

ETF POLICY BRIEFING

EVIDENCE, PRACTICE & ADVICE FOR POLICY MAKERS



Making small and medium-sized enterprises more competitive through upskilling and reskilling

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The content of this policy brief is inspired by the ETF project “Skilling up the Western Balkans agri-food sector” and the establishment of the agri-food network. While grounded in this context, the findings are likely to be relevant for other sectors or ETF partner countries. More information available at: [Skilling up the Western Balkans agri-food sector: digitalising, greening | ETF](#)

Skills are a decisive driver of productivity, innovation and competitiveness, but for many small and medium-sized enterprises (SMEs), they remain an underused asset. While SMEs increasingly recognise the value of investing in skills, upskilling and reskilling are still too often ad hoc and weakly embedded in business strategies and innovation pathways. SMEs face specific constraints that differ from those of large firms. Limited financial resources, lack of dedicated human resource (HR) functions and access to tailor-made training all hinder sustained investment in skills. As a result, skills development initiatives risk missing their purpose if they are not explicitly designed with SMEs in mind.

The core argument of this policy brief is that sustainable upskilling and reskilling for SMEs depends on a dynamic skills ecosystem in

which the active engagement of key stakeholders, with clearly defined roles and responsibilities for action is essential. By addressing the specific challenges facing SMEs and demonstrating how the role of skills intelligence can inform effective training approaches to strengthen competitiveness, the brief provides actionable insights for policymakers and other stakeholders.

Skills development for SMEs is about upskilling and reskilling of entrepreneurs and their employees.

Upskilling: *improving or adding skills to enhance one's current job performance or career path to ensure relevance in a rapidly changing work environment.*

Reskilling: *learning new skills to facilitate moving into a different job or occupation (Eurofound & Cedefop, 2025).*

Making the case for skills investment in SME

As in the European Union (EU), SMEs form the backbone of economies in its neighbouring countries. For instance, in the Western Balkans and Türkiye, SMEs make up 99,8% of all firms and generate around 73% of

The World Economic Forum defines competitiveness as “the set of institutions, policies and factors that determine the level of productivity of a country.

It refers to business's productivity and its capacity to compete in local, regional and international markets. Skilled workforce is a critical ingredient of competitiveness (WEF, 2016).

Competitiveness applies at multiple levels, from individual companies (small or big) to entire regions or countries. At the company level, competitiveness involves actions to innovate, upgrade quality of products or services, reduce costs, and increase productivity (European Commission, 2025).

employment (OECD, 2026). In the Southern and Eastern Mediterranean countries, SMEs account for 90-95% of businesses, the majority comprising micro enterprises (CoR, 2020). This highlights the important role of SMEs in driving economic competitiveness and reinforces the need to tailor skills development

policies to their specific characteristics and constraints, rather than treating them in the same way as large firms.

SMEs often struggle to estimate the return on investment of their upskilling and reskilling activities and, therefore, may be hesitant in investing more in skills. Evidence shows, however, that training increases productivity, leads to higher sales, value added and exports and contributes to employment growth (Martins, P. 2021).

Competitiveness relies on knowledge, skills, and firms' capacity to innovate and adopt new technology. SMEs often show lower levels of innovation than larger firms. In the Western Balkans, the adoption of new technologies remains significantly below the EU average, and the economy continues to rely heavily on low labour costs rather than on innovation or technological advancement (ETF, 2023). Yet, SMEs will increasingly need skilled employees capable of using new technologies to improve productivity and innovation. This implies that more and better investment is needed. Investing in innovation and technology must go hand-in-hand with investments in skills and knowledge. However, evidence suggests that

skills development is too often not an integral part of SMEs business strategies, and that they receive insufficient support and advice for skills development. This reveals a policy paradox: SMEs, despite having the greatest needs for skills investment, are often those

least supported to make such investments. More efforts are needed to see skills as a booster of competitiveness rather than an economic cost.

What are the main challenges facing SMEs in upskilling and reskilling?

There are both external and internal factors that present challenges to SMEs engagement in upskilling and reskilling¹.

These challenges vary according to the size and sector of the company, and its level of digital and technological maturity.

External factors	Internal factors
<p>Rapid technological changes New technologies (e.g., AI, automation, robotics) evolve quickly, demanding new skills or making existing skills obsolete</p>	<p>Financial resources for training and career development Training requires financial investment, which can be challenging for SMEs that need to keep financial reserves to ensure business continuity through challenging periods</p>
<p>Competition with larger firms to attract talent Larger companies may attract the most qualified candidates with higher salaries, better benefits, and career progression opportunities, leaving SMEs with a smaller talent pool</p>	<p>Training needs assessment Training in SMEs usually happens on an ad-hoc basis without a training needs assessment and training plans</p>
<p>Access to financial incentives A variety of financial incentives exist, including vouchers, grants, tax credits and loans, although not always targeted specifically to SMEs. Some financial instruments, in particular grants, involve high bureaucracy which can discourage SMEs from applying.</p>	<p>Awareness raising Entrepreneurs are immersed in day-to-day business management, and training is often not a priority. Creating a training culture through awareness raising, starting with engagement of business owners can help change the mindset of other employees and encouragement in lifelong learning</p>
<p>Training content and delivery Training content is not sufficiently targeted to the specific needs of SMEs. It often remains too general (e.g. general IT trainings), not practical and out of context</p>	<p>Human Resources function Smaller companies often do not have a specific HR function which may affect recruitment planning, career guidance, training needs identification and training planning/delivery</p>
<p>Recognition of upskilling and reskilling Use of microcredentials as a way to validate specific skills or competences through short and targeted training is still underused</p>	<p>Impact of training on business performance Small firms have the tendency to invest in infrastructure which has an immediate impact rather than training for employees where a return on investment is not guaranteed, for example employees leave the company to work elsewhere.</p>
<p>Information on training offer Companies need comprehensive information, all in one place, about training availability and financial incentives to support skills development initiatives</p>	

¹ These elements are gathered from various sources and discussions with SME business owners and individual entrepreneurs.

Investing in which skills?

It is a difficult task for an SME today to anticipate which skills they will need in the future, particularly over the medium and long term. Skills intelligence can be a game-changer, helping organisations make the right choices for recruitment, and the upskilling, and reskilling of employees.

Skills intelligence helps governments, companies and business intermediaries understand whether current and future graduates and workers have the right skill sets to carry out the jobs of today and the future.

There are several ways to identify skills needs, such as company surveys, vacancy monitoring, training needs analyses, skills

foresight exercises and wider macroeconomic employment forecasts.

Actively engaging SME business owners in skills foresight interviews or focus groups brings sector-specific and technology-driven perspectives that are grounded in their day-to-day efforts to increase productivity and innovation. Together with other stakeholders in the skills ecosystem, SMEs can help identify emerging skills gaps and co-design targeted actions for skills development at local and regional levels.

At the business level, training needs analysis (TNA) plays an important role in helping SMEs address short-term skills shortages and plan cost-effective training responses.

Identifying skills needs in the agri-food sector

The ETF uses different methodologies to identify future skills needs, such as the [“Future of Skills”](#) or the [“Skills for Smart Specialisation”](#) approach.

The agri-food sector has been identified through the smart specialisation process as a common economic priority sector across the Western Balkans. The 2025 skills foresight exercise identified the following skills as most important for enhancing productivity and competitiveness (ETF, 2025):

- **digital and analytical skills** for the adoption of innovations such as precision farming or the use of sensors, drones and satellite data to optimise the use of water, fertilisers or pesticides
- **technical skills** that are sector specific, for example, agronomy, biotechnology or organic agriculture
- **business and project management skills** (e.g. marketing, financial literacy) and transversal skills (e.g. problem solving, communication and presentation skills)

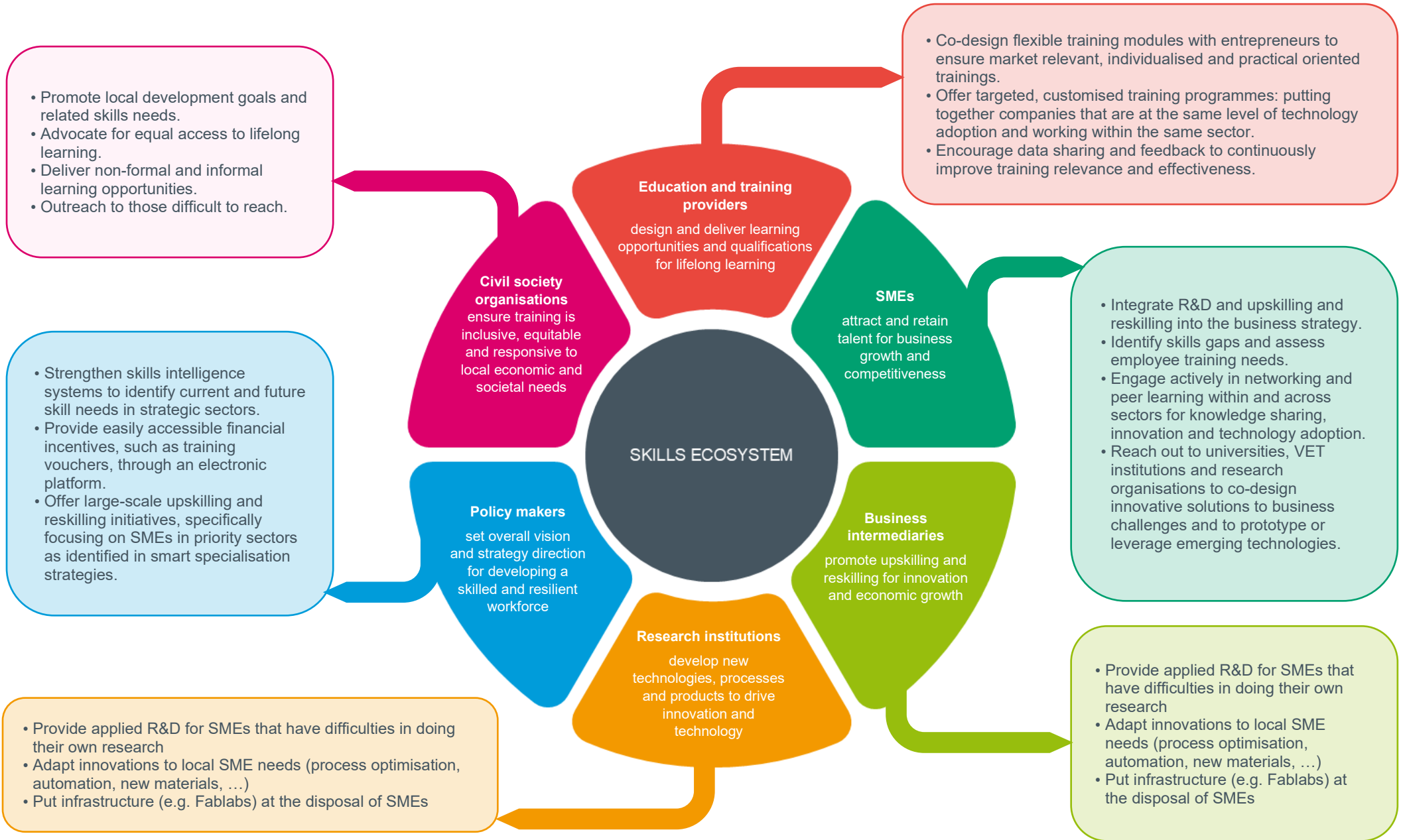
For more information on the foresight results: [“Skilling-up the Western Balkans Agri-Food sector”](#)

Delivering better skills for SMEs through a connected ecosystem

Building on the ETF’s knowledge base and practical experience in EU neighbouring countries, the following key actors with defined

roles and responsibilities can collectively form effective skills ecosystems for SMEs.

The skills ecosystem: Who are the main actors, how can they contribute, and what actions can they take to upskill and reskill more and better?



A skills ecosystem is a dynamic network of actors working together to identify, develop, supply and utilise skills that drive innovation, growth and competitiveness. It emphasises multi-stakeholder partnerships within or across sectors and regions to ensure skills development aligns with economic and societal needs. A skills ecosystem thrives when partners are reaching out to each other, without any formal structure or governance. Building sustainable partnerships takes time as it requires trust, transparency and most importantly common goals (LSE, 2025).

There is no one size fits all skills ecosystem. Sub-systems, such as networks or partnerships, can be formed within a wider ecosystem to meet distinct skills needs. Evidence shows that sector-specific ecosystems, like those in agri-food or manufacturing, have proven particularly effective in addressing industry skills needs and encouraging cross-sector cooperation. Each partner within the skills ecosystem has a distinct role, contributing in different ways to ensure people can acquire, develop and use skills effectively. Among these actors, two groups deserve particular attention:

“Just enough, Just in time, Just for me”

To make training relevant and appealing to SMEs, provision needs to shift away from generic, “just in case” approaches towards more tailored training based on the **3J** principle: “Just enough, Just in time, Just for me”. This approach focuses on practicality, timing and personalisation instead of more general training offers that are often disconnected from immediate business needs (European Commission, 2021).

Continuous engagement with entrepreneurs across the Western Balkans has led to a clear convergence towards training approaches in the following areas which SMEs consider both effective and efficient.

1. Targeted networking and peer learning

Networking accelerates knowledge sharing and innovation by connecting the right people who share common objectives and innovative ideas. Networking **boosts international cooperation** allowing entrepreneurs to **discover new technologies, market opportunities and training opportunities**. It

- **SMEs**, through their business owners, can play a critical role in showcasing the advantages of adopting new technologies based on first-hand experience, clearly articulating short- and medium-term skill requirements, and acting as key partners in designing new initiatives and programmes to help employees upskill or reskill.
- **Business intermediaries** (e.g., chambers of commerce, sector associations, sector skills councils, regional development centres, innovation hubs) act as critical ambassadors of SME innovation and competitiveness, operating across public, semi-public and private structures. Their effectiveness depends on strong public-private dialogue and close coordination and alignment with smart specialisation, competitiveness and innovation agendas at national, regional and local levels. Business intermediaries can also play a role in connecting smaller companies with larger ones to enhance cooperation in skills needs identification and skills development.

also enables greater leverage of the wide range of EU financial instruments in support of human capital development and competitiveness (Erasmus +, Horizon Europe, Erasmus for Young Entrepreneurs, etc). Entrepreneurs learn effectively from peers who face similar challenges. Peer learning allows them to **exchange on real-life solutions and learn from mistakes**. This saves time and money.

2. Practical and on-the-job training

Considering the limited financial resources of SMEs, the most common approach for upskilling and reskilling is on-the-job training, rather than attending more traditional outsourced training, which is usually more costly and time-intensive.

Hands-on, practical and experiential learning experiences play a crucial role in motivating entrepreneurs to innovate. The use of **fablabs** and **living labs** enables entrepreneurs to learn and experiment so they can move from idea

generation to prototyping, testing, implementing, and finally scaling up.

3. Mentoring and reverse mentoring

Mentors who visit SMEs can offer tailored advice for implementing new practices and technologies. **Mentors can perform a wide range of roles** within skills ecosystems. They may be technology developers, researchers or consultants and can provide practical guidance in such areas as process optimisation, productivity improvement, market analysis, and

greening practices. However, the role of mentors within business support services is often too narrowly defined and focused solely on providing business, management and leadership-related advice.

In the current digital age, reverse mentoring, where the **young generation trains the older generation** in using new technologies and enhancing their digital skills, can be particularly effective for entrepreneurs, and especially in family businesses.

THREE GUIDING PRINCIPLES FOR ACTION

The following three guiding principles set out key orientations to guide policies and initiatives on skills development as a driver for SME productivity and competitiveness

1. Encourage SMEs to systematically integrate training into their business strategy by:

- Raising awareness to change entrepreneurs' mindsets towards recognising that upskilling and reskilling are a long-term investment in competitiveness and sustainable growth, rather than purely incurring cost.
- Ensuring a return on investment through the provision of targeted, practical, demand-driven training that is closely linked to real business challenges and sector-specific needs. Training should include mentoring, reverse mentoring and peer learning.
- Automatically linking innovation and technological investments with upskilling and reskilling programmes.
- Providing easily accessible financial incentives for employees' skills development, such as training vouchers through easy-to-use digital platforms (e.g. SME e-wallets).

2. Include SMEs in skills needs identification by:

- Reaching out to business owners directly, including through business intermediaries, encouraging participation to skills foresight exercises.
- Opting for a more sectoral skills needs analysis, based on smart specialisation economic priorities to make sure skills investments are aligned with technological changes, innovation pathways and labour market demands.

3. Consider skills development a shared responsibility by:

- Developing a well-functioning skills ecosystem, where SMEs, business intermediaries, training providers, research institutions, civil society organisations, and policymakers work together to identify skill needs, co-design relevant learning solutions, and facilitate access to finance and innovation.
- Empowering business intermediaries to help SMEs navigate national and EU funding instruments and to foster partnerships with training providers, research institutions and international networks.

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