders in the Western Balkans repeatedly highlighted that the implementation of export promotion support suffers from the agencies' limited financial and human resources. Moving from grant-only programmes towards a greater number co-financing schemes, as well as collecting affordable user fees, would be the first steps towards boosting agencies' resources and underpinning their financial sustainability. Pouring more money into agencies' budgets is not enough to enhance their capacity, however. Staff need to be well versed in the challenges and needs of the enterprises in their economies in order to be able to develop tailored export promotion programmes for SMEs operating in different sectors. Giving the private sector and civil society organisations a larger share of the seats on agencies' executive boards could help to ensure that their programmes remain relevant.
- **Boost export promotion agencies' efforts to monitor their programmes comprehensively, and assess their impact transparently.** Disaggregated data need to be systematically and regularly collected to allow for quantitative evaluations. All economies should strengthen their monitoring and evaluation of their export promotion programmes in a way that critically assesses their output, results and impact on exports achieved, as this will allow them to further improve their programmes' designs and delivery. Systematic data collection will also allow for econometric evaluations of the cost effectiveness of export promotion agencies. In addition, regular independent evaluations are needed, led by companies hired through a competitive tender. Monitoring and evaluation are of paramount importance to increasing the effectiveness of public sector programmes and public budget allocation and spending. The *OECD Framework for the Evaluation of SME and Entrepreneurship Programmes and Policies* (2008[24]) can provide guidance for the WBT economies (see Box 5.3 in Chapter 5 on support services for SMEs).

Integration of SMEs into global value chains (Sub-dimension 10.2)

Participation in global value chains (GVCs) allows SMEs to enhance their efficiency and core competences by specialising in specific segments of production and performing them

on a large scale, as opposed to trying to master and compete across the entire chain of productive activities (OECD, 2018[25]). SMEs can participate in global value chains directly by exporting intermediate goods and services for further processing, or indirectly by supplying intermediate goods and services to larger domestic firms which then export (OECD, 2018[25]). Indirect participation in global supply chains can be fostered through contractual arrangements with MNEs, such as supply/manufacturing agreements, licensing, research and development (R&D) agreements, technology transfer, and quality support, and by receiving inward foreign direct investment (FDI) (OECD / WTO / World Bank, 2014[26]). SMEs stand to gain much from deep linkages with MNEs including improving their managerial skills, ensuring increased compliance with international standards, accelerating innovation, and ultimately achieving higher-quality production. This has been confirmed by studies of FDI spillovers that have found evidence of MNEs providing local suppliers with help in setting up production lines, training in quality control, coaching in management strategy and financial planning, and introducing them to export markets (Javorcik Smarzynska and Spatareanu, 2005[27]).

SMEs face considerable challenges when integrating into global value chains. The logistics of attempting to integrate into GVCs place a disproportionate burden on SMEs: fixed costs, lack of economies of scale, shortage of working capital and lack of information or adequate training for compliance with quality standards all create barriers (ITC, 2015[28]). These challenges can be overcome through government assistance that is designed around the needs of SMEs and that addresses such barriers in a targeted way to ultimately help them be better informed and equipped to attain the quality standards necessary to become competitive suppliers.

This section assesses government support for the integration of SMEs into global value chains against three thematic blocks (Table 12.5). It considers whether governments have planned and designed programmes to support the integration of SMEs into global value chains, and whether the programmes are linked to relevant national SME strategy documents. It then examines to what extent implementation of government support helps to promote SME clusters and linkages with large exporting domestic firms, assist SMEs to import in order to attain better quality inputs, promote technology transfers from MNEs, and systematically informs SMEs about the programmes and policy initiatives on the benefits of participation in GVCs. Finally, it evaluates the monitoring mechanisms in place for these support programmes.

Table 12.5. Scores for Sub-dimension 10.2: Integration of SMEs into global value chains

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	1.40	2.07	4.00	4.60	3.80	4.60	4.60	**3.58**
Implementation	1.00	1.86	3.86	3.29	2.43	4.43	4.71	**3.08**
Monitoring and evaluation	1.00	1.00	1.00	1.00	3.67	2.33	2.33	**1.76**
Weighted average	**1.12**	**1.75**	**3.33**	**3.22**	**3.09**	**4.06**	**4.20**	**2.97**

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

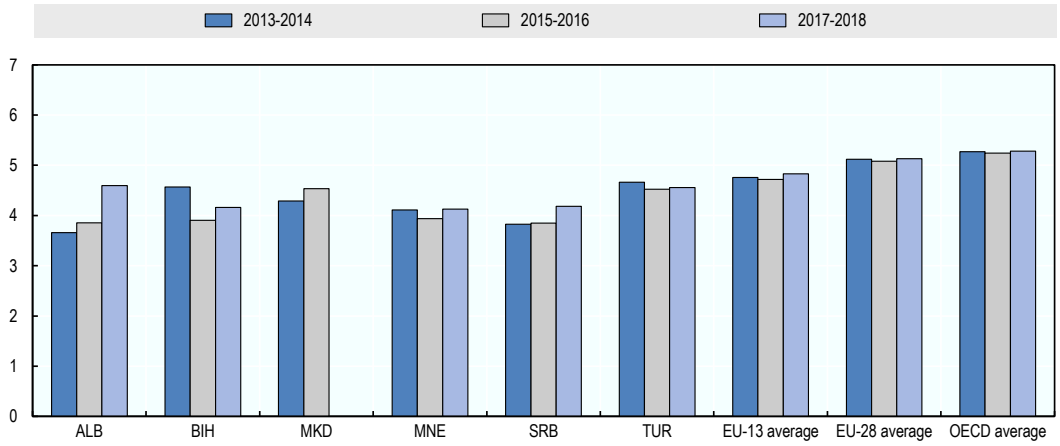
Overall, Serbia and Turkey lead the way in assisting SME integration into value chains, while the rest of the economies – particularly Albania and Bosnia and Herzegovina –

have further room to improve in their support for cluster development and enhancing supplier quality. However, compared to the previous assessment, Kosovo, North Macedonia, Serbia and Turkey have made much progress in the design and implementation of programmes.

Supplier quality in the WBT economies is seen as lower than in EU or OECD economies

Supplier quality is crucial to the successful integration of SMEs into GVCs (UNCTAD, 2010[29]). Bringing their product quality up to a good-enough standard to integrate into value chains was a common challenge noted among SMEs in the private sector interviews conducted during this assessment. This finding is also reflected in the World Economic Forum's *Global Competitiveness Index* (WEF, 2017[4]), which found that the quality of local suppliers is perceived to be lower in WBT economies than the EU and OECD averages (Figure 12.6).

Figure 12.6. Local supplier quality (2013-18)



Note: Survey question: In your country, how do you assess the quality of local suppliers? [1 = extremely poor quality; 7 = extremely high quality]. 2017-18 data for North Macedonia not available. Data for Kosovo not available. OECD and EU averages are calculated as simple averages. EU-13 – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.

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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: WEF (2018[30]), *The Global Competitiveness Index Dataset 2007-2017*, http://reports.weforum.org/global-competitiveness-index-2017-2018/downloads/.

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Economies have started to take a more strategic approach to integrating SMEs into global value chains

The WBT economies have made considerable progress in planning and designing programmes to promote SME integration into global value chains, by also improving

supplier quality. All economies now address SME integration in global value chains in their relevant strategic documents and all have planned programmes (in Bosnia and Herzegovina, programmes exist at the entity level). In Kosovo, North Macedonia, Serbia and Turkey, the programmes are designed to promote business linkages between SMEs and large domestic exporting firms. Most of these programmes also include specific provisions aiming at promoting technology transfers from MNEs.[15]

The implementation of plans has not always followed suit

Carrying these strategies forward, all WBT economies with the exception of Montenegro[16] have a dedicated public institution in place to support SME integration into global value chains, yet only Kosovo (with donor support), Montenegro, Serbia and Turkey have operational programmes with mobilised budgets.[17]

In the absence of a programme to support integration into global value chains, Albania's government provides support for improving production quality. Through the Italian-Albanian project for the development of SMEs, the government provides financial and non-financial tools to assist SMEs in realising investments aimed at increasing their quality of manufacturing and improving their industrial competitiveness. AIDA also works to provide services for SME integration into global value chains under the auspices of EEN.

North Macedonia has also been implementing activities with the aim of promoting business linkages between SMEs and large domestic exporting firms, and encouraging technology transfers from MNEs. Some initiatives have been carried out with the support of international donors. For example, the Macedonia Manufacturing Expo held at the end of 2016 aimed to integrate companies into global supply chains. The event was sponsored by the United States Agency for International Development's (USAID) Small Business Expansion Project, with 48 domestic suppliers and 16 foreign companies present as potential buyers. The Competitiveness and Export Readiness Programme in Kosovo will prepare SMEs to integrate into global value chains and improve national quality infrastructure (World Bank, 2017[31]).

Serbia and Turkey perform particularly well in programme implementation as their programmes are operational and relatively well funded. In Serbia, RAS commenced its Support Programme for the Development of SME Competitiveness in March 2017 with a total available budget of RSD 100 million (about EUR 824 000) (RAS, 2017[32]). It has three main components: capacity building, support to business networks and support for integration into supply chains. Under this last component, the existing programme has provided financial support to 20 enterprises to the value of RSD 28.9 million (EUR 239 000), mostly for purchasing equipment to help them to upgrade within supply chains, and for harmonising their operations with international standards. This arguably indirectly helps SMEs reach the standards needed to supply to exporters (often multinational companies).

In Turkey, the Ministry of Trade directly supports SMEs' integration into global value chains through two primary initiatives, the Directive on Supporting Certificates of Market Access and the Supporting the Development of International Competitiveness (UR-GE) programme, both managed by the Ministry of Trade and implemented by the Turkish Exporters' Assembly. The Directive on Supporting Certificates of Market Access was widened over the assessed period to cover companies' expenses for participating in global value chains (EC, 2017[33]). Its targets are in line with the SME Strategy and the Tenth Development Plan.[18] With a budget of TRY 1.44 billion (about EUR 343 million) over

2018-22, the Turkish Exporters Assembly which implements the project provides project-based financial support for SMEs to procure machinery, equipment, training, consultancy and software, customer visits, and certification-test analysis, to a maximum of 50% of costs and USD 1 million per beneficiary. As this programme was only implemented in 2017, data on its results are not yet available. The companies which have qualified as beneficiaries of the programme will be audited annually by the Ministry of Trade in order to evaluate their performance, though the results of this monitoring will not be made publicly available.

The UR-GE programme also provides strong support for SME integration into GVCs, exemplified by the success of its footwear cluster support project (Box 12.4). The strategic design and implementation of this programme, arranging training and advisory activities in line with needs analysis findings, led to a foreign trade surplus for the region's footwear sector. Meanwhile, KOSGEB indirectly contributes to these efforts through a wide range of supporting activities through the EEN.[19] Alongside these ongoing programmes, KOSGEB's recently designed Internationalisation Support Programme specifically aims to support SME integration in GVCs in such areas as software and hardware; testing, analysis and certification; and service procurement support. Beneficiaries can receive 75% of the cost up to a maximum value of TRY 300 000 (about EUR 71 500) each.[20]

All economies have mechanisms in place to inform SMEs about the programmes and policy initiatives for facilitating their integration into GVCs. Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia, and Turkey have all developed approaches to raise awareness of the potential of participation in GVCs through their websites or periodic events. Albania has created an online B2B platform to help SMEs identify and connect with potential partners, and share information on trade fairs and activities. Montenegro's support is consistently promoted through the Business Caravan project, which has gained widespread media coverage as part of the government initiative to ensure that SMEs are aware of the support services available to them.

Cluster development is increasingly being supported

Clusters are a powerful instrument for connecting groups of specialised SMEs and related innovation actors in order to strengthen their competitiveness (EC, 2016[34]). The European Commission's *Smart Guide to Cluster Policy* highlights that "the full potential of clusters is unlocked when policies and SME support measures are in place that can structure the co-creation process and thus direct public and private investment towards smart specialisation. This requires not only linking up the main players in the regional ecosystem and involving a wide range of stakeholders, but also overcoming sectoral, regional and departmental silos." (EC, 2016[34]).

All WBT economies have included cluster support programmes in their relevant strategy documents.

Serbia's SME Development Strategy 2015-2020 includes actions to support the development of SME clusters. Clusters in Serbia primarily benefit from three programmes:

1. The Support Programme for the Development of SME Competitiveness, which provided support to three clusters for a total of approximately RSD 3.6 million (about EUR 30 000) in 2017. Eligible activities for co-financing under the programme include procurement of joint production equipment, infrastructural furnishing of an existing or

new joint workspace, renovation of an existing or new joint workspace, and the development of joint production processes.

2. The Support Programme for the Development of Business Institutional Infrastructure, which also operates through a co-financing scheme of 50% grants and 50% private funds to support the development of clusters and the stimulation of business associations, among other activities.[21] In 2016, the programme supported 14 clusters with a total of RSD 33 million (about EUR 269 000).

3. The Support Programme for the Promotion of Economic Development Projects. Launched in 2017, the programme targets the promotion of entrepreneurship and best practices with a focus on youth and women's entrepreneurship, the preparation of analysis and research in order to increase SMEs' competitiveness, developing new services and improving existing services for SMEs. In 2017, it supported nine clusters to the value of RSD 14.6 million (about EUR 120 300).

Overall, Montenegro has 37 established clusters registered with the Ministry of Economy, 7 of which are SME-specific. Montenegro seeks to advance its cluster development through programmes by the Ministry of Economy, the Investment and Development Fund and international organisations. Montenegro's Strategy for Development of Micro, Small and Medium-sized Enterprises 2018-2022 covers support for existing clusters and further cluster development, the formation of vertical clusters in the agriculture and tourism sectors, and linking clusters to scientific research institutions. The action plan for the strategy aims for 48 clusters to be registered in the Ministry of Economy's database by 2020. Likewise, the Industrial Policy 2016-2020 aims to integrate the economy into global value chains, with the goal of attaining a higher positioning within value chains and higher export values (Government of Montenegro, 2016[35]). It focuses on improving the modernisation, smart specialisation and connectivity of strategic sectors with an emphasis on improving market access. The Ministry of Economy has been implementing cluster support programmes in co-operation with international donors. For example, since 2014, the Ministry of Economy, the United Nations Development Programme (UNDP) and United Nations Industrial Development Organization (UNIDO) have facilitated cluster development through a joint project, co-funded by the EU (UNIDO, 2015[36]). One of nine Business Stimulating programmes, implemented in co-operation with the UNDP, it seeks to foster cluster development by providing co-financing support for investment in intangible and tangible assets and for operating costs. This programme supported 16 clusters during 2012-16, which received almost EUR 99 500 in support (Ministry of Economy of Montenegro, 2017[37]).

Kosovo's Private Sector Development Strategy 2018-2022 (still a draft at the time of writing) includes actions to support clusters by providing incentives to SMEs for their co-operation and assistance in facilitating meetings, supplying brochures on the steps to cluster formation, and covering administrative costs with the overall aim of achieving self-funded clusters. In the same vein, Kosovo's National Development Strategy 2016-2022 also aims to promote networks and cluster associations through three components, although there are no operational programmes to support these components. The Ministry of Trade and Industry has recently published an information document called the Cluster Roadmap, which lays out the path of cluster development from defining a strategy and achieving regular joint activities, to reaching a self-sustaining phase. Together with KIESA, the ministry has planned a support programme for clusters which includes providing incentives to SMEs for their co-operation, assistance in facilitating meetings, brochures on the steps needed to form clusters, and covering administrative costs, with

the overall aim of achieving self-funded clusters. However, the budget relies mainly on donor contributions and the programmes remain at an early stage of implementation – impeded by limited staff and funds. These difficulties notwithstanding, one cluster in the metal industry and renewable energy sector (KIMERK) has been established to date.

In Bosnia and Herzegovina, despite having planned programmes in the 2016-18 action plan of the strategy document Development of Small and Medium Enterprises in the Federation of Bosnia and Herzegovina 2009-2018, the government in the Federation of Bosnia and Herzegovina did not mobilise a budget for it over the assessed period. Cluster development support in the Republika Srpska was previously provided through three different programmes implemented by RARS: the Cluster Support and Development Programme 2013-2015; the Woodwork and Forestry Cluster within the Public-Private Dialogue and Partnership Programme, in co-operation with the UNDP; and the Banja Luka IT cluster. While all of these programmes have since been phased out, the RS has included measures to promote the internationalisation of SMEs via clustering support in its Development Strategy of SMEs 2016-2020. Moreover, RARS continues to promote cluster development by organising events, particularly international business meetings for companies and clusters in 2016 and 2017.[22]

Albania's Business and Investment Development Strategy 2014-20 planned to support (industrial) cluster development; however, tangible results are still lacking at this stage as no official government programme has been implemented during the assessed period.[23] No financial support for clusters has been provided. However, AIDA has held workshops on the theme of cluster development. It also provides services for foreign investors seeking partnerships with enterprises by actively encouraging SME participation in cluster matchmaking events.[24]

North Macedonia's National Strategy for Small and Medium Enterprises 2018-2023 includes the development of strategic industrial value chains and clusters. The accompanying action plan aims to identify key international value chains in which SMEs could successfully participate, and to develop support programmes and services to help these firms expand into these markets. These measures will be realised through an assessment report on SME participation in international markets (2018) and a cluster mapping report identifying industry clusters connected to international value chains (2019), for which the government has allocated a two-year budget of EUR 60 000. Currently there are 30 clusters in North Macedonia, spanning the information technology, automotive industry, textile, fashion design, wine, agricultural mechanisation, wood processing and food processing sectors. The Ministry of Economy provides support for clusters in export promotion and foreign fairs though co-financing 75% of costs, up to a limit of EUR 6 500 per cluster.

Turkey's cluster initiatives have been successfully supported through the UR-GE programme. A notable example is the footwear cluster support project (Box 12.4).

Box 12.4. Turkey's UR-GE programme and the Izmir Footwear Cluster Support Project

The UR-GE Programme (Supporting the Development of International Competitiveness) is an SME support programme based on clustering principles that aims to develop the export capabilities of the Turkish manufacturing sector. This initiative, which has been running since 2011, is managed by the Ministry of Economy, and its main objectives are to help SMEs to strengthen their international competitiveness and increase their exports.

The assistance is provided via the Turkish Exporters Assembly to the clusters' associations or institutions, and cascades down to the beneficiary SMEs. An additional goal of the programme is to cover the expenditure of co-operating institutions for projects approved by the Ministry of Economy.

The support is provided to the clusters' associations or institutions by the UR-GE programme in three main stages, carried out by private sector consultancy companies, trainers and sector experts:

1. A needs analysis of the beneficiary cluster. This exercise results in a report that outlines the baseline from which to plan the activities and a strategic route map of the project to be implemented.
2. Training and advisory activities, based on the findings and recommendations of the needs analysis, with a view to providing SMEs with export-related skills and the competitive strength to succeed internationally.
3. A range of targeted and tailored international business development and marketing activities.

The Izmir Footwear Cluster is a very active cluster that has benefitted considerably from the UR-GE programme. The needs analysis identified the following main objectives:

- Prepare and support the SME cluster members, i.e. SMEs operating in the shoe design and manufacturing sector, to develop effective international business.
- Enhance product quality and stimulate new product development to improve product design and quality, and to increase profit margins.

The cluster has successfully completed the first project stage (2012-15) and, thanks to its highly satisfactory results, is currently undergoing a second project stage. In particular, the first project saw exports from the regional cluster increase by 56%, from USD 22.2 million in 2012 to USD 34.6 million in 2016. This led to a foreign trade surplus for the footwear sector in the region, at a time when Turkey overall was facing a foreign trade deficit in the sector.

The Footwear Cluster Support project was built on consistent and in-depth training needs analysis, together with effective planning and design of the programme. In addition, the project offered clearly defined learning content tailored closely to the beneficiaries' needs, and a suitable blend of delivery methods.

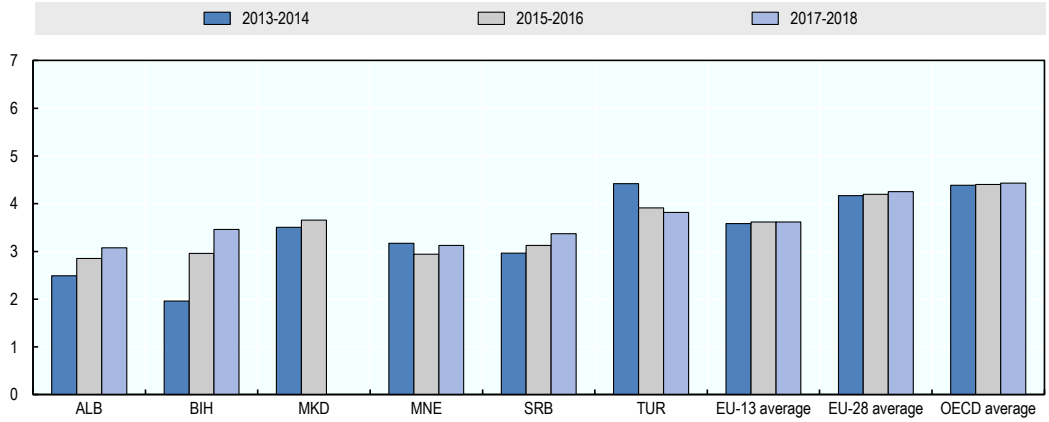
The results and impact of the Footwear Cluster Support project were thoroughly evaluated by an independent organisation and shared with policy makers at both national and regional levels.

Sources: TASD (2018[38]), *Footwear Industrialists Association of Turkey website*, www.tasd.com.tr/en/index.php; Ministry of Economy of Turkey (2019[39]), *UR-GE Turkey website*, http://urgeturkey.com/en/ (accessed on 23 January 2019); Ministry of Economy of Turkey (2019[40]), *İzmir Shoe Cluster*, www.kumelenme.gov.tr/kumeler/izmir-ayakkabicilik-kumesi/#bilgi (accessed on 23 January 2019)

Despite the lack of implementation of cluster support development programmes in some WBT economies, the perceptions of cluster development in the Western Balkans seem to have improved over the assessment period. According to the World Economic Forum's *Global Competitiveness Index*, cluster development is perceived as most advanced in

North Macedonia and Turkey, although improvements can be noted between 2014 and 2018 in Albania, Bosnia and Herzegovina, and Serbia (WEF, 2017[4]). However, all the Western Balkan economies still lag behind the EU and OECD averages (Figure 12.7).

Figure 12.7. State of cluster development (2014-18)



Note: Survey question: In your country, how widespread are well-developed and deep clusters (geographic concentrations of firms, suppliers, producers of related products and services, and specialised institutions in a particular field)? [1 = non-existent; 7 = widespread in many fields]. Data for Kosovo is not available. 2017-18 data for North Macedonia are not available. OECD and EU averages are calculated as simple averages. EU-13 – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic 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.
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Source: WEF (2018[30]), *The Global Competitiveness Index Dataset 2007-2017*, http://reports.weforum.org/global-competitiveness-index-2017-2018/downloads/.

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The European Cluster Collaboration Platform could provide clusters in the WBT economies with significant opportunities to build broader regional connections by increasing their visibility at the European level and beyond. The platform helps facilitate cluster formation and interaction within the EU through Cluster Mapping, Cluster Matchmaking Events and supporting European Strategic Cluster Partnerships (EC, 2018[41]).

Monitoring and evaluation of programmes for GVC integration is sorely lacking

While the WBT economies overall have made progress in laying out or preparing programmes to support SME integration into GVCs, there is still work to be done to strengthen their effectiveness. Only Montenegro, Serbia and Turkey reported establishing a monitoring mechanism for their SME GVC integration programmes – and, of these three, only Montenegro has made the monitoring report publicly available. No independent reviews of support programmes have been conducted in any of the WBT economies.

The way forward for integration into global value chains

- **Intensify efforts to raise awareness among SMEs of the opportunities associated with participating in GVCs.** The Western Balkan and Turkish governments should intensify their efforts to *proactively* act as knowledge brokers of the needs of upstream and downstream enterprises, and encourage MNEs to share their roadmaps for future product and process development with their SME partners. Moreover, the economies should provide access to accurate information on market opportunities for subcontracting and on potential foreign partners through market reports and databases, trade fairs, exhibitions abroad and electronic trading platforms or subcontracting exchanges. The OECD Tokyo statement on strengthening the role of SMEs in GVCs provides useful policy recommendations that WBT economies should follow when enhancing their awareness-raising and information-sharing activities (Box 12.5).

Box 12.5. The OECD Tokyo Action Statement for Strengthening the Role of SMEs in Global Value Chains

Following the OECD Global Conference on Enhancing the Role of SMEs in Global Value Chains (GVC), which identified the significant challenges that SMEs face in the international landscape, the OECD Tokyo Action Statement for Strengthening the Role of SMEs in Global Value Chains, adopted at the OECD Global Conference in Tokyo on 1 June 2007, provides the following guidance to governments:

Raising awareness of the opportunities for participating in global value chains through:

- Facilitating access to accurate information on market opportunities for subcontracting and on potential foreign partners through market reports and data bases, trade fairs, exhibitions abroad and electronic trading platforms or subcontracting exchanges.
- Encouraging SMEs to call in external consultants for the implementation of feasibility studies and market research in order to support FDIs.
- Encouraging SME investment by facilitating companies' efforts to expand their business globally through information services and other means.
- Facilitating information flows (including information sharing about needs between upstream and downstream partners) throughout the entire GVC and in particular encouraging MNEs to share their road-map in terms of future product and process development with their SME partners

Increasing participation in global value chains through collective action and co-operation by:

- Supporting the establishment and development of industry groupings (i.e. clusters) on regional, cross-regional, or cross-border levels.
- Facilitating SME consortia jointly to bid, produce and market, particularly in relation to government procurement programmes.
- Promoting clusters and networks to improve SME participation in GVCs through fostering and strengthening links at the local level among universities, research

institutions, laboratories and SMEs including for example, funding co-operative research programmes.

- Targeting support for clusters in selected technologies, particularly where there is substantial potential in knowledge-intensive and export-oriented market segments and for supporting R&D for continuous innovation.
- Promoting business linkages between MNEs and SMEs through identifying and matching potential partners while ensuring diversification of partners to avoid becoming dependent on one partner. Helping SMEs to develop their negotiating capacities and skills with MNEs through institutional support (awareness building) and training measures.
- Encouraging MNEs to adopt transparent selection criteria when consolidating their supplier networks, providing SMEs fair warning of such consolidation practices and allowing them reasonable time to adapt their offerings.
- Facilitating supplier development programmes, where SMEs are coached and mentored in key areas such as design and production engineering (this may include sending in technical teams to advise on upgrading).

The Action Statement also gives specific OECD member country examples of the recommendations listed. Governments are encouraged to consult the statement for further recommendations in the areas of increasing SMEs' value obtained from intellectual assets and intellectual property and facilitating the adoption of product quality and process standards.

Source: OECD (2007[42]), *Enhancing the Role of SMEs in Global Value Chains: OECD Tokyo Statement on Strengthening the Role of SMEs in Global Value Chains*, www.oecd.org/cfe/smes/38774814.pdf.

- **Implement programmes to enhance supplier quality of SMEs.** This assessment found that local supplier quality in the WBT economies remains a major impediment to SMEs wanting to integrate into GVCs. There are few programmes in the region that actively aim to improve SMEs' supplier quality so as to enhance their linkages to MNEs. Box 12.6 provides good practice examples of supplier development programmes that the WBT economies could emulate when designing such programmes.

Box 12.6. Good practice examples of national supplier development programmes

Supplier development programmes are designed to overcome the main barriers to developing buyer-vendor linkages between multinational enterprises and domestic firms (Smarzynska and Spatareanu, 2014[43]). Successful examples include the Czech Supplier Linkage Programme from the early 2000s, the Singaporean Local Industry Upgrading Program from the 1980s, the Supplier Development Programme implemented by CORFO in Chile, and the Tractor Programme in Mexico. Supplier development programmes typically combine the following:

- The development of relationships with local senior managers of multinational enterprises (MNEs) to encourage co-ordination of purchasing plans and pool information about future demand.
- The establishment of a database of qualified domestic suppliers with information

on products, customers and benchmarking of suppliers' performance, organised by industry/sector or commodity/product. This reduces the search costs for MNEs in sourcing potential domestic suppliers.

- A process for assessing the need for upgrading SMEs' capabilities in various aspects of company performance – management, production, sales and commercialisation, innovation, human resources and overall productivity. The development of a network of mentors/consultants to assist in upgrading, e.g. through regular visits to the company to help the company monitor its implementation.
- Co-financing or direct assistance for SME upgrading, including management training and other improvements in efficiency. Eligible costs typically include the salary of the supply chain champion and the fees of the external advisors or mentors.

Sources: Extracted from: OECD (2017[44]), *OECD Reviews of Innovation Policy: Costa Rica 2017*, https://dx.doi.org/10.1787/9789264271654-en; OECD (2016[45]), *OECD Reviews of Innovation Policy: Malaysia 2016*, https://dx.doi.org/10.1787/9789264255340-en; Smarzynska and Spatareanu (2014[43]), "Czech suppliers of multinational corporations: benefits and challenges", http://documents.worldbank.org/curated/en/504861468026113344/Czech-suppliers-of-multinational-corporations-benefits-and-challenges.

- **Design cluster development programmes carefully**. Empirical work on clusters advises policy makers to be cautious when interfering with local production structures, since they could spread themselves too thin (Duranton, 2011[46]). The European Commission's *Smart Guide to Cluster Policy* highlights key considerations for policy makers in designing modern cluster policies (Table 12.6).

Table 12.6. Dos and don'ts of modern cluster policy

Don't	Do
Support individual specialised firms	Support new activities, in particular those being undertaken by groups or networks of related industries
Create clusters from scratch (i.e. implementing "wishful thinking" of policy makers)	Facilitate the growth of clusters by building upon existing strengths (i.e. implementing evidence-based policy by building upon a comparative analysis of regional strengths and 'entrepreneurial discovery')
Fund large numbers of widely varied clusters	Fund strategic cluster initiatives that focus on promoting the strengths, linkages and emerging competences and which are in line with the aims of national/regional smart specialisation strategies
Follow growth trends without reflection	Capitalise upon regional competences to diversify into new activity areas and to develop emerging industries
Follow a narrow sectoral cluster approach	Follow a systemic cluster approach focusing on related industries by capturing cross-sectoral linkages
Develop and implement cluster policy in isolation from other policy areas	Adopt an inclusive and participatory cluster approach (i.e. involving businesses, investors, academics and policy-makers, and making links with related policy themes such as R&D, innovation, entrepreneurship, access to finance and SME internationalisation)
Support cluster initiatives that are only inward looking	Support cluster initiatives that have an international perspective on the positioning of the cluster in international value chains
Focus exclusively on strengthening regional partnerships	Build regional partnerships as a basis for joining European Strategic Cluster Partnerships

Source: Extracted from EC (2016[34]), *Smart Guide to Cluster Policy*, http://dx.doi.org/10.2873/729624.

Promoting the use of e-commerce (Sub-dimension 10.3)

E-commerce is commonly defined as the sale or purchase of goods or services conducted over computer networks. As the digital economy evolves, e-commerce presents an opportunity for SMEs to catalyse their access to new international markets, increase their involvement in trade, reduce operating costs and enhance their competitiveness (OECD, 2018[25]). Simply through Internet access, SMEs can overcome information disadvantages to connect with buyers and sellers of their goods and services more easily. It allows them to become better integrated into global value chains as they can ship and receive smaller orders which may not always be possible through traditional commercial channels. E-commerce and e-business are positively linked to enterprise performance outcomes such as employment growth, and improved productivity and financial performance, and can internationalise SMEs by reaching beyond traditional and digital borders to access new markets (Grandon and Pearson, 2004[47]; Raymond and Bergeron, 2008[48]; OECD, 2016[8]).

Clear and consistent regulatory frameworks, particularly for consumer protection, are an essential element of building trust in the digital economy. Governments can help ensure that SMEs leverage this opportunity by offering a secure operational environment regulated by a sound legal framework, and by increasing SMEs' access to digital platforms. Given the limited market capacity of the assessed economies (with the exception of Turkey), e-commerce presents an opportunity to significantly increase enterprises' market bases beyond their domestic capacity and enlarge their reach.

This section assesses government promotion of the use of e-commerce by SMEs. More specifically, it considers the legal frameworks in place for e-payments and consumer protection and examines the development and implementation of programmes to promote e-commerce. It also takes note of the extent to which governments act to build trust in their digital economies, provide relevant information for SMEs on e-commerce and collect key performance indicators on e-commerce (Table 12.7).

Table 12.7. Scores for Sub-dimension 10.3: Promoting the use of e-commerce

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	3.29	2.71	3.29	3.29	3.29	3.29	5.00	**3.45**
Implementation	1.00	1.33	2.00	3.00	2.00	2.00	4.50	**2.26**
Monitoring and evaluation	1.00	1.00	1.00	1.00	1.00	1.00	3.50	**1.36**
Weighted average	**1.69**	**1.68**	**2.19**	**2.69**	**2.19**	**2.19**	**4.45**	**2.44**

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

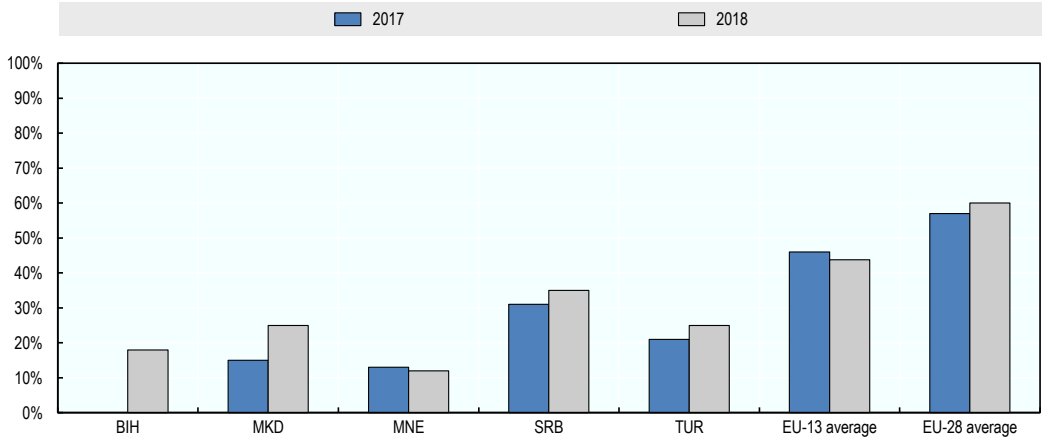
Overall, e-commerce policies can still be improved considerably throughout the region. Of the seven assessed economies, Turkey has taken the most steps to promote SMEs' uptake of e-commerce and its scores significantly outpace those of the Western Balkan economies.

The use of e-commerce in WBT economies lags behind the EU

Quantitative data indicate that individuals' use of e-commerce in Turkey and those Western Balkan economies for which data was available remains largely behind the EU averages (Figure 12.8). In 2018, 60% of individuals in the average EU-28 economy purchased on line. Within the WBT economies, the share of individuals who purchase on line was largest in Serbia (35%), Turkey (25%) and North Macedonia (25%).

Figure 12.8. Personal use of e-commerce (2017-18)

Percentage of individuals purchasing on line in the last 12 months



Note: Data for Albania and Kosovo not available. 2017 data for Bosnia and Herzegovina not available. EU-13 average has been calculated as a simple average. EU-13 – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.
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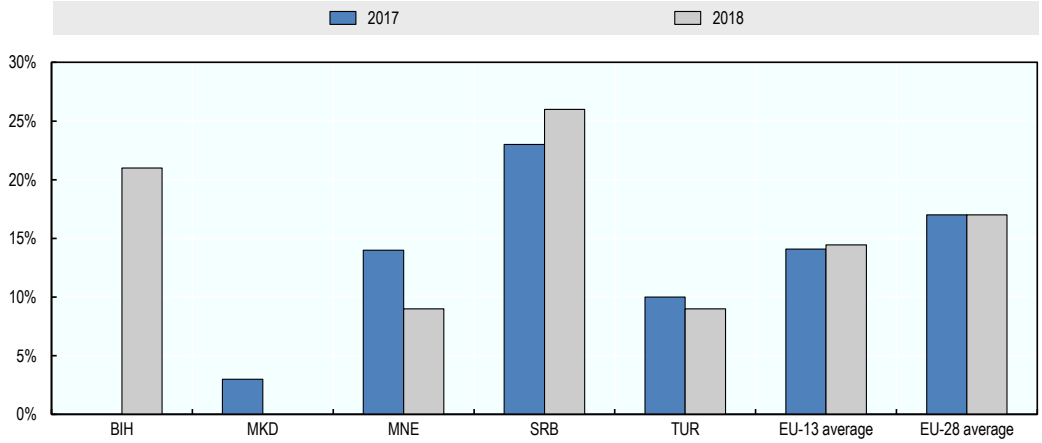
Source: Eurostat (2018[49]), *Eurostat (database)*, https://ec.europa.eu/eurostat/data/database.

StatLink http://dx.doi.org/10.1787/888933937793

The percentage of SMEs selling on line was much higher in Serbia (26%) and Bosnia and Herzegovina (21%) than in the other WBT economies for which data were available, as well as the EU averages (Figure 12.9). The share was lowest in North Macedonia, at 3%. At the same time, the private sector interviews indicated that common barriers to engaging in e-commerce included insufficient knowledge by SME staff and the limited adoption of information and communications technology (ICT) by their enterprise. Firms also mentioned that they were more likely to buy than to sell on line.

Figure 12.9. SME use of e-commerce for sales (2017-18)

Percentage of SMEs (10-249 employees) selling on line in the last 12 months (excluding the financial sector)



Note: Data for Albania and Kosovo not available. 2017 data for Bosnia and Herzegovina not available. 2018 data for North Macedonia not available. Due to the unavailability of 2017 data for North Macedonia, 2016 data were used instead. EU-13 average has been calculated as a simple average. EU-13 – Bulgaria, Croatia, Cyprus,** the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic 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: Eurostat (2018[49]), *Eurostat (database)*, https://ec.europa.eu/eurostat/data/database.

StatLink http://dx.doi.org/10.1787/888933937812

The most often-cited reason for SMEs' poor uptake of e-commerce is a lack of knowledge and skills in new technologies, with the use of outdated technology also frequently mentioned.

Clearly the WBT governments still have scope to increase awareness of the benefits of e-commerce. Only Bosnia and Herzegovina (in the Republika Srpska), North Macedonia, Serbia, and Turkey have dedicated websites offering information on the opportunities and challenges of e-commerce, as well as the relevant legislation, etc.

Turkey has centralised all such information on e-commerce on the Ministry of Trade's Electronic Commerce Information Platform, which lists useful links, statistics, relevant e-commerce legislation, business and legal associations (providing legal, infrastructure and operational support), an accessible registry of nearly 13 000 entities and their e-commerce sites (any direct, intermediary, or contracted service providers engaging in electronic commerce in Turkey are required to register with this site), and a clear user guide for companies wanting to register. However, while Turkey monitors its e-commerce promotion programme, it does not collect key performance indicators on e-commerce.

Serbia's information website covers upcoming events and relevant legislation. However, it does not connect companies in the same way that Turkey's online platform does by having SMEs register and create profiles.

In North Macedonia, the Ministry of Information Society and Administration maintains a website that provides legal regulations, tips for engaging in e-commerce, and links to e-stores, but it does not have any initiatives to actively promote e-commerce among SMEs. The initiative for promoting the uptake of e-commerce has primarily been taken by the private sector, namely by the E-commerce Association. The Customs Administration under the Ministry of Finance has signed a memorandum of co-operation to become an honorary member of the E-commerce Association with the aim of sharing relevant information and jointly contributing to the development of relevant programmes, particularly on cross-border e-commerce. However, SMEs must pay to join the association before they can access information on data and research, networking events, education and training, and advocacy and lobbying support.

Legal frameworks for e-commerce are in place, but it's early days for building digital trust

Legal frameworks for e-payments and consumer protection in e-commerce are in place across all WBT economies. The presence of legal frameworks is a step in the right direction, as they form a secure bedrock on which to build the operational environment for e-commerce. However, the latest *OECD Competitiveness Outlook* assessment found that not all of the WB economies' legal frameworks were fully aligned with EU frameworks (i.e. e-Commerce Directive 2001/31/EC) (OECD, 2018[50]). Serbia had undertaken legislative reforms and proposed a new legislative framework on e-commerce in October 2017 which covers electronic documents, electronic documents, electronic signatures and stamps, and electronic submission of documents. Albania is currently in the process of revising its law on e-commerce that was adopted in 2008, with a draft that is now in the consultation phase. Its legislative framework on e-signatures complies with the EU framework and a consumer protection strategy is in place, although implementation is weak (OECD, 2018[50]).

Beyond these legal frameworks, the region has yet to realise the institutional and policy co-ordination needed to enable e-commerce. For instance, in Kosovo and Serbia, private sector actors report difficulties in retaining international e-commerce clients because local banks often do not support online services that accept credit card payments. Likewise, the other Western Balkan economies lack full access to innovative payment systems, especially for e-commerce. Consumers in North Macedonia can only use PayPal to send funds, while online payments by credit card are rare in Albania and Bosnia and Herzegovina.

In terms of building trust in the digital economy, the *Multi-annual Action Plan for a Regional Economic Area in the Western Balkan Six* includes actions to increase citizens' trust in online services (MAP, 2017[6]). Furthermore, in the context of the Sofia Declaration, which was endorsed by all Western Balkan leaders in May 2018, the European Commission will support capacity building in digital trust and security (EC, 2018[51]). However, these initiatives are yet to be implemented.

Turkey is moving to proactively address the challenge of building trust in the digital economy through enhanced regulations, and holds the Presidency of the International Consumer Protection and Enforcement Network for 2017-18.[25] Moreover, Turkey's Ministry of Trade has developed a Trust Stamp in Electronic Commerce, which entered

into force in 2017. Verified and audited e-commerce sites may display the mark if they meet criteria defined by the Communiqué on the Trust Stamp in E-Commerce, including data protection, awareness of e-commerce and payment systems regulations, clear information about company operators, and effective communication methods for customer demands and complaints. Recently the Ministry of Trade and the Turkish Union of Chambers and Commodity Exchanges signed a protocol allowing the latter to provide the Trust Stamp to SMEs.

In Serbia between 2014 and 2016, 66 SMEs were awarded the E-Trustmark, which was valid until November 2017 under the pilot E-Business Development programme funded by the EU. However, no concrete follow-up mechanism for this appears to be in place. The Center for Development of E-commerce and Protection of Consumers on the Internet will continue to accredit and deliver the E-Trustmark to entrepreneurs in Serbia (Delegation of the European Union to the Republic of Serbia, 2016[52]).

Implementation of e-commerce promotion programmes is patchy

Kosovo, Montenegro, North Macedonia and Turkey all have an established institution responsible for promoting e-commerce. North Macedonia, Serbia, Turkey and the Republika Srpska in Bosnia and Herzegovina have a website to provide easily accessible information on e-commerce. Albania and the Federation of Bosnia and Herzegovina are lagging behind the majority, as they lack an institution responsible for e-commerce promotion and a website to provide easily accessible information on e-commerce.[26]

Over the assessment period, only Turkey implemented a programme to encourage SMEs' uptake of e-commerce.

Previous programmes to promote e-commerce have had limited success. For example, the latest *OECD Competitiveness Outlook* assessment found that Albania, North Macedonia and Serbia offered financial support programmes for e-commerce and e-business, but that they broadly failed. In Albania this was due to the relatively small amount of money offered per applicant; in North Macedonia the reason was poor planning of voucher schemes, which led to exploitation of resources by only a few SMEs; and in Serbia the fault lay with the difficult financial bank-guarantee process (OECD, 2018[50]).

In Albania, the Digital Strategy 2015-2020 of the Ministry of Innovation and Public Administration contains the goal of increasing to 50% the share of businesses using e-commerce but there are no active measures in place to achieve it.[27] Montenegro's action plan for its SME Strategy 2018-2022 and envisions to promote e-commerce among SMEs. However, no programmes were implemented during the assessment period.[28]

Serbia's Ministry of Trade, Tourism and Telecommunications and the Ministry of Economy together carried out the EUR 2.5 million EU-funded E-Business Development programme from 2014 to 2017 (Delegation of the European Union to the Republic of Serbia, 2016[52]). As part of this programme, over 700 SME representatives attended e-business training sessions. The issue of trust in the digital economy was highlighted at 35 capacity-building workshops on the digital economy, e-business, e-commerce and combatting cyber-crime (Delegation of the European Union to the Republic of Serbia, 2016[52]).

Between 2013 and 2014 North Macedonia had a programme that offered vouchers for SMEs looking to develop e-commerce websites – this government programme supported 31 e-stores. Since then, there have been no further programmes targeting the uptake of e-commerce.

Meanwhile, Turkey has had significant success in implementing e-commerce promotion. Under the Programme to Support Market Research and Market Entry, the government supports SMEs' membership on e-commerce sites and online portals via a co-financing mechanism.[29] In particular, DG Exports supports companies' membership of e-commerce sites and online portals by covering 80% of their membership costs for up to three years. This programme is outlined in Turkey's 10th Development Plan, Export Strategy 2023 and SME Strategy 2015-2018. This programme is facilitated through broader umbrella organisations (e.g. chambers of commerce, exporters' unions) representing at least 250 companies which apply to the Ministry of Economy on behalf of the companies to register them onto e-commerce sites and online portals. It has a budget of TRY 33.8 million (EUR 6.1 million) to promote e-exports between 2018 and 2022. The Turkish Exporters Assembly has signed an agreement with the e-commerce platforms Alibaba and Kompass in a move that is expected to create opportunities for new entrants and foster SME participation in global e-commerce markets (Ministry of Economy of Turkey, 2017[53]). Most recently, the Ministry of Economy has launched its e-Export strategy which aims to increase exports through e-commerce (Ministry of Economy of Turkey, 2018[54]).

There are no e-commerce promotion programmes in the other Western Balkan economies yet, although Kosovo's Ministry of Economic Development is in the process of launching the Kosovo Digital Economy Programme (EUR 20 million) in co-operation with the World Bank. It aims to increase the presence of SMEs on the Internet so that they are ready to engage in electronic trade and tap into international markets (World Bank, 2018[55])

The way forward for promoting the use of e-commerce

- **Develop and strengthen formal support mechanisms** to encourage SME uptake of e-commerce. This can be done by making it easier to access e-commerce sites and portals via co-financing mechanisms, as is currently being done in Turkey. All economies should develop a strategic approach to strengthening e-commerce uptake by businesses in general, and SMEs in particular. More should be done to change perspectives on e-commerce by offering more information to SMEs on the benefits to their business of harnessing e-commerce's potential. A simple centralised website with readily accessible and relevant information on e-commerce could help SMEs better navigate and engage in the digital landscape and understand the regulations and support that apply to them.
- **Establish mechanisms to periodically evaluate and update regulatory frameworks** to keep pace with the evolving digital marketplace and to maintain a safe operational environment. Within this, it is crucial to **strengthen the collection of statistics on key performance indicators** in order to adapt regulatory frameworks accordingly and to design adequate programmes aimed at promoting SMEs' uptake of e-commerce. The Recommendation of the OECD Council on Consumer Protection in E-commerce provides seven guiding principles the WBT economies should follow when implementing their consumer protection frameworks for e-commerce (see Box 12.7).

Box 12.7. The Recommendation of the OECD Council on Consumer Protection in E-commerce: Implementation Principles

The OECD Council's 2016 Recommendation of the Council on Consumer Protection in E-commerce addresses new and emerging trends and challenges faced by consumers in today's dynamic e-commerce marketplace. Governments should, in co-operation with stakeholders:

1. Work towards improving the evidence base for e-commerce policy making through:
   - the collection and analysis of consumer complaints, surveys and other trend data
   - empirical research based on the insights gained from information and behavioural economics.
2. Review and, if necessary, adopt and adapt laws protecting consumers in e-commerce, having in mind the principle of technology neutrality.
3. Establish and maintain consumer protection enforcement authorities that have the authority and powers to investigate and take action to protect consumers against fraudulent, misleading or unfair commercial practices and the resources and technical expertise to exercise their powers effectively.
4. Work towards enabling their consumer protection enforcement authorities to take action against domestic businesses engaged in fraudulent and deceptive commercial practices against foreign consumers, and to take action against foreign businesses engaged in fraudulent and deceptive commercial practices against domestic consumers.
5. Encourage the continued development of effective co-regulatory and self-regulatory mechanisms that help to enhance trust in e-commerce, including through the promotion of effective dispute resolution mechanisms.
6. Encourage the continued development of technology as a tool to protect and empower consumers.
7. Facilitate the ability of consumers to access consumer education information and advice and to file complaints related to e-commerce.

Source: OECD (2016[56]), *OECD Recommendation of the Council on Consumer Protection in E-Commerce*, http://dx.doi.org/10.1787/9789264255258-en.

Conclusions

The WBT economies have made strides by strengthening the availability of support services in export promotion and introducing programmes to help SMEs integrate into global value chains. They have also – to varying degrees – laid down the foundations for supporting e-commerce by setting out and harmonising legal frameworks.

However, weaknesses remain, particularly in the areas of underfunded and untargeted export promotion agencies and weak support programmes for value chain integration. E-commerce programmes also remain poorly supported, and could benefit from targeted support given the small market size of the Western Balkan domestic economies.

The successful internationalisation of SMEs is closely tied to the implementation of the recommendations put forward in this chapter, as well as in the other chapters in this report, along with those identified in the previous assessment. Achieving higher productive standards, leveraging networks and improving access to trade finance will all ultimately help SMEs increase their market share and productive capacities to become resilient competitors in the world economy.

Notes

[1] In this SBA assessment cycle, in order to better understand how effective the SME policy implementation is and what its outcomes are, the assessment also included 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 information). The questions for this dimension aimed to identify the main barriers to exporting and importing for SMEs, SMEs' assessessment of export promotion programmes, and whether there are barriers to SMEs using e-commerce.

[2] Turkish EEN consortia provide technical and consulting support on the following areas of expertise: EU legislation and standards, access to international markets, international public contracts, finance and funding, EU funding and application support, and intellectual property rights.

[3] KOSGEB's Internationalisation Support Programme provides 70% of funding to SMEs for export promotion and integration into global value chains. Support activities eligible for funding include employment; software and hardware; publicity; foreign fair and travel; test, analysis and certification; and service procurement. KOSGEB also supports 50-60% – up TRY 10 000 (around EUR 1 800) – of international trips and promotional activities under the General Support Programme. It also provides support for export promotion under its programme on the creation of international incubators.

[4] In 2017, the 16 provinces generated USD 53.6 billion in exports, amounting to one-third of Turkey's exports.

[5] 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.

[6] In addition to the agency as co-ordinator, members of the EEN of the Republika Srpska include the Chamber of Commerce of the Republika Srpska, the University of Banja Luka, the University of East Sarajevo and the Innovation Center Banja Luka.

[7] Under this programme, between March 2017 and the time of writing, 63 SMEs received support to the value of RSD 37 million (EUR 305 000) for international business fairs, while one SME received assistance for a company visit abroad (EUR 4 600).

[8] Two SMEs have received support for the first component, to the value of RSD 1.1 million (EUR 9 100); while 65 SMEs were supported through the second component, for a total of RSD 30.3 million (EUR 249 600). In terms of monitoring, RAS's programmes have yet to be evaluated.

[9] Umbrella organisations include the Exporters' Union, chambers of commerce and industry, technological parks, and industrial zones.

[10] The Republika Srpska also possesses a network of representation offices in Austria, Belgium, Germany, Greece, Russia, Serbia and the United States, which organise periodic training for domestic SMEs in export opportunities to the relevant country.

[11] The bank also supports clusters for export promotion and foreign fairs at a 75% co-financing rate up to EUR 6 500.

[12] The agency plans to further tailor its offer of finance instruments to SMEs under its work plan for 2018.

[13] Turk Eximbank provides finance on commercial terms and in accordance with the OECD Arrangement on Officially Supported Export Credits.

[14] Interviews were conducted with staff from AIDA and the Ministry of Finance and Economy, who are involved in the funds' management. The evaluation benefitted from interviews with applicants and beneficiaries, as well as a questionnaire, shared among 50 SMEs.

[15] In Kosovo, this is not directly pursued as an objective. Instead, Kosovo's Competitiveness and Export Readiness Programme, financed by the World Bank, includes measures to improve national quality infrastructure to meet international standards, which represents an essential first step towards preparing SMEs to meet the standards of MNEs.

[16] Montenegro does not have an official body dedicated to supporting SME integration into global value chains. Instead, the Ministry of Economy has been implemented several projects with the support of international donors, such as Improving the Competitiveness of the Economy in Montenegro, carried out with the UNDP. Other small steps have been taken towards bringing production into alignment with international standards through the Regional and Local Competitiveness programme, which assists SMEs in covering the costs of accreditation activities through co-financing schemes of up to EUR 5 000 per applicant.

[17] The Federation of Bosnia and Herzegovina did not mobilise its allocated budget for supporting projects to develop clusters and value chains under the 2016-2018 Action Plan for the Development of SMEs in FBiH programme, citing low quality and number of applications.

[18] Turkey is currently in the process of developing the 11th Development Plan (2019-2030) which will include further measures to support integration into global value chains. The plan is being developed by a specialist commission which works on logistics, e-commerce and integrating SMEs into GVCs.

[19] Through the Enterprise Europe Network, KOSGEB helps to provide SMEs with consulting, mentoring and business-to-business services.

[20] Additional types of support included under the programme are employment support, publicity support, and foreign fair and travel support.

[21] Total activities covered by the programme include the operationalisation of science and technology parks and incubators, development of support services for innovative SMEs, joint science-economy projects, development of clusters, stimulation of business associations, and creation of value chains.

[22] These meetings included two international business meetings with EEN in co-operation with the Development Agency of Serbia. In August, RARS organised a meeting within the 11th Fair of Economy and Tourism in Derventa to inform and examine the possibilities of establishing a tourism cluster with representatives of tourism organisations from several different cities.

[23] From May 2012 to October 2014, AIDA was a partner of the European Commission-financed Cluster POLISEE (SEE) project aimed at developing and increasing the capacity of clusters in South East Europe.

[24] Most recently, AIDA promoted awareness of possible cluster linkages at the Cluster Matchmaking Conference on 21-22 September 2018, held in Stuttgart, Germany; and the EU-Western Balkans Cluster Policy Learning and Matchmaking Event in Zagreb, 22 and 23 November 2018, held in Croatia.

[25] A worldwide network of more than 60 consumer protection authorities on which the EC, OECD, and UNCTAD hold observer status.

[26] The Republika Srpska has a web page on the legal framework for e-commerce, which led to a slightly higher score for Bosnia and Herzegovina. Bosnia and Herzegovina's Information Strategy 2017-2021 issued by the Ministry of Communications and Transport highlights digital literacy, internet access, and increased online services, all of which could strengthen the operational environment for e-commerce.

However, no financial tools aimed at accelerating ICT adoption and digital practices by SMEs have been developed.

[27] SMEs in Albania can apply for funds for e-commerce through the Competitiveness Fund; however, no funds have been disbursed for this purpose in recent years.

[28] The SME strategy 2018-2022 action plan anticipates the following measures for promoting e-commerce among SMEs, to be rolled out between 2019 and 2022: 1) conducting research on enterprises using e-commerce in their business operations; 2) creating a database of companies using e-commerce; 3) organising educational sessions on e-commerce; and 4) organising support for MSMEs in order to meet the requirements for e-Trustmark standards. Likewise, Montenegro's Information Society Development Strategy 2016-2020 lists strategic indicators for measuring e-commerce adoption. Despite this, programmes to increase SME e-commerce adoption remain altogether absent.

[29] Under the Directive on Supporting the Certificates of Market Access.

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Annex 12.A. Trade facilitation performance

The OECD Trade Facilitation Indicators (TFIs) database specifies 11 aspects of trade facilitation: 1) information availability; 2) trade community involvement; 3) advance rulings; 4) appeal procedures; 5) fees and charges; 6) documents; 7) automation; 8) procedures; 9) internal border agency co-operation; 10) external border agency co-operation; and 11) governance and impartiality. The TFIs can help policy makers prioritise trade facilitation actions and mobilise technical assistance and capacity building in a targeted way (OECD, 2018[57]).

Of the six WBT economies for which data are available, Turkey hast the highest average score (1.48 out of 2) on the TFIs and performs best on 7 of the 11 aspects: information availability, trade community involvement, appeal procedures, automation, procedures, internal border agency co-operation, and governance and impartiality. On external border agency co-operation, it performs on pair with Montenegro, which scores highest on documents. Of the six WBT economies, North Macedonia scores highest on advance rulings.

Table 12.A.1.lists the TFI areas in which the WBT economies improved or deteriorated between 2015 and 2017. Overall, the areas of improvement heavily outweigh the areas where performance has worsened, except for North Macedonia.

Annex Table 12.A.1. WBT performance on Trade Facilitation Indicators (2015-17)

	Areas of improvement	Areas of deterioration
ALB	- Information availability - Fees and charges - Appeal procedures - Procedures - Documents - Automation - Governance and impartiality	- Involvement of trade community - Advance rulings
BIH	- Automation - Information availability - Fees and charges - Documents - Automation - Procedures - Governance and impartiality	- Involvement of trade community
MKD	- Automation - Documents	- Governance and impartiality - Information availability - Involvement of trade community - Appeal procedures - Fees and charges - Procedures
MNE	- Information availability - Involvement of trade community - Appeal procedures	

	- Documents - Automation - Procedures - Governance and impartiality	
SRB	- Appeal procedures - Documents - Governance and impartiality - Information availability	- Fees and charges
TUR	- Information availability - Involvement of trade community - Fees and charges - Documents - Automation - Procedures	- Advance rulings - Appeal procedures

Note: Only areas of improvement and degradation are noted in the table. Data for Kosovo not available.
Source: OECD (2018[57]), *OECD Trade Facilitation Indicators*, www.oecd.org/trade/facilitation/indicators.htm (accessed on 29 November 2018).

Between 2014 and 2017, the costs of importing and exporting due to border compliance remained stagnant or even increased across most of the WBT economies (Table 12.A.2).

Annex Table 12.A.2. Cost to import/export in terms of border compliance (2014 and 2017)

USD

	Cost to import		Cost to export	
	2014	2017	2014	2017
ALB	52.00	77.00	33.00	55.00
BIH	109.00	109.00	106.00	106.00
KOS	128.00	128.00	153.00	105.00
MKD	150.00	150.00	103.00	103.00
MNE	306.00	306.00	158.00	158.00
SRB	52.00	52.00	47.00	47.00
TUR	267.00	267.00	376.00	376.00
EU average	29.21	29.21	85.11	85.21
OECD average	114.20	114.20	152.53	152.53

Source: World Bank (2018[58]), *World Bank Open Data (database)*, https://data.worldbank.org/.

The 2018 *OECD Competitiveness Outlook* assessment of the six Western Balkan economies found that they have taken steps to remove technical barriers to trade by aligning standardisation and accreditation systems with international good practice (OECD, 2018[50]). However, the assessment also found that non-tariff barriers related to sanitary and phytosanitary measures and regulatory barriers to trade in services are still restricting import and export volumes in the six economies.

Part II. Small Business Act assessment: Western Balkans and Turkey profiles

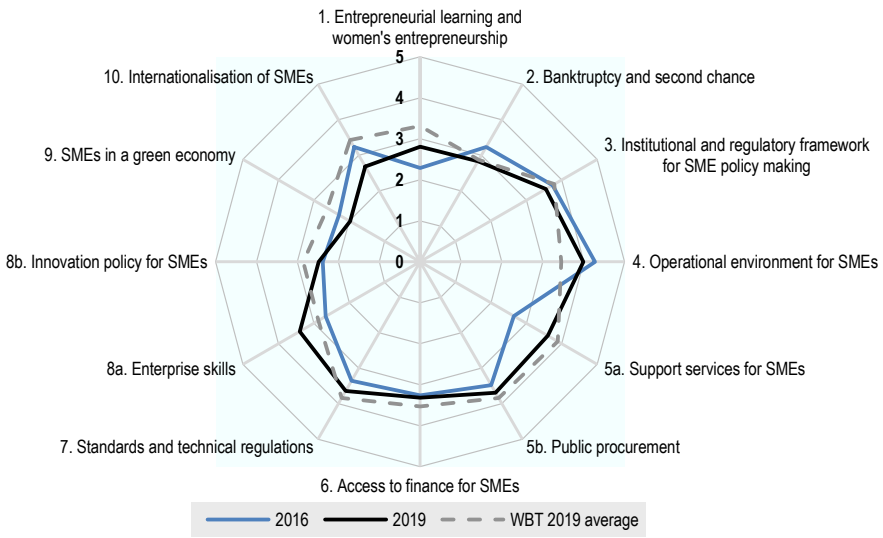
Chapter 13. Albania: Small Business Act profile

This chapter covers in depth the progress made by Albania in implementing the Small Business Act for Europe (SBA) over the period 2016-18. It starts with providing an overview of Albania's economic context, business environment and status of its EU accession process. It then provides some key facts about SMEs in the Albanian economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period, and suggests targeted policy recommendations.

The full version of this chapter is available at https://doi.org/10.1787/g2g9fa9a-en.

Key findings

Figure 13.1. Small Business Act scores for Albania (2016 and 2019)



Note: A direct comparison of the scores between the 2016 and 2019 assessments for Dimension 1 (entrepreneurial learning and women's entrepreneurship) and Dimension 8a (enterprise skills) should be treated with caution as the assessment methodology has changed significantly. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Albania has made moderate progress in implementing the Small Business Act (SBA) since publication of the previous report, the *SME Policy Index: Western Balkans and Turkey 2016* (Table 13.1) Most of the developments during the reference period relate to improving delivery of public services and simplifying regulations. These have helped to reduce the administrative burden on small and medium-sized enterprises (SMEs), as well as improving the overall business environment. The main achievements that have helped Albania improve its performance in this assessment are as follows:

Procedures for regulatory impact analyses (RIAs) have been set up. Albania introduced the requirement to conduct RIAs when adopting laws and by-laws in 2018. Up to 15 RIAs are expected to be carried out by the end of 2018. For the first time, the impact of new legislation on business competitiveness will be gauged.

The legal framework on insolvency proceedings has been strengthened. The new Law on Bankruptcy, adopted in 2017, includes many features left out of previous legislation and now provides the basis for efficient insolvency procedures. By allowing debt reorganisation, the new legal framework is expected to resolve insolvencies faster and more cheaply.

Registering a business and applying for licences and permits have been streamlined. Following the merger of the national registration and licensing centres to create the National Business Centre (NBC) in 2016, entrepreneurs can now obtain services such as business registration, permits and licences in just "one stop". The NBC's establishment has played a pivotal role in reducing unnecessary bureaucracy and procedures for SMEs.

Digitalisation of government services has reduced the administrative burden on SMEs. The e-Albania system, managed by the NBC, allows businesses to access more

than 300 relevant services on line. Most notably, taxes can be filed and paid on line, reducing the compliance burden on SMEs.

Strengthened quality infrastructure has improved SME trade competitiveness. Under the National Plan for European Integration 2017-2020, Albania has made rapid strides in transposing European Union (EU) standards and strengthening its institutional capacities for quality infrastructure. This will improve SMEs' capability to compete in EU and other international markets.

Priority areas

Despite the progress mentioned above, the majority of the SME policy areas in Albania have visibly stagnated. Implementation of its strategies has slowed down, and few new initiatives targeting SMEs have been launched. The scope and size of the support programmes provided to SMEs remain relatively moderate, and leave room for further enhancement. This report identifies eight priority areas in which Albania should intensify its activities:

- **Underpin the institutional capacity of institutions responsible for SME policies.** Effective implementation of the SBA principles hinges on building Albania's human resources and institutional capacity. By making the best use of accumulated institutional memory, staff should be continuously trained with a view to increasing their competence in understanding enterprises' needs and developing the necessary measures.
- **Improve SMEs' uptake of business support services by redesigning existing schemes.** SMEs perceive the numerous schemes offered by the Albanian Investment Development Agency (AIDA) to be cumbersome and they are further deterred from applying by the rather low amounts of financial support on offer. There is a pressing need for well-designed and properly funded instruments to support SMEs.
- **Step up the support for innovation infrastructure to advance business-academia collaboration**. Many vital elements of an innovation ecosystem are missing or insufficient in Albania, including technology transfer offices and science and technology parks. The lack of these facilities is an obstacle to knowledge transfer and the commercialisation of new products and services.
- **Increase awareness of alternatives to bank finance.** Although the underlying legal frameworks are all in place, uptake of non-bank financial instruments remains very limited, particularly factoring services. A centralised information platform could be pivotal for guiding SME owners and managers towards financing opportunities other than standard bank loans.
- **Embed entrepreneurship learning in school curricula.** Deficiencies in entrepreneurial learning remain in both the formal and non-formal education systems. Integrated government action is warranted to overcome these by involving the relevant stakeholders, most notably businesses.
- **Provide guidance to SMEs on adopting environmentally sound practices**. SMEs need to be nudged to adopt resource efficiency measures. This will require activities that raise SMEs' awareness about how resource efficiency can offer high returns for low-cost investments. This would constitute the first milestone on Albania's long path towards a green economy.

- **Roll out supplier development programmes.** AIDA's current financial schemes fall short of truly helping SMEs integrate into European and global value chains. New support programmes need to be developed that can help underpin links between SMEs and multinational enterprises.
- **Increase support to stimulate e-commerce practices among SMEs, as foreseen in the Digital Agenda.** Albania lacks an institution responsible for e-commerce promotion and a centralised website that provides easily accessible information on e-commerce. The concrete programmes foreseen under the Digital Agenda Strategy are yet to be implemented.

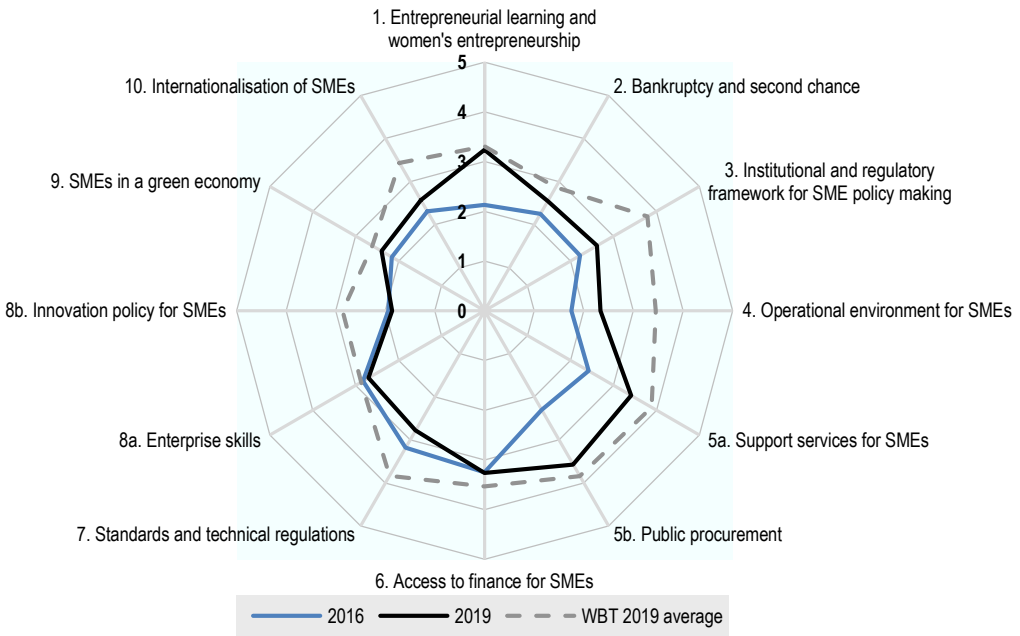
Chapter 14. Bosnia and Herzegovina: Small Business Act profile

This chapter covers in depth the progress made by Bosnia and Herzegovina in implementing the Small Business Act for Europe (SBA) over the period 2016-18. It starts with providing an overview of Bosnia and Herzegovina's economic context, business environment and status of its EU accession process. It then provides some key facts about SMEs in the economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period, and suggests targeted policy recommendations.

The full version of this chapter is available at https://doi.org/10.1787/g2g9fa9a-en.

Key findings

Figure 14.1. Small Business Act scores for Bosnia and Herzegovina (2016 and 2019)



Note: A direct comparison of the scores between the 2016 and 2019 assessments for Dimension 1 (entrepreneurial learning and women's entrepreneurship) and Dimension 8a (enterprise skills) should be treated with caution as the assessment methodology has changed significantly.

Bosnia and Herzegovina has made good progress in implementing the Small Business Act since publication of the *SME Policy Index: Western Balkans and Turkey 2016* (Figure 14.1) Nonetheless, it is still lagging behind its peers in the region. Most of the developments since 2016 relate to the enhancement of the economy's legal and regulatory environment, which has laid the foundations for better SME policy making. The main achievements that have helped Bosnia and Herzegovina improve its performance in this assessment can be summarised as follows:

The introduction of the EU-financed Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME) Programme will help to facilitate access to finance and foreign markets for SMEs. The agreement on participation in the COSME Programme entered into force in February 2017. Given BiH's lack of extensive public support mechanisms, the programme could have significant potential to help SMEs access markets in the EU and beyond.

Banking sector regulation and supervision have been strengthened. New banking laws have been passed, aligning the regulations more closely with the Basel framework. These aim to make banks safer and more sound, meaning SMEs in Bosnia and Herzegovina will be less exposed to bank funding constraints in the long term.

Regulatory impact analysis (RIA) procedures have been set up. The obligation to conduct RIAs when adopting laws and by-laws at the state level was introduced in July

2017. Consistent use of RIA could substantially improve evidence-based SME policy making in the economy.

The e-consultation portal has helped to enhance stakeholder engagement. Following the adoption of the Rules for Consultation on Legal Drafting, SMEs are able to provide their input and feedback on legislative proposals through this new website. The number of public institutions using e-consultation increased from 25 in 2016 to 39 in 2018.

The legal framework for insolvency proceedings has been strengthened. The recently prepared bankruptcy laws in the entities include many features that lay the foundation for efficient insolvency procedures. In the Republika Srpska, SMEs in financial difficulty no longer need to file for bankruptcy, and they can initiate debt-restructuring processes. In less than two years, 11 debt settlements were initiated in BiH, saving 600 jobs.

A new Internet portal has centralised all the information for exporters. A new one-stop shop website has been established, providing information on export opportunities, legal regulations and the support measures available to exporting SMEs. Although currently serving only enterprises in the Republika Srpska, this development is an important milestone in supporting enterprises that aim to penetrate foreign markets.

Priority areas

Bosnia and Herzegovina's constitutional arrangements mean that it does not have a unified approach to SME policy planning and implementation, making it challenging to develop coherent policies. Greater co-ordination across all levels of the administration is needed to ensure a whole-of-government approach to SMEs. This report identifies eight priority areas in which Bosnia and Herzegovina should intensify its activities:

- **Take a concerted approach to SME policies**. Due to the constitutional arrangements, there is no overarching framework guiding SME development for the whole economy. The lack of a state-wide SME definition, and the ensuing gap in harmonised data on SMEs and their activities are problematic and obstruct evidence-based policy making. Greater institutional co-ordination of SME policies would enable concerted action and contribute to higher-impact results.
- **Streamline the business registration process.** Each sub-national level of government establishes its own laws and regulations, adding layers of complexity to the business registration process. Entrepreneurs have to register more than once to be allowed to operate throughout the entire territory of Bosnia and Herzegovina. Enhanced co-operation among different levels of government, allowing for the mutual recognition of business registration, would be a good step towards lowering the barriers to entrepreneurship.
- **Continue to embed entrepreneurial learning in school curricula.** As of 2018, only 10% of all primary and secondary schools had embedded entrepreneurship as a key competence in their curricula. All education authorities should cross-reference their curriculum with the European Entrepreneurship Competence Framework and teachers should be trained to meet the revised pedagogic requirements, which will foster a more entrepreneurial culture.
- **Continue digitalising government services for enterprises**. Despite the adoption of new laws, e-signatures have still not been introduced due to the different legal frameworks across the different administrative levels. The number of online services

for enterprises, such as tax payments, needs to be scaled up, and data interoperability ensured.

- **Adopt a whole-of-government approach to establishing quality infrastructure.** The majority of quality infrastructure institutions are understaffed and suffer from limited budgets, hindering the services extended to SMEs. Given these constraints, it is essential to develop a state-wide quality infrastructure system, creating synergies across the administrative levels and avoiding duplication.
- **Foster the uptake of non-bank financing instruments.** Raising awareness of alternatives to bank financing and how they can help SMEs manage their investments and cash flow is important for improving uptake. The reform of the legal framework for leasing along with the new factoring law in the Federation of Bosnia and Herzegovina are expected to contribute to improved uptake. Similarly, a review of the legal framework in Republika Srpska could further boost the take up of alternative sources of financing.
- **Roll out instruments to foster innovation in SMEs.** With the exception of a recently initiated donor programme, there are no public funds available to stimulate SMEs to undertake innovative projects that might be financially risky. A reliable, well-funded financial instrument should be introduced, providing catalytic funding to all BiH SMEs wanting to conduct research and development, develop prototypes and test their ideas.
- **Provide guidance to SMEs in adopting environmentally sound practices**. SMEs need to be nudged to adopt resource efficiency measures. To achieve this, activities are needed to raise SMEs' awareness of how resource efficiency offers high returns for low-cost investments. This would be the first milestone for Bosnia and Herzegovina on its path towards a green economy.

Chapter 15. Kosovo*: Small Business Act profile

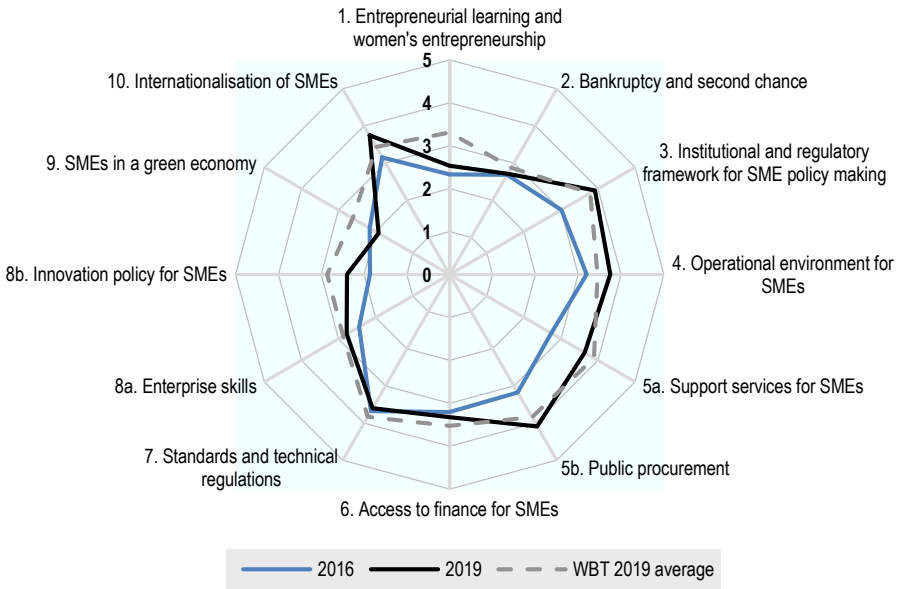
This chapter covers in depth the progress made by Kosovo in implementing the Small Business Act for Europe (SBA) over the period 2016-18. It starts with providing an overview of Kosovo's economic context, business environment and status of its EU accession process. It then provides some key facts about SMEs in the Kosovar economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period, and suggests targeted policy recommendations.

The full version of this chapter is available at https://doi.org/10.1787/g2g9fa9a-en.

* 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

Key findings

Figure 15.1. Small Business Act scores for Kosovo (2016 and 2019)



Note: A direct comparison of the scores between the 2016 and 2019 assessments for Dimension 1 (Entrepreneurial learning and women's entrepreneurship) and Dimension 8a (Enterprise skills) should be treated with caution as the assessment methodology has changed significantly. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Kosovo has made good progress in implementing the Small Business Act since publication of the previous report – the *SME Policy Index: Western Balkans and Turkey 2016* (Figure 15.1). The policy frameworks and governing mechanisms, hastily established in the early 2000s, have been significantly strengthened, and a number of regulations have been brought into line with those of the EU. All of this has resulted in better regulatory conditions that come closer to levelling the playing field for SMEs and for entrepreneurship development. The main achievements that have helped Kosovo improve its performance in this assessment can be summarised as follows:

Regulatory barriers to entrepreneurship continue to decline sharply. The establishment of one-stop shops under the Kosovo Business Registration Agency was a milestone in reducing red tape and lowering barriers to entry for Kosovar entrepreneurs. Company registration time has been reduced by almost 50% within three years to 5.5 days in 2018, and the number of procedures required to start a business has been brought down to three – the lowest for the assessed economies.

The Kosovo Credit Guarantee Fund (KCGF) is boosting demand for loans among SMEs. Since its establishment in 2016, the KCGF has already developed a portfolio of around 1 550 loans, adding up to a total loan amount of EUR 59 million. By also collaborating with microfinance institutions and non-bank financial institutions – albeit currently at low levels – the fund has the potential to improve the economic sustainability of these institutions, and ultimately to facilitate micro enterprises' access to credit.

The institutional framework has become conducive to fostering innovation in enterprises. The establishment of the Ministry for Innovation and Entrepreneurship in 2017 has underpinned the institutional framework for streamlining innovation in policy making. Although its operational portfolio is still narrow, the ministry now has significant resources for rolling out new instruments to foster innovation and establishing innovation centres across the economy.

The legal framework for insolvency proceedings is stronger. The new laws on bankruptcy and business organisations, adopted in 2016 and 2018 respectively, now incorporate many features left out by the previous legislation, laying the basis for efficient insolvency procedures. Proceedings involving SME debtors are now treated as reorganisation cases which require a "monitor" to be appointed to assist SMEs in their reorganisation plans.

SMEs have easy access to the public procurement market. Thanks to a solid institutional and regulatory framework, a number of solutions have been implemented that theoretically facilitate SMEs' access to public procurement. The documentation requirements have been streamlined further, and a cap has been put on the turnover required to participate in tender procedures. However, it remains to be seen to what extent SMEs' share of the total value of public contracts awarded will be affected by these improvements.

Priority areas

Despite the improvements to the business environment brought about by effective regulation, there are a number of areas in which Kosovo still needs to step up its efforts. This report identifies seven priority areas for intensified activities:

- **Ensure sufficient resources are allocated to implement the Private Sector Development Strategy.** Scarce funds earmarked for the measures planned under the previous private sector development strategies meant that donor-funded initiatives usually filled the gap. Although this is not a bad thing in itself, the tacit expectation that donor funds will step in creates uncertainty around implementation, and contributes to delays. The over-involvement of various donors may also shift accountability for the strategy away from the government, diluting public priorities.
- **Improve SME uptake of business support services by redesigning the existing schemes.** Given the low number of applications from SMEs, the Kosovo Investment and Enterprise Support Agency (KIESA) should consider redesigning its application and co-financing procedures for its support services. It could start by matching its co-financing support to enterprise size. Moreover, it could reconsider the practice of only reimbursing beneficiaries after projects are completed as this might deter resource-poor micro and small companies from applying altogether.
- **Enhance SMEs' access to finance by scaling up the KCGF and undertaking legislative reforms to broaden the range of alternative financial instruments**. Scaling up the KCGF further, and reviewing its overall performance – including its attractiveness to banks – would improve the external finance landscape for SMEs. Moreover, introducing the planned factoring law would improve the transparency and legal enforceability of factoring services, and be instrumental in improving SMEs' cash flow management.

- **Develop the legal framework and necessary infrastructure to stimulate e-commerce.** A comprehensive legal framework to support the regulated use of e-commerce still needs to be developed. International electronic payments cannot be made effectively because of SMEs' limited access to third-party e-payment service providers linked to Kosovar banks.
- **Focus on providing guidance to SMEs in adopting environmentally sound practices**. SMEs need to be nudged to adopt resource efficiency measures. To achieve this, activities need to be designed that raise SMEs' awareness of the fact that resource efficiency offers high returns for low-cost investments. A relevant public agency such as KIESA or the Kosovo Environment Protection Agency (KEPA) could provide direct advice to SMEs on saving energy, material and water costs.
- **Step up efforts to boost women's entrepreneurship.** Over 80% of Kosovar women do not participate in the labour market, and fewer than 10% of the economy's businesses are owned by women. Tailored policies and targeted measures are needed to address the challenges experienced by women entrepreneurs, in particular concerning asset ownership, access to finance, skills and entrepreneurship networks. Establishing an inter-ministerial co-ordination mechanism could be the first step towards unleashing the potential women's contributions could make to the economy.
- **Enhance SMEs' awareness of the newly adopted EU standards**. With 650 EU standards adopted in 2017 alone, SMEs in Kosovo struggle to keep up with the new standards they have to comply with. Organising workshops and preparing information materials on the new standards and their application should be a priority for the Kosovo Standardisation Agency. However, the agency's outreach first needs to be increased by allocating more human and financial resources.

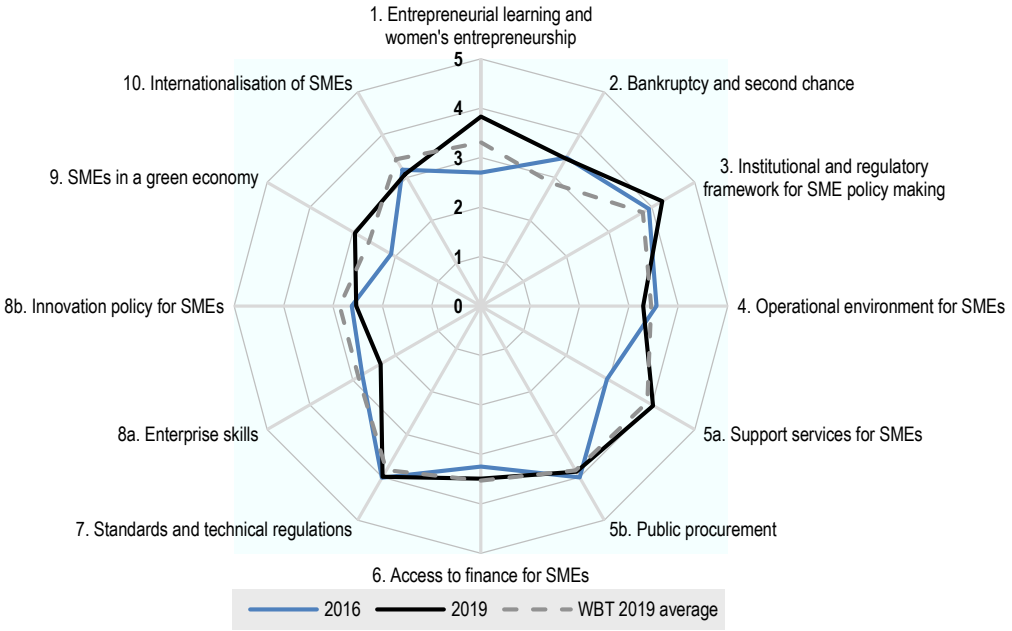
Chapter 16. Montenegro: Small Business Act profile

This chapter covers in depth the progress made by Montenegro in implementing the Small Business Act for Europe (SBA) over the period 2016-18. It starts with providing an overview of Montenegro's economic context, business environment and status of its EU accession process. It then provides some key facts about SMEs in the Montenegrin economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period, and suggests targeted policy recommendations.

The full version of this chapter is available at https://doi.org/10.1787/g2g9fa9a-en.

Key findings

Figure 16.1. Small Business Act scores for Montenegro (2016 and 2019)



Note: A direct comparison of the scores between the 2016 and 2019 assessments for Dimension 1 (Entrepreneurial learning and women's entrepreneurship) and Dimension 8a (Enterprise skills) should be treated with caution as the assessment methodology has changed significantly. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Montenegro has made progress in implementing the Small Business Act since the publication of the previous report – the *SME Policy Index: Western Balkans and Turkey 2016* (Figure 16.1). Most of the developments since 2016 have involved improving its legal and regulatory environment, which lays the foundations for better SME policy making. The main achievements that have helped Montenegro improve its performance in this assessment are as follows:

A new SME strategy has been prepared using an inclusive approach. The new Strategy for the Development of Micro, Small and Medium-Sized Enterprises (MSME Strategy) was adopted in July 2018. This comprehensive document includes objectives which reflect all ten SBA principles, and the priority areas have been identified based on the 2016 SME Policy Index findings. The views of a remarkably wide range of SMEs were sought in preparing it.

Entrepreneurial learning has been systematically infused into education. Entrepreneurship has been included as a key competence through a cross-curricular approach in pre-school and primary education, and entrepreneurial learning has been introduced as an optional subject in lower and upper secondary schools. The comprehensive revision of the curricula is likely to have a long-term positive impact on the probability of firms being started up, their performance and their survival.

Resolving insolvency has become faster and cheaper. Montenegro's amended insolvency laws now allow businesses that are in financial difficulties to be reorganised, and make it easier to liquidate non-viable companies. A more efficient insolvency regime

has helped Montenegro increase the recovery rate of debt by creditors from 48.6% in 2016 to 50.0% in 2018.

The legal framework regulating non-bank financial instruments has been strengthened. Non-bank financial institutions have been brought under the supervision of the Central Bank, and a law adopted in 2018 has set the framework for factoring, leasing and credit guarantee schemes. These developments are expected to further boost the demand for non-bank financial instruments, diversifying financing options for SMEs beyond traditional bank lending.

Investments in innovation infrastructure have received a boost. In 2016, the Tehnopolis innovation centre opened in Nikšić. This was the first phase of a science and technology park network in Montenegro that will comprise four institutions. The significant funds dedicated to sustaining and extending this network indicate the government's long-term commitment to fostering innovation activities among SMEs.

SMEs have easier access to the public procurement market. Following an amendment to the public procurement law, SMEs may now apply for bigger contracts without the need to fulfil cumbersome procedural requirements. The Public Procurement Office has also prepared detailed guidelines for line ministries to further encourage SMEs to participate in public tenders. The impact of these developments on the SME share of public contracts has yet to be seen.

Priority areas

The enhanced legal and regulatory framework in Montenegro has not yet been accompanied by sufficient targeted measures to support SMEs' competitiveness. There is also room for a more co-ordinated approach to providing support measures, currently spread across different public institutions; SME initiatives would certainly benefit from consolidation to increase their effectiveness. This report identifies seven priority areas in which Montenegro should intensify its activities:

- **Ensure the effective implementation of the MSME Strategy by further strengthening the role of the Directorate of Investments, Development of SMEs and Management of EU funds.** The ambitious measures in Montenegro's newly adopted MSME Strategy require, more than ever, strong co-ordination among the different public institutions involved. Therefore, the directorate must have adequate human and financial resources to successfully implement and monitor the Strategy.
- **Implement a single and transparent system for business licensing and permits.** The process of obtaining various licences and permits needs to be streamlined as it remains lengthy and expensive and disproportionally affects SMEs. The Licence E-register system should be reformed to reduce unnecessary requirements and further simplify procedures.
- **Reduce the tax compliance requirements for SMEs.** Although various tax exemptions are available for SMEs locally, there are no measures to reduce their income tax compliance requirements. Income tax provisions such as presumptive taxes and cash accounting are greatly needed to reduce the disproportionate burden posed on SMEs by the tax system.
- **Introduce alternative equity-based finance.** There is little or no funding available in Montenegro through business angels, venture capital or listings.

Policy makers should consider equity financing, especially for innovative start-ups and SMEs. Introducing crowdfunding into the legislative framework could provide a feasible alternative source of finance for start-ups that have growth potential.

- **Consider setting up an independent unit/agency to implement innovation policy measures.** Both the Ministry of Economy and the Ministry of Science are actively involved in providing institutional and direct financial support to innovative SMEs. Yet the programmes are fragmented, and often fail to attract sufficient interest from SMEs. An independent government unit or agency is warranted to centralise the various initiatives currently spread across ministries.
- **Provide catalytic financial support to help SMEs adopt environmentally friendly practices.** The government could make use of existing mechanisms to boost support for SME greening. The Investment and Development Fund of Montenegro could be instrumental in providing financial support to those SMEs that are willing to invest in improving their environmental performance.
- **Enhance support for export promotion.** Most of the activities directed at the internationalisation of SMEs currently focus on providing information rather than tangible support to build capacity. SMEs need tailored programmes to help them develop their export capacity. However, public bodies need to be well-versed in the challenges and needs of Montenegrin enterprises as a prerequisite to developing these programmes.

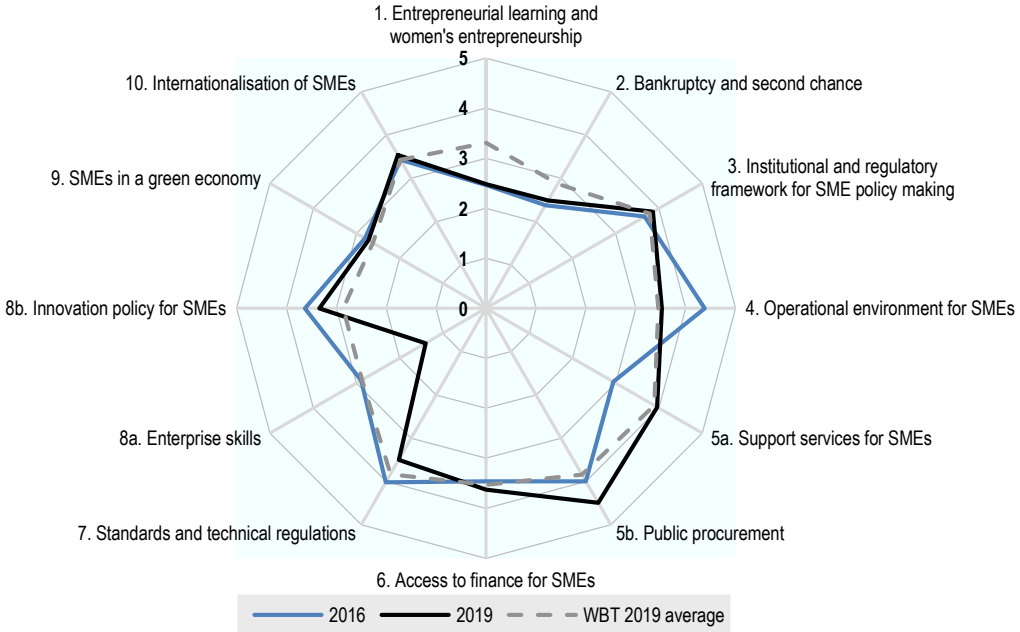
Chapter 17. North Macedonia: Small Business Act profile

This chapter covers in depth the progress made by the Republic of North Macedonia in implementing the Small Business Act for Europe (SBA) over the period 2016-18. It starts with providing an overview of North Macedonia's economic context, business environment and status of its EU accession process. It then provides some key facts about SMEs in the economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period, and suggests targeted policy recommendations.

The full version of this chapter is available at https://doi.org/10.1787/g2g9fa9a-en.

Key findings

Figure 17.1. Small Business Act scores for North Macedonia (2016 and 2019)



Note: A direct comparison of the scores between the 2016 and 2019 assessments for Dimension 1 (entrepreneurial learning and women's entrepreneurship) and Dimension 8a (enterprise skills) should be treated with caution as the assessment methodology has changed significantly. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

The Republic of North Macedonia has made moderate progress in implementing the Small Business Act (SBA) since publication of the previous report – the *SME Policy Index: Western Balkans and Turkey 2016* (Figure 17.1). The economy continues to offer a business environment receptive to SME needs, as well as a wide range of support programmes which are receiving a growing volume of financial resources. The main achievements that have helped the economy improve its performance in this assessment can be summarised as follows:

The new SME strategy has been developed through an inclusive approach. Three years after the previous SME strategy had expired, a new one covering the period to 2023 was adopted in 2018. This comprehensive document includes objectives for each of the ten SBA principles, and the priority areas have been identified based on the last SME Policy Index findings.

A new online portal centralises the information on SME support services. With European Union support, the Ministry of Economy has set up an online portal listing all the active calls for financial and non-financial support for SMEs. This will help to increase the awareness and uptake of programmes among SMEs.

The Fund for Innovation and Technological Development has been scaled up, further boosting the innovation ecosystem. More than EUR 3 million has been allocated to high-growth innovative SMEs since the fund's establishment in 2013.

Additional financial instruments were rolled out in 2018, substantially increasing government support to strengthening innovation infrastructure, such as incubators and accelerators.

Public procurement processes are more streamlined. Changes introduced to the law on public procurement in 2017 led to the abolishment of the Public Procurement Council, removing the need for costly and time-consuming approval procedures in order to participate in tenders. North Macedonia fosters one of the most SME-friendly environments in the region for public procurement.

Resolving insolvency has become faster with the introduction of debt restructuring. Following the amendments to the Bankruptcy Act in 2015, different creditors can actively participate and vote in insolvency proceedings, allowing for debt re-organisation plans. This has helped to reduce the average time to resolve insolvency from 1.8 years in 2016 to 1.5 in 2018.

The Institute of Accreditation has signed bilateral and international agreements, further easing SMEs' access to international markets. By eliminating the need for additional testing, mutual recognition of conformity assessment bodies' results in third countries is likely to lead to the increased acceptance of local SMEs' exports. Technical trade barriers have been lowered, decreasing SMEs' costs and administrative burden when exporting.

Priority areas

Following the standstill in implementing new SME policy measures throughout most of 2016 and early 2017, efforts have visibly intensified for planning policies and harmonising them with the SBA principles. Building on this momentum, this report identifies eight priority areas in which North Macedonia should intensify its activities further:

- **Ensure effective implementation of the SME strategy by establishing a co-ordinating body**. Given its ambitious objectives and broad action areas, the effective implementation of the SME strategy hinges on a strong co-ordination mechanism; however, this has not yet been established. This mechanism should be set up, giving a leading role to the Agency for Promotion of Entrepreneurship.
- **Establish the planned National SME Association to strengthen private engagement in policy making.** The National Entrepreneurship and Competitiveness Council, established in 2012, has now ceased to operate. A new mechanism that incorporates the voices of micro and smaller enterprises in policy making is imperative for applying the "think small principle".
- **Complete the reform of the legal framework for factoring and promote it amongst SMEs as a viable financial instrument**. To encourage the development of factoring services and increase their uptake by SMEs, the reform to increase legal certainty and transparency needs to be finalised. This should be complemented by awareness-raising efforts to promote factoring as an alternative financial instrument alongside bank loans.
- **Streamline company registration and the provision of licences and permits by consolidating the services under one-stop shops.** Although the current 27 "one-stop shops" operated by the Central Registry allow for easy registration of businesses, they do not centralise the application process for various licences and

permits. The registry's mandate needs to be extended so as to further simplify the process and reduce the administrative burden on SMEs.

- **Embark on a review of SMEs' skills gaps and training needs**. To date there has been no comprehensive analysis of skills shortages. Unidentified and unaddressed skills gaps continue to be a binding constraint on SME growth and competitiveness.
- **Conclude the preparation of the Green SME Development Strategy, and provide guidance to SMEs in adopting environmentally sound practices**. The finalisation of the planned strategy would be a first step towards ensuring a whole-of-government approach to SME greening. This should be followed by targeted activities, raising SMEs' awareness of the fact that resource efficiency offers high returns for low-cost investments.
- **Scale-up public support to further encourage linkages between multinational enterprises and SMEs.** Apart from a few donor-funded initiatives, there have been no systematic efforts to help SMEs integrate into European and global value chains. Support programmes, match-making services and targeted advice to SMEs on upgrading their production process need to be developed.
- **Assist SMEs to reap the benefits of e-commerce**. The share of enterprises selling online is just 3%, the lowest in the Western Balkans and Turkey (WBT) region. Despite the relatively solid legal framework, the lack of relevant information and communications technology skills necessitates public intervention to provide targeted support to SMEs.

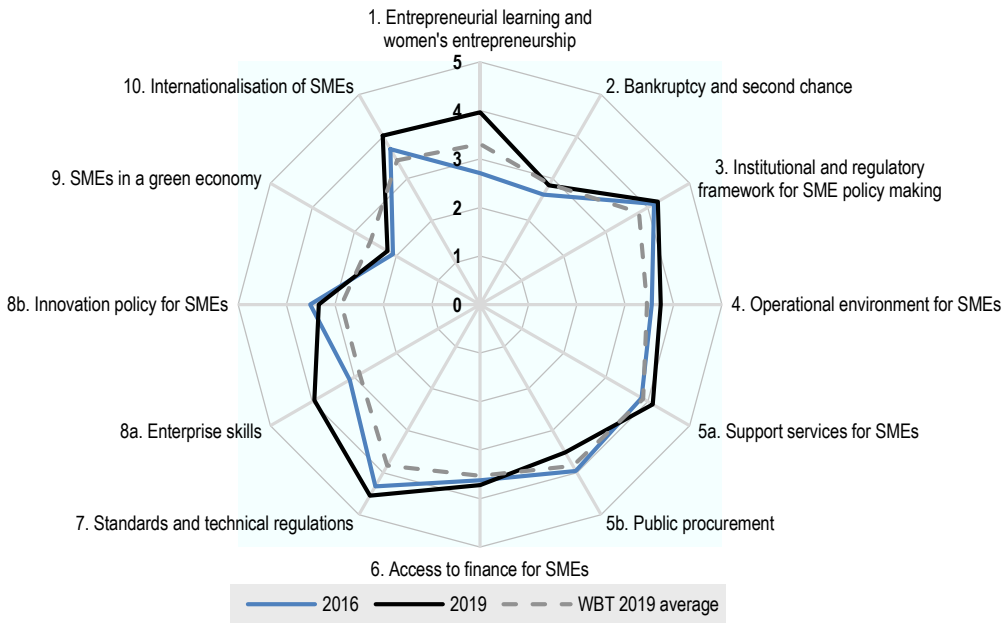
Chapter 18. Serbia: Small Business Act profile

This chapter covers in depth the progress made by Serbia in implementing the Small Business Act for Europe (SBA) over the period 2016-18. It starts with providing an overview of Serbia's economic context, business environment and status of its EU accession process. It then provides some key facts about SMEs in the Serbian economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period, and suggests targeted policy recommendations.

The full version of this chapter is available at https://doi.org/10.1787/g2g9fa9a-en.

Key findings

Figure 18.1. Small Business Act scores for Serbia (2016 and 2019)



Note: A direct comparison of the scores between the 2016 and 2019 assessments for Dimension 1 (entrepreneurial learning and women's entrepreneurship) and Dimension 8a (enterprise skills) should be treated with caution as the assessment methodology has changed significantly. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Serbia has made progress in implementing the Small Business Act (SBA) since publication of the previous report – the SME Policy Index: Western Balkans and Turkey 2016 (Figure 18.1). With a well-developed approach to SME policy, Serbia has rolled out a number of measures and programmes during the assessment period to stimulate private sector development. The main achievements that have helped Serbia boost its performance are as follows:

The institutional framework has been strengthened, enabling greater consideration of SMEs' interests in policy making. The Council for SMEs, Entrepreneurship and Competitiveness became operational in November 2017, two years after it had formally been established as an occasional working body. In addition to monitoring and co-ordinating the implementation of the SME Development Strategy 2015-20, it also provides suggestions and initiates customised programmes for SMEs. It is expected that the council will give a boost to the embedding of the "think small first" principle when developing new policies.

Starting a business has become easier, faster and cheaper. Following a comprehensive business reform, the company registration process has been further simplified. The improved operational efficiency of the Serbian Business Registers Agency has played a pivotal role in bringing down the number of days and procedures to start a business, from 11.5 days and 6 procedures in 2015 to 5.5 days and 5 procedures in 2018.

Support measures for SMEs have gained traction. The Ministry of Economy of Serbia launched the Year of Entrepreneurship in 2016, which has since grown into a Decade of Entrepreneurship. As part of this it has substantially enhanced overall financial and non-financial support to SMEs, and increased the scope of business support services to include a wider range of customised programmes. The uptake of these services by SMEs is remarkably high.

The amount of loans in local currency has increased, enhancing SMEs' access to bank finance. Thanks to the partial implementation of the National Bank's Dinarisation strategy, as well as greater macroeconomic stability, the interest differential of local currency loans has begun to reduce. This development has seen SME lending accelerate, and the overall liquidity of the banking system improve.

Rapid strides have been made in improving the innovation infrastructure linking business with academia. The Belgrade Science and Technology Park has become fully operational, and currently houses a large number of start-ups. Similar institutions are being constructed in other economic hubs, such as Novi Sad and Nis. The government has moved beyond relying on international donors to support innovation and allocated significant public funds for this purpose, including EUR 2 million to establish smaller regional innovation centres across the country.

Entrepreneurial learning is better mainstreamed across the curriculum. In lower secondary education, including vocational education and training schools, entrepreneurship has been introduced as a separate subject, supported by a multitude of practice-based activities. In higher education, university curricula have been modernised, and new start-up development and intellectual property management courses have been developed.

Priority areas

This report identifies six priority areas in which Serbia should intensify its efforts:

- **Make better use of evaluation in the policy cycle**. Serbia needs to start systematically evaluating its interventions under its SME Development Strategy to ensure optimal use of scarce public resources in the long term. In addition, it needs to assess the impacts of various policies to see whether SMEs are disproportionately affected or disadvantaged compared to larger companies.
- **Diversify sources of finance, especially for micro and small enterprises.** The legal and regulatory framework in Serbia is preventing a fully fledged microfinance industry from emerging. Legislation should be introduced to enable lending by microfinance institutions, which would operate in under-served areas and provide more appropriate credit products for micro and small enterprises.
- **Focus on raising awareness and providing guidance to SMEs in adopting environmentally sound practices**. Activities aimed at raising SMEs' awareness of the benefits and opportunities offered by going green should be designed and implemented. To ensure complementarity among the various support measures aimed at SMEs, the Development Agency of Serbia (RAS) – in consultation with the Ministry of Environment – could assume the task of co-ordinating the implementation of these activities.
- **Roll out supplier development programmes.** The current financial schemes offered by RAS fall short of truly helping SMEs integrate into European and

global value chains. New support programmes need to be developed that underpin the linkages between SMEs and multinational enterprises (MNEs). These should include matchmaking services and targeted advice to SMEs on upgrading their production process to better cater for MNEs' supply needs.

- **Design policy tools to reduce cultural stigma around failed entrepreneurs, and to promote a second chance.** Appropriate legal measures distinguishing between honest and fraudulent bankruptcies should be complemented with cultural campaigns, promoting a fresh start and a culture that values failure.
- **Improve SME access to public procurement**. Serbia still lacks a fully fledged electronic procurement system and online portal. SMEs are disproportionately affected by not being able to submit tenders or request to participate through electronic means.

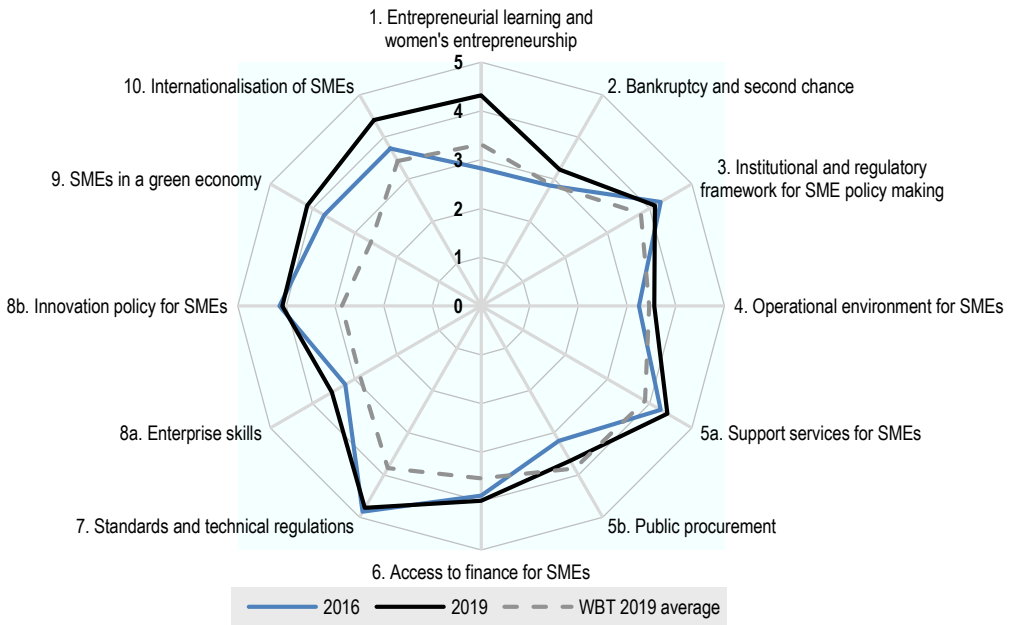
Chapter 19. Turkey: Small Business Act profile

This chapter covers in depth the progress made by Turkey in implementing the Small Business Act for Europe (SBA) over the period 2016-18. It starts with providing an overview of Turkey's economic context, business environment and status of its EU accession process. It then provides some key facts about SMEs in the Turkish economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period, and suggests targeted policy recommendations.

The full version of this chapter is available at https://doi.org/10.1787/g2g9fa9a-en.

Key findings

Figure 19.1. Small Business Act scores for Turkey (2016 and 2019)



Note: A direct comparison of the scores between the 2016 and 2019 assessments for Dimension 1 (entrepreneurial learning and women's entrepreneurship) and Dimension 8a (enterprise skills) should be treated with caution as the assessment methodology has changed significantly. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology

Turkey has made progress in implementing the Small Business Act since publication of the *SME Policy Index: Western Balkans and Turkey 2016* (Figure 19.1). The economy's main strength lies in offering a comprehensive set of support measures to SMEs, especially with a view to increasing their exports. Significant fiscal stimulus measures introduced since 2016 have also fuelled financing to SMEs and given them the opportunity to scale up.

The main achievements that have helped Turkey boost its performance in this assessment are as follows:

Entrepreneurship training is now widespread in the economy. Following the protocols signed by the SME Development and Support Organisation (KOSGEB) with the Turkish Employment Agency, the Ministry of National Education and other organisations, entrepreneurship courses have increased rapidly in number and now cover all of Turkey's 81 provinces. Successful completion of this training is a requirement to qualify for KOSGEB's Entrepreneurship Support Programme, which has further boosted demand.

Bank lending to SMEs has been significantly expanded through the Credit Guarantee Fund. In 2017, the Turkish government increased the size of its Credit Guarantee Fund – which guarantees loans to SMEs that could not otherwise get credit – to TRY 250 billion (about EUR 45 billion). Growth in lending to SMEs has surged, significantly easing their access to finance.

Access to finance for SMEs with limited fixed asset collateral has improved. In 2017, the new law on Movable Pledges in Commercial Transactions entered into force, allowing for the possibility to pledge a variety of movable assets in commercial transactions. The pledged movables falling under the scope of the law can now also be registered on line. SMEs operating in manufacturing are particularly well placed to benefit from this law.

New fiscal measures could stimulate the private sector's research and development activities. An extensive support package for research and development (R&D) and innovation-related activities was introduced in 2016, providing various tax incentives to enterprises. Given that government funding of private sector R&D stands at only 0.07% of gross domestic product (GDP), this package may bring this expenditure closer to the OECD average of 0.1%.

The Standardisation Strategy paves the way for SME involvement in standardisation. Adopted in 2017, Turkey's first ever strategy on standardisation outlines how the process could be enhanced, in particular by increasing stakeholder engagement. A variety of measures are expected to enhance SMEs' awareness of the standards' benefits and boost SME participation in developing them.

The newly introduced concordat regime enables viable firms to restructure and avoid bankruptcy. Following amendments to the Enforcement and Bankruptcy Law in March 2018, the government introduced concordat proceedings which allow the debts of those facing bankruptcy to be reconstructed. This development is expected to improve the survival rate of SMEs in the long term.

Assistance to SMEs in integrating into global markets via e-commerce has gained traction. In 2017, the Ministry of Economy decided to provide financial support to enterprises for e-commerce website membership, and signed agreements with major global e-commerce platforms. This may encourage more SMEs to participate in global e-commerce markets by selling and buying on line.

Priority areas

Turkey's intensive efforts to provide financial and technical assistance to SMEs have yet to be accompanied by systematic evaluations of their economic efficiency and to ensure public accountability. More attention should be paid to creating favourable regulatory conditions, since SMEs' unique needs are not entirely mainstreamed in policy making.

The assessment identifies seven priority areas in which Turkey should intensify its activities:

- **Make better use of evaluation in the policy cycle.** Building on previous attempts, Turkey needs to embark on a systematic evaluation of the efficiency and efficacy of its various SME support measures. Given the large and growing amount of state aid funnelled to SMEs, the optimal use of public resources needs to be ensured.
- **Continue consolidating and streamlining SME support measures**. In 2018, 14 public institutions offered more than 90 support programmes to benefit SMEs. With such a large number of measures available both at national and local level, it is important to continue efforts to avoid overlaps and create further synergies among public institutions so as to increase the programmes' impact.

- **Enforce the systematic use of regulatory impact analysis and assess the implications of regulations for SMEs.** Despite the existing legal framework, regulatory impact analysis **(**RIA) is not conducted regularly, and comprehensive impact analyses that look at the effects of policy proposals on SMEs are not observed. Expanding RIA to the whole regulatory process, while taking SMEs' interests into account at an early stage of policy making, would further improve the regulatory environment.
- **Improve engagement with SMEs in policy making.** There is no evidence that consultations are open to enterprises in Turkey. The planned online legislative participation portal could be an important milestone in systematically collecting SMEs' views on new regulatory proposals – making the business environment more SME-friendly.
- **Streamline business licence and permit applications by creating one integrated authority to issue them**. Although the current Central Commercial Registration System allows for easy business registration, it lacks a centralised application process for the various licences and permits. One single co-ordination body would simplify the process so that enterprises do not need to visit several different public institutions to obtain permits.
- **Reduce the administrative burden on SMEs when participating in public procurement.** The documentation requirements for procurement procedures need to be reduced and aligned with the 2014 EU Public Procurement Directives. Only tender winners should be required to produce documents proving that they fulfil the selection criteria, to allow more SMEs to submit bids.
- **Improve ease of a second chance for honest bankrupt entrepreneurs.** The lack of automatic discharge, and the ensuing need to re-apply in court, is highly biased against honest bankrupt entrepreneurs who wish to start a new business. The time period between liquidation and formal debt cancellation should be as short as possible, to allow failed entrepreneurs to make a fresh start quickly.

Annex A. Methodology for the 2019 Small Business Act assessment:

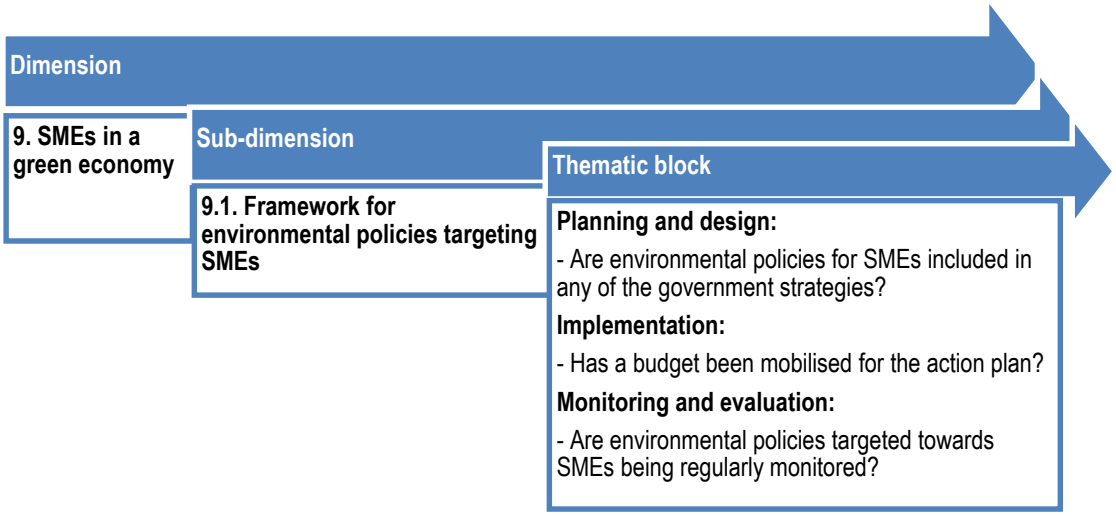
This section provides a detailed overview of the assessment methodology for the 2019 SME Policy Index.

Overview of the 2019 assessment framework and scoring

The process comprises two parallel assessments, a self-assessment by the government and an independent assessment by local consultants (see the Policy Framework and Assessment Process chapter).

The assessment grid is built upon the ten principles of the SBA, divided into 34 sub-dimensions. The sub-dimensions are usually also divided into thematic blocks, each with its own set of indicators. The thematic blocks are typically broken down into three components, representing different stages of the policy cycle: planning and design, implementation, and monitoring and evaluation (Figure A A.1). In few sub-dimensions where this approach is not applicable, for example in relation to the SME definition or the availability of some financial instruments within the access to finance dimension, thematic blocks may differ.

Figure A A.1. Dimension, sub-dimension and indicator level examples



The approach of assigning scores to reflect different stages of the policy cycle, allows governments to identify and target the stages where they have particular strengths or weaknesses. Each policy dimension, and their constituting parts, is assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest level, whist the level 5 is the strongest, indicating a level of

development commensurate with OECD good practices (Table A A.1). The levels are determined through a participatory and analytical process, which is conducted by means of a self-assessment by the government and an independent assessment by local consultants, supplemented by private-sector interviews.

Table A A.1. Description of score levels

Level 5	Level 4 plus results of monitoring and evaluation inform policy framework design and implementation
Level 4	Level 3 plus evidence of a concrete record of effective policy implementation.
Level 3	A solid framework, addressing the policy area concerned, is in place and officially adopted.
Level 2	A draft or pilot framework exists, with some signs of government activity to address the policy area concerned.
Level 1	No framework (e.g. law, institution) exists to address the policy topic concerned.

The assessment framework comprises qualitative and quantitative indicators, which are scored based on questions in the following forms:

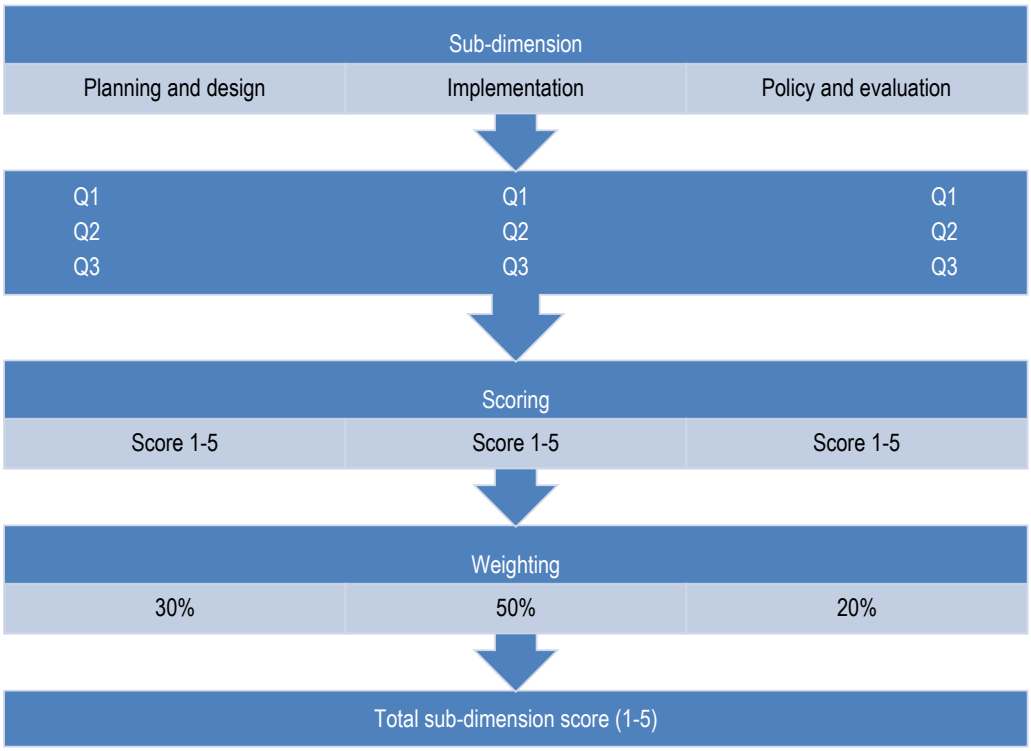
- **Binary questions,** allowing yes or no answers, such as "Does a legal definition of SMEs exist in your country?"
- **Multiple-choice questions**, such as "Does a multi-year SME strategy exist?" or "Does an SME policy implementation body or equivalent exist?" These questions offer a drop-down list of answers, such as "strategy is in the process of development", "draft strategy exists but not yet approved by the government", "strategy exists, it has been approved by the government and is in the process of implementation", and "there is no strategy in development".
- **Open-ended questions**, acquiring further descriptive evidence to add to the binary and multiple-choice questions. These questions are not themselves scored. Examples include "What is the budget for the SME implementation agency?", "How many people work in the agency?" and "How many ministries are represented in the governance board?"

Whenever possible, economies are asked to support their answers with evidence, by providing source documents such as strategies and budget plans. Each questionnaire also includes definitions of some of the terms used in the questions, as well as references and examples to help respondents answer the questions.

Each of the core questions is scored equally within the thematic block. For binary questions, a "yes" is awarded full points and a "no" receives zero points. For multiple-choice questions, scores for the different options range between zero and full points, depending on the indicated level of policy development.

The scores for the core questions are then added up to provide a score for each component. Scores are initially derived as percentages (0-100) and then converted into the 1-5 scale. Scores for the thematic blocks are then aggregated to attain a score for the sub-dimension, with each thematic block being weighted based on expert consultation. In general, planning and design accounts for 30% of the score, implementation 50%, and monitoring and evaluation 20%, to emphasise the importance of policy implementation (Figure A A.2). Weights were applied at sub-dimension level and thematic block level in the same way.

Figure A A.2. Scoring breakdown per sub-dimension



Main changes to the assessment framework since the 2016 SBA assessment

Since 2016, the SBA assessment framework has been revised to provide a more in-depth analysis of SME polices by covering the cutting-edge aspects. By asking more detailed questions about some institutions and policy measures, the assessment allows the formulation of more concrete and targeted recommendations.

Five new sub-dimensions have been added to the assessment and others expanded and amended to include policy aspects that were not covered in the previous cycle. The policy dimensions and sub-dimension weightings have been adjusted to allow for these additions while maintaining as much comparability with the 2016 assessment as possible.

Table A A.2. Overview of changes to the SBA assessment

SBA principle	Related policy dimension	Key changes
1. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded	1. Entrepreneurial learning and women's entrepreneurship	New questions were introduced relating to the cross-sectoral co-ordination of policies addressing women's entrepreneurship, incentives for strengthening women's participation in the formal sector, data availability and gender sensitivity of policies.
2. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance	2. Bankruptcy and second chance for SMEs	A new sub-dimension "Prevention measures" was introduced to better distinguish between pre- and post-bankruptcy procedures.
3. Design rules according to the "think small first" principle	3. Institutional and regulatory framework for	Holistic measures to fight against the informal economy with a view to supporting the formalisation of SMEs have been added to the

	SME policy-making	assessment. The assessment now pays more attention to the monitoring and evaluation part of legislative simplification and RIA.
4. Make public administration responsive to SMEs	4. Operational environment for SMEs	A new sub-dimension on tax compliance procedures for SMEs has been added to the assessment. Monitoring and evaluation mechanism for company registration procedures are assessed.
5. Adapt public policy tools to SME needs	5a. Support services for SMEs	The questions were streamlined to acknowledge a more diverse set of answers. The assessment no longer evaluates whether economies' strategy documents associated with BSS provision include both measurable targets and the expected impact of measures, but only if they include measurable targets.
	5b. Public procurement	The assessment requests more information concerning general issues related to participation of SMEs in public procurement procedures.
6. Facilitate SME access to finance and develop a legal framework and business environment supportive of timely payments in commercial transactions	6. Access to finance for SMEs	Introduction of a more detailed analysis of the quality of leasing and factoring legal frameworks.
7. Help SMEs to benefit more from the opportunities offered by the Single Market	7. Standards and technical regulations	The previous sub-dimensions on Technical regulations, Standardisation, Accreditation, Metrology, Conformity assessment and Market surveillance have been consolidated into a single sub-dimension, Harmonisation with the EU *acquis*. A new sub-dimension was introduced to examine SMEs' access to standardisation.
8. Promote the upgrading of skills and all forms of innovation	8a. Enterprise skills	Questions on how SME skills are linked to the smart specialisation approach and the Economic Reform Programme were introduced. Different categories of training provision are now addressed: start-ups, women entrepreneurs, SME internationalisation and growth, family businesses, and training in green and digital skills.
	8b. Innovation policy for SMEs	A new sub-dimension was introduced to recognise the importance of effective collaboration between SMEs and research institutions to enhance technology transfer and commercialisation of innovations.
9. Enable SMEs to turn environmental challenges into opportunities	9. SMEs in a green economy	An enhanced focus was put on examining whether the promotion of eco-efficiency and eco-innovation in the national strategic policy frameworks has been undertaken. The Incentives and instruments sub-dimension was updated to encompass a broader range of regulatory and other market-based instruments including performance standards, and environmental taxes and charges. Efforts on promotion and providing guidance carried more weight and were more thoroughly evaluated in this cycle of the assessment.
10. Encourage and support SMEs to benefit from growth markets	10. Internationalisation of SMEs	A new sub-dimension on e-commerce was added to assess whether programmes to promote the use of e-commerce and legal frameworks for e-payments and consumer protection are in place to secure the operational environment needed to support e-commerce.

Greater emphasis on the implementation of policies

In the previous assessment cycle, the assessed economies had made substantial progress in establishing policy frameworks across different areas. However, solid policy designs and institutional set-ups do not always translate into effective policy implementation. In order to better assess the effectiveness of SME policies, the assessment has been revised, to place more emphasis on their implementation.

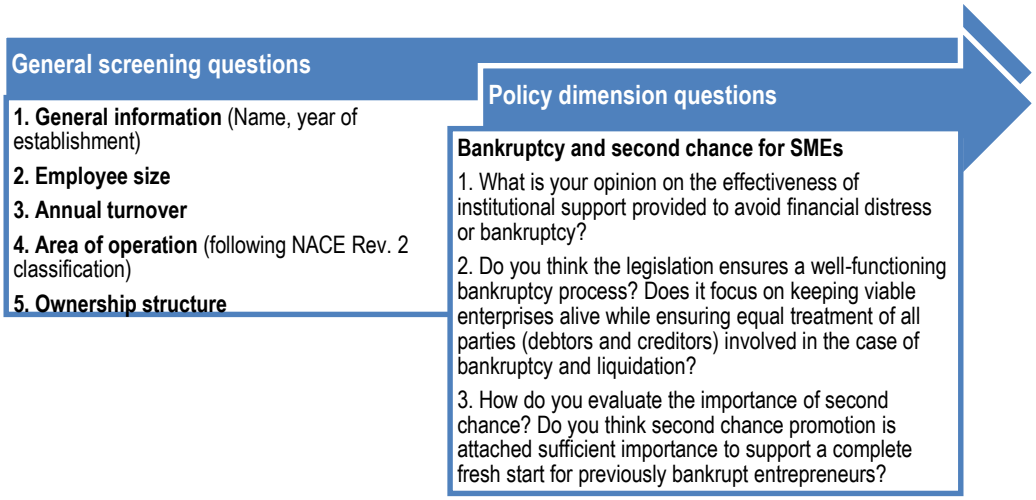
The weightings have therefore been adjusted and the implementation stage of the policy cycle is now allocated a weight of 50%, compared to 45% in the previous assessment. While the weight assigned to the planning and design stage has fallen to 30%, the weight for monitoring and evaluation has remained the same.

Private-sector feedback has been included to gauge the outcome of policies

The new assessment cycle endeavoured to measure policy outcomes more effectively by paying more attention to the insights of representatives from the private sector and civil society on the effectiveness of SME policies and support measures. In addition to shedding light on the actual state of policy implementation, their feedback also helped to uncover any unintended effects of existing policies. Standardised interviews were used for SME owners and managers and representatives of chambers of commerce, while the views of civil society representatives were captured by the local consultants when they were filling out questionnaires.

The face-to-face interviews with SME owners and managers were in two parts. In the first part, the interviewees were asked screening questions to collect information about their firms' characteristics. In the second part, interviewees were asked questions related to SME policies, covering the various SME Policy Index dimensions. Figure A A.3 illustrates the two-part structure of interviews with examples of questions for Dimension 2: Bankruptcy and second chance for SMEs. A detailed description of the interviews is presented in Annex C.

Figure A A.3. Structure of private sector interviews



Statistical data have been collected to allow improved comparison of performance over time

As some economies have reached high levels of convergence with the SBA principles (Level 3 or above) and advanced levels of policy implementation, information about the performance of policies became more important. The revised approach has enhanced its use of several types of statistics, which complement the information acquired from the two assessments. The approach integrates national statistics, company-level data from other international organisations, or independent company surveys to measure the performance of policies on the ground. Table A A.3 provides an overview of the types of statistics and data collected, their purpose within the SME Policy Index, and their main sources.

The enhanced data collection also led to the greater involvement of national statistical offices in this cycle.

Table A A.3. Data types and sources

Type of data	Main purpose within the SME Policy Index	Source
Macroeconomic data and business statistics	Statistical information for the country reports Support of the policy narrative written by the independent expert	National statistical offices International databases and entrepreneurship indicator programmes (OECD, Eurostat, World Bank, etc.)
Statistics on policy outputs	Measurement of the policy intensity and the actual policy output Measurement of policy convergence towards the EU average	Section on open questions in the SBA assessment questionnaires Data from the SBA Factsheets
Survey data	Measurement of SME perceptions of the effectiveness and usefulness of certain SME policies Measurement of policy convergence with the EU average	BEEPS Survey Eurobarometer data from the SBA Factsheet where available

Annex B. The Small Business Act assessment's scoring model for Bosnia and Herzegovina

Constitutional set-up of Bosnia and Herzegovina

The governance structure of Bosnia and Herzegovina (BiH) comprises the institutions of the state of Bosnia and Herzegovina, the governments of the two territorial and administrative entities – the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS) – as well as Brčko District (BD). At entity level, both the FBiH and the RS have significant constitutional autonomy and regulate independently the matters which the Constitution of Bosnia and Herzegovina has not assigned to the state government.[1] The entities' parliaments have jurisdiction over a range of policies, among them healthcare, education, agriculture, culture, labour, police and internal affairs. Both entities have a president, prime minister and 16 ministries. The FBiH is furthermore divided into ten federal units (cantons), each with its own constitutions that prescribe their legislative, executive and judiciary authority, as well as the functioning of government authorities.

The 2019 SBA Assessment of Bosnia and Herzegovina

Bosnia and Herzegovina submitted four assessment questionnaires for the SBA assessment, one for the state and one each for both entities and Brčko District. Information from all four questionnaires has been taken into account in the analysis. Nevertheless, given that Brčko District only represents approximately 1% of the total population of BiH, it has not been included in the scoring.

SME policy making in Bosnia Herzegovina is much more decentralised than the other economies covered by the SBA assessment. Therefore, information from the two entities has been taken into account in the calculation of the country scores. Following the changes to the 2019 assessment (see Annex A for more information), the scoring model for Bosnia and Herzegovina has been revisited to allow for a more accurate and specific assessment of the different SME policy areas. Policy recommendations have been formulated to emphasise the importance of policy co-ordination in Bosnia and Herzegovina for averting the possibility that local policy measures infringe on the principle of a single domestic market and distort competition among enterprises based in different entities.

Based on these considerations and the availability of data, a scoring system involving four models has been developed (Table A B.1.)

Table A B.1. Overview of the four scoring models

Model 1	Model 2	Model 3	Model 4
1/2 (FBiH) 1/2 (RS)	2/3 (state) 1/6 (FBiH) 1/6 (RS)	1/3 (state) 1/3 (FBiH) 1/3 (RS)	State level only

For most of the dimensions (Bankruptcy and second chance, Operational environment for SMEs, Support services for SMEs, Innovation policy for SMEs, and SMEs in a green economy), a score has been derived by calculating a simple average of the two entities' score. This approach (Model 1) has been adopted principally since major policies, mechanisms and institutions under these areas exist mainly at the entity level and so needed to be reflected in the scoring.

For two dimensions (Access to finance, and Standards and technical regulations), the second model was selected, giving two-thirds of the weight to the state and one-sixth to each of the two entities, since responsibilities under these dimensions lie mainly at the state level. However, inputs from the entities were also recognised and included in the scoring.

For two other dimensions (Institutional and regulatory framework for SME policy making and Internationalisation of SMEs), a score has been derived using the third model, which allocates one-third of the weight equally to the two entities and the state. Finally, the Public procurement dimension only takes state-level information into consideration.

Table A B.2 gives an overview of all the SBA dimensions, providing the rationale for the selection of the scoring models. Dimensions 1 and 8a do not appear in this table. Their assessment was led by the ETF, which used a completely different scoring model. This involved only assigning a positive score for the dimensions' indicators when there was positive evidence in both entities (RS and FBiH). When either RS or the FBiH failed to satisfy the evidence required, they were not assigned a positive score, but credit was given in the write-up.

Table A B.2. Application of the scoring models to the SBA dimensions

SBA dimension	2019 SBA assessment	Rationale
2. Bankruptcy and second chance	Model 1	In Bosnia and Herzegovina there are no state-level responsibilities or programmes for this dimension.
3. Institutional and regulatory framework for SME policy making	Model 3	Legislative simplification efforts are being undertaken at the entity level. However, all three levels of government in Bosnia and Herzegovina have legal frameworks in place that define the general principles and procedures on conducting regulatory impact assessment (RIA) and public-private consultations (PPCs).
4. Operational environment for SMEs	Model 1	In Bosnia and Herzegovina, entities are responsible for their own company registration process. Moreover, there are no services available for obtaining licenses for SMEs at the state level. Although the state level has competences for tax compliance procedures, this policy area was not scored in this assessment cycle.
5a. Support services for SMEs	Model 1	Support services for SMEs are designed and implemented at the entity level. Moreover, a dedicated agency for provision of support services exists in each of the entities.
5b. Public procurement	Model 4	Public procurement is regulated by the state Law on Public Procurement.
6. Access to finance for SMEs	Model 2	Responsibilities under this dimension are dominantly at the state level. However, inputs from the entities are also recognised and included in the scoring.
7. Standards and technical regulations	Model 2	The greater weight (2/3) is given to the state to recognise its competences in overall policy co-ordination and transposition of standards and technical regulations. However, entity performance was also scored, as the initiatives and programmes to facilitate SMEs access to standardisation are dominantly at the entity level.

8b. Innovation policy for SMEs	Model 1[1]	Since the mechanisms and institutions to support SMEs in innovative activities are generally at the entity level, the scoring model accounts for their performance. Collaboration between SMEs and research institutions is also established and supported at the entity level. However, the scoring model also recognises the importance of the state, particularly for overall policy co-ordination and intellectual property rights.
9. SMEs in a green economy	Model 1	SME greening policies are devised and implemented at the entity level and there are no institutions at the state level that are in charge of promoting a green economy. Moreover, strategies and action plans that include goals for the green economy are adopted at the entity level.
10. Internationalisation of SMEs	Model 3	This dimension covers policies which can be introduced at both the state and the local level. In Bosnia and Herzegovina, institutions that play a role in export promotion exist at both levels, however, programmes to support SME integration into global value chains and programmes to promote e-commerce, are implemented at the entity level.

Note: [1] For Dimension 8b, model 1 is applied, with the sole exception of the thematic block on intellectual property rights which was assessed based on the state-level-inputs.

Notes:

[1] The competences of the institutions of Bosnia and Herzegovina are prescribed by Article III, paragraph (1) of the Constitution of Bosnia and Herzegovina. The competences of the entities are prescribed by the same article, in paragraph (2). Paragraph (3) of the article stipulates that all government competences not expressly assigned to the state-level government belong to the entities.

Annex C. Semi-structured interviews with private sector representatives

Introduction

In the 2016-19 cycle of the Small Business Act (SBA) Assessment for the Western Balkans and Turkey, the OECD endeavoured to better gauge policy implementation and outcomes by involving the private sector more intensively in the assessment process.

To do so, the OECD prepared a standardised questionnaire to collect private sector insights into the effectiveness of small and medium-sized enterprise (SME) policies and existing support measures. In addition to shedding light on the actual state of policy implementation, the questionnaire also aimed to reveal any unintended impacts of policies on SMEs, as well as to gather private sector recommendations across a variety of policy areas.

Methodology and implementation

The questionnaire was designed to standardise the process and ensure consistency across interviews. Local consultants in each of the seven assessed economies were hired to conduct semi-structured interviews with private sector representatives. In addition to owners and managing directors of SMEs, a number of interviews were also held with representatives of Chambers of Commerce.

The size and geographical distribution of SMEs were taken into consideration when selecting interviewees. This was crucial in order to ensure that the sample was as representative of the SMEs sector in the region as possible. In total, 40 interviews were conducted across the region. However, the small sample size meant that the results have been interpreted with caution in the analysis, and were not included directly in the scoring.

The interviews involved two parts:

1. Interviewees were asked screening questions to collect information about the following characteristics of their firm:

- year of establishment
- number of employees
- annual turnover
- sector of operation (based on the statistical classification of economic activities in the European Community (NACE Rev.2).

2. The consultants asked opinion-based questions prepared by the OECD and grouped by the SME Policy Index dimensions (excluding Dimensions 1 and 8a, whose assessment was led by the European Training Foundation). Table A C.1. illustrates the nature of questions, with a few selected examples below.

Table A C.1. Standardised interview question examples

Policy dimension	Question
7. Standards and technical regulations	Have you had any difficulties in complying with EU standards and technical regulations? If yes, please elaborate on these difficulties you have experienced, and whether you have received any public support to overcome them.
8b. Innovation policy for SMEs	Do the services and financial instruments offered by public institutions incentivise you to engage in innovation related activities? If not, in which areas would you like to see enhanced public support to address your major obstacles?
	If you have you ever co-operated with the public research institutions/academia on an innovative project, how would you assess your experience? If you have not co-operated so far, what are the main reasons for that, and are there any obstacles in doing so?

Following a review of the information collected in the interviews by the OECD, the local consultants were asked to re-approach the interviewees for additional information or clarification on certain elements where necessary.

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SME Policy Index

Western Balkans and Turkey 2019

ASSESSING THE IMPLEMENTATION OF THE SMALL BUSINESS ACT FOR EUROPE

Robust SME sectors are critical to the prosperity of the six Western Balkan economies and Turkey, accounting for over 70% of those employed in the business sector and generating 65% of value added in these seven economies. Yet their potential remains untapped, as SMEs across the region grapple with numerous challenges that hamper their growth and productivity. They are still under-represented in international trade, and their contributions to value-added remain comparatively low as they have difficulties in moving or expanding into high value-added activities.

This report provides a comprehensive overview of the implementation of the ten principles of the Small Business Act for Europe (SBA) in the seven EU pre-accession economies over the period 2016-18. It monitors progress against similar assessments performed over the past decade and identifies the outstanding challenges affecting SMEs. It also provides targeted recommendations to remove barriers to SME development and unleashing their potential for driving inclusive economic growth.

Consult this publication on line at ***https://doi.org/10.1787/g2g9fa9a-en***.

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