SME Policy Index

Western Balkans and Turkey 2016

ASSESSING THE IMPLEMENTATION OF THE SMALL BUSINESS ACT FOR EUROPE

OECD

European Commission

European Bank for Reconstruction and Development

ETF Working together Learning for life

SEECEL South East European Centre for Entrepreneurial Learning

SME Policy Index: Western Balkans and Turkey 2016

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Foreword

Small and medium-sized enterprises (SMEs) are major contributors to job creation and inclusive economic growth worldwide. In particular, dynamic and growth-oriented SMEs integrated into global value chains are key to boosting productivity, innovation and competitiveness. In the seven EU pre-accession economies (Albania, Bosnia and Herzegovina, Kosovo,* the Former Yugoslav Republic of Macedonia, Montenegro, Serbia, and Turkey), SMEs represent the vast majority of firms, account for three-quarters of total employment and contribute to over 60% of total private-sector value added. As the governments of the region move towards higher levels of EU accession and market integration, the South East European (SEE) economies have been undertaking significant efforts to converge towards best policy practices and global standards.

The *SME Policy Index: Western Balkans and Turkey 2016 – Assessing the Implementation of the Small Business Act for Europe* offers policy makers and other stakeholders in the EU enlargement region a framework to assess progress in designing and implementing effective SME policies. It is the fourth report of its kind, following the first assessment published in 2007. This 2016 edition takes stock of progress made in the South East European economies since 2012. It uses an enhanced methodology to identify strengths and weaknesses in relevant policies, compares performance across economies and policy areas, and measures convergence towards the policy principles of the Small Business Act for Europe. The analysis is supplemented by policy recommendations for the individual economies and a dedicated policy roadmap to address persistent challenges since the first round of assessment.

Overall the 2016 assessment shows that the SEE region is continuing to adopt EU SME policy standards. Relevant institutions and policy frameworks have been established over the years but the implementation of reforms and enforcement of laws still remain weak. The region has made continuous, albeit uneven, progress. Despite variations from economy to economy, overall reforms to the business environment have supported movement towards a more level playing field for all businesses. The region has seen the most significant progress in adopting standards and technical regulations, improving public procurement procedures, and, for the first time in the Western Balkans, implementing policies to spur innovation among SMEs. However, progress in other crucial areas has been limited and at best incremental. In particular two factors have contributed to a more challenging reform environment: a surge in numbers of non-performing loans has constrained bank financing, particularly to SMEs, while fiscal consolidation has restricted budget allocations to support SME programmes.

This publication is the result of co-operation between the OECD, the European Commission (DG Internal Market, Industry, Entrepreneurship and SMEs), the European Bank for

* 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.

Reconstruction and Development, the European Training Foundation and the South East European Centre for Entrepreneurial Learning, in partnership with the governments of the seven EU enlargement economies and in consultation with experts, stakeholders and representatives of the SME sector. We look forward to continuing this very fruitful collaboration on SME policy reforms as an important driver for growth, job creation and social cohesion in the EU enlargement region.

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The *SME Policy Index: Western Balkans and Turkey 2016 – Assessing the Implementation of the Small Business Act for Europe* is the outcome of work conducted by the seven EU enlargement economies (Albania, Bosnia and Herzegovina, Kosovo, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia, and Turkey), the OECD South East Europe Division, European's Commission's Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW), the European Bank for Reconstruction and Development (EBRD), the European Training Foundation (ETF) and South East European Centre for Entrepreneurial Learning (SEECEL).

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The work was led by Anita Richter and Sandra Hannig, South East Europe Division, OECD; Isabel López Hernández and Christiane Cambron, DG GROW, European Commission; Svenja Petersen, in co-operation with Simone Zeh Atanasovski, EBRD; Kristien Van den Eynde, ETF; and Efka Heder, SEECEL. It further profited from inputs by Antonio Fanelli, Senior Advisor, Global Relations Secretariat, OECD and by Carlos Conde, Head of the Middle East and Africa Division, OECD, as lead reviewer of the publication.

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Transition team, Resident Offices, and the SME Finance and Development Group at EBRD.

The methodology of this report was developed jointly with the OECD Eurasia Competitiveness Programme and benefitted from the experience of similar policy assessments carried out previously in the Eastern Partner countries, and the Euro-Med region. These reviews measure economies' convergence with the Small Business Act for Europe.

In the South East Europe economies, the following SBA co-ordinators and their teams led their economies' participation in all stages of the project: Evisi Kopliku (Albania); Ivica Miodrag, Zoran Savić and Adis Fajić (Bosnia and Herzegovina); Besian Mustafa and Xhemajl Syla (Kosovo); Blerim Zlatku and Suzana Arsova-Kostadinova (the Former Yugoslav Republic of Macedonia); Aleksandar Pavićević and Anđela Pusonjić Gajević (Montenegro); Katarina Obradović-Jovanović and Jelena Stevanović (Serbia); and Tuna Sahin and Esra Atas (Turkey). In particular, the SBA co-ordinators led their economies' self-assessments and co-ordinated the contributions of different government institutions and other national stakeholders. The SBA assessment in Bosnia and Herzegovina was supported by the GIZ ProLocal Programme which facilitated the SBA Working Group and helped to improve the vertical integration and horizontal communication between the state and entity levels.

The independent assessments were conducted with the support of local consultants: Juela Shano (Albania), Edin Jahić (Bosnia and Herzegovina), Luan Dalipi (Kosovo), Igor Nikoloski (the Former Yugoslav Republic of Macedonia), Dragana Radević (Montenegro), Mila Marinković (Serbia) and Sirin Elci (Turkey).

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Abbreviations and acronyms

AIDA	Albanian Investment Development Agency
BDS	Business development services
BEEPS	Business Environment and Enterprise Performance Survey
CIP	EU Framework Programme for Competitiveness and Innovation (2007-2013)
COSME	EU Competitiveness of Enterprises and Small and Medium-Sized Enterprises Programme
DG GROW	Director-General for Internal Market, Industry, Entrepreneurship and SMEs
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EEN	Enterprise Europe Network
ETF	European Training Foundation
EU	European Union
EU-28	The 28 member countries of the European Union
FDI	Foreign direct investment
FTA	Free trade agreement
GDP	Gross domestic product
GNI	Gross national income
GNP	Gross national product
GVC	Global value chain
H2020	EU Framework Programme for Research and Innovation (2014-2020)
HEI	Higher education institutions
ICT	Information and communications technology
IFI	International financial institution
IPA	Instrument for Pre-accession Assistance
ILO	International Labour Organisation
İŞKUR	Turkish Employment Service
ICT	Information and communication technology
KOSGEB	SME Development Organisation, Turkey

M&E	Monitoring and evaluation
NARD	National Agency for Regional Development in Serbia
PPC	Public-private consultations
PPP	Purchasing power parity
R&D	Research and development
RIA	Regulatory impact analysis
SBA	Small Business Act for Europe
SBS	Small Business Support, EBRD
SEECEL	South East European Centre for Entrepreneurial Learning
SLA	Savings and loan association
SME	Small and medium-sized enterprises
SOE	State-owned enterprise
SPS	Sanitary and phytosanitary standards
TESK	The Confederation of Turkish Tradesmen and Craftsmen
TOBB	The Union of Chambers and Commodity Exchanges of Turkey
TÜBİTAK	The Scientific and Technological Research Council of Turkey
UNDP	United Nations Development Programme
VET	Vocational education and training
WTO	World Trade Organization
y-o-y	Year-on-year

Executive summary

The development of a dynamic and vibrant SME sector is of paramount importance for the seven EU pre-accession economies: Albania, Bosnia and Herzegovina, Kosovo, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia, and Turkey. The region's productive structure is predominately composed of small and medium-sized enterprises (SMEs), which on average contribute to 75% of total employment and over 60% of total private-sector value added. Nevertheless, important challenges remain to transform the SME sector into a driver of economic growth and employment and to address persistent structural challenges such as high unemployment rates and the per capita income gap. However some of the conditions to leverage growth are already in place.

First, the economies of the Western Balkans and Turkey (WBT) are covered by the current EU enlargement agenda. The EU's enlargement policy deals with the countries currently aspiring to become members of the European Union. The EU's enlargement policy is an investment in peace, security and stability in Europe. It provides increased economic and trade opportunities to the mutual benefit of the EU and the aspiring member states. Second, SMEs in the Western Balkans and Turkey face a unique set of opportunities for business expansion. The region has made considerable progress on economic integration with the European Union, whose single market is the largest in the world, serving 500 million citizens and generating 23% of world GDP. The implementation of the Central European Free-Trade Area (CEFTA), a regional free-trade agreement comprising all the Western Balkan economies and the Republic of Moldova, and a network of free trade agreements between Turkey and the Western Balkans, have further expanded market access. Third, the Western Balkans are advancing their transition to a market-based economic system, in particular with regard to liberalising and opening up their economies, while Turkey's economic reforms have contributed to deregulating and expanding its internal market.

SME policy simultaneously targets changes in the economic structure and improvements in the business climate in general and enterprise growth potential in particular. The SME Policy Index assesses progress in implementing the ten principles of the Small Business Act for Europe (SBA) and compares the evolution in policy and remaining challenges across the region while providing guidelines for reform for each economy. This SME Policy Index, the fourth since 2007, sheds light on SME policy development over the past decade.

Overall the 2016 report finds that the SEE region is indeed making further progress towards EU SME policy standards and EU good practices as defined in the SBA. Relevant institutions and policy frameworks have been established over the years but the implementation of reforms and enforcement of laws still remain weak. Progress also remains uneven across economies and dimensions. The region has made the most significant progress in adopting standards and technical regulations and improving public procurement procedures. For the first time in the Western Balkans substantial progress has also been made in implementing policies fostering innovation among SMEs, spurred mainly by increased government attention to developing innovation frameworks and infrastructure.

However, in other crucial areas progress has been limited and at best incremental. In particular two factors have contributed to a more challenging reform environment: a surge in non-performing loans in some economies has constrained bank financing, particularly to SMEs, while fiscal consolidation has restricted budget support for SME programmes. The report also highlights significant differences in policy development across the region.

Turkey, Serbia and the Former Yugoslav Republic of Macedonia are the most advanced in terms of policy convergence with EU standards and practices, with the latter having recorded a recent significant improvement of its score across several dimensions. Turkey's strength is in its wide range of SME support programmes and service provisions, while its regulatory environment remains less advanced. The other two economies, Serbia and the Former Yugoslav Republic of Macedonia, have made significant progress in improving their business environment and upgrading their regulatory framework, but allocate fewer resources to programmes supporting SMEs. **Montenegro and Albania have made progress in several dimensions** such as standardisation and technical regulation, and simplifying business procedures, but they need to strengthen their efforts on entrepreneurial learning and innovation support programmes. **Kosovo has significantly caught up** with the other economies of the region, albeit starting from a relatively low base, by specifically improving its overall institutional environment and easing access to finance. **Bosnia and Herzegovina continues to lag behind the region in SME policy development,** due to its fragmented institutional framework and the lack of co-ordination among institutions. However, there are indications of progress in a number of dimensions and increased dialogue among the policy implementation agencies.

The way forward

Given the wide range in their development, it is difficult to prescribe a single set of universal reforms for all economies. The following are broad areas that most economies in the region can work to develop:

A. Strengthen the institutional, regulatory and operation environment for SMEs

- promote the development of data collection procedures and information exchange among different government authorities as a first step towards enhancing the monitoring and evaluation systems of their SME strategies and programmes
- continue simplifying business registration procedures and the issuing of licences and permits, and further expand e-services
- develop targeted measures to address the informal economy and ease SMEs' transition to the formal sector.

B. Develop SME access to finance

- continue efforts to resolve problems of high levels of non-performing loans in order to restore credit growth
- facilitate the broadening and deepening of credit information systems to support lending to SMEs
- support the development of alternative sources of financing such as factoring and leasing
- strengthen financial readiness and literacy among SMEs to support their ability to access capital markets.

C. Develop entrepreneurial learning, women's entrepreneurship and SME skills

- further integrate entrepreneurship as a key competence in the curriculum and learning process in national education systems
- sustain efforts to promote women's entrepreneurship skills in national strategies
- improve SME skills through effective training needs analysis, quality of training and e-learning platforms
- reinforce structured regional co-operation and peer learning in entrepreneurial learning and SME skills.

D. Enhance SME competitiveness

- adopt innovation policy frameworks accompanied by improved innovation-related infrastructure, financial instruments such as innovation vouchers and business-academia links
- ensure that the services to support SMEs are consistent and embedded in the wider regional business and innovation support environment
- ensure SMEs have access to business support information and that services are matched to their needs, and stimulate the development of a private business service market through business portals and co-financing schemes
- improve access to public procurement by ensuring qualification levels and financial requirements for SMEs are proportionate and ease the administrative burdens through e-procurement
- provide guidance on adopting environmental policies and potentially introduce financial and regulatory invectives to help the transition towards eco-friendly standards.

E. Support SME internationalisation

- establish a single portal providing information on standards, conformity assessment and other requirements for exporting to the EU
- continue to reduce the regulatory barriers to trade such as the number of documents, costs and time needed to export
- take full advantage of the Enterprise Europe Network (EEN) potential and integrate support provided by the Network into national SME development strategies
- promote SMEs integration into global value chains, for example by facilitating links between foreign direct investment and SMEs
- scale up export promotion programmes by adding sophisticated products such as export financing
- start monitoring and evaluating export support activities to improve their efficiency.

Overview:

2016 Small Business Act assessment of the Western Balkans and Turkey

The SME Policy Index has been jointly developed by the Organisation for Economic Co-operation and Development (OECD), the European Commission, the European Training Foundation (ETF) and the European Bank for Reconstruction and Development (EBRD) as a benchmarking tool for emerging economies to monitor and evaluate progress in SME development policies (see Annex B). The SME Policy Index is structured around the ten principles of the Small Business Act for Europe (SBA; see the Policy Framework and Assessment chapter). The SBA provides for a wide range of pro-enterprise measures to guide the design and implementation of SME policies based on good practices promoted by the EU and the OECD.

The SBA assessment has now been carried out for the fourth time in the Western Balkans and Turkey (WBT) in 2015, after assessments in 2006, 2009 and 2012 (which included Turkey for the first time). Over the last decade, the EU pre-accession countries have made steady progress, with consistent and significant developments towards implementing the SBA principles. However, as with the previous assessments, the pace of progress has varied considerably. While good progress has been made in strengthening the institutional framework and business environment for SME policy making, the degree of implementation varies and further attention is needed for key targeted SME policies, such as business support services, access to finance and innovation. The revised assessment methodology (see Annex A) therefore aims to better measure progress and quality along the policy cycle of design, implementation and monitoring and evaluation (M&E).

This fourth assessment report therefore provides not only an update on the current status of SME development policy in all seven WBT economies, but it also looks deeper into policy implementation. In doing so, it highlights key developments and outstanding challenges compared to the previous SBA assessment and compares the economies against EU good practices for each of the ten SBA principles. Finally, it outlines the way forward for policy makers.

This chapter provides an overview of the key findings of the 2016 SBA assessment across 12 policy dimensions (Figure 0.1), as well as the key findings for each economy. Full details of the methodology and the background to this assessment are contained in Annex A. Complete scores per dimension and sub-dimension can be found in Table 0.23 in the chapter titled 2016 SME Policy Index Scores. Part I then presents a detailed analysis and cross-country comparison of each dimension. Part II contains full economy profiles.

The thematic chapters were drafted under the responsibility of the different partner organisations involved. The OECD was in charge of a majority of SBA Dimensions, including 2 bankruptcy, 3 the institutional framework, 4 the business environment, 5a business support services, 8b innovation, 9 SME greening and 10 SME internationalisation. The European

Commission drafted the chapters related to the SBA Dimensions 5b public procurement and 7 technical standards. EBRD was in charge of the work on Access to Finance, Dimension 6. Finally, ETF and SEECEL drafted the human capital chapters, reflected in the SBA Dimensions 1 and 8a.

Key findings for each policy dimension

Dimension 1: Entrepreneurial learning and women's entrepreneurship

This principle assesses how entrepreneurial learning is addressed across the education system. It also focuses on how women's entrepreneurship is promoted.

The assessment identifies a reinforced policy commitment to lifelong entrepreneurial learning among all economies (Table 0.1). The next challenge will be to translate policy commitment into concrete reforms at school level which will entail reforms to curricula and teacher training. The higher education community needs to engage better with the SBA development drive. The assessment points to excellent regional co-operation on women's entrepreneurship, but weak data undermine developments in this area.

Further efforts are required to incorporate entrepreneurship – one of the EU's eight key competences for lifelong learning – into formal education, including vocational education and training. Universities and national authorities should determine how entrepreneurship can be more systematically promoted in higher education. Economies are also encouraged to upgrade the monitoring and evaluation of policies addressing entrepreneurial learning. They should reinforce efforts to promote women's entrepreneurship, including more developed policy and support structures, more systematic data gathering, and wider intelligence to support the policy drive. Training, mentoring and access to finance for women entrepreneurs also need improvement.

Table 0.1. **Progress in Dimension 1: Entrepreneurial learning and women's entrepreneurship**

Dimension 1	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
2016 average	**2.29**	**2.13**	**2.33**	**2.46**	**2.70**	**2.71**	**2.82**	**2.49**
2012 average	2.54	1.79	1.81	2.40	2.54	2.35	2.52	2.28

Note: Direct comparison between 2016 and 2012 scores have to be taken with caution due to the introduction of a whole range of new indicators.

Dimension 2: Bankruptcy and second chance for SMEs

Policy makers must ensure that the appropriate measures and legal provisions are in place to deal with business failures. Effective insolvency laws are crucial for entrepreneurs and lenders alike, who both require legal recourse when an insolvent and indebted enterprise is no longer economically viable.

Regionally, there have been minor but important developments since the 2012 assessment (Table 0.2). Almost all economies have insolvency laws in place except Kosovo, which is drafting a new one. Most economies have ensured that their respective insolvency laws meet international standards, and have developed the necessary support and institutional mechanisms such as out-of-court settlement procedures and clearly defined procedure discharge rules. Montenegro and the Former Yugoslav Republic of Macedonia perform reasonably well on bankruptcy procedures, which take the least time to carry out and have the lowest associated costs in the region. Both of their scores have also been bolstered by the high recovery rates secured by creditors. However in other economies, bankruptcy procedures remain costly and time consuming and the recovery rate remains low. Serbia is introducing changes to its bankruptcy law to reduce procedural delays and costs, establish an electronic registry, and restructure its bankruptcy enforcement systems, while Turkey is restructuring its bankruptcy system by piloting single enforcement offices to replace the existing multiple enforcement offices in the same location. No government in the region has launched any programmes to promote second chances (i.e. for entrepreneurs to start a new business after bankruptcy).

As economies move forward they will need to establish the institutions and policy frameworks to support insolvency laws, such as establishing early warning systems to identify distressed companies before they need to enter into formal bankruptcy. Governments in the region should also launch specific information campaigns to support the creation of new businesses and to mitigate the stigma associated with those who have had failed businesses.

Table 0.2. **Progress in Dimension 2: Bankruptcy and second chance for SMEs**

Dimension 2	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
2016 average	**3.23**	**2.25**	**2.68**	**3.38**	**3.46**	**2.62**	**2.85**	**2.92**
2012 average	3.20	3.13	2.99	3.40	3.64	2.76	2.99	3.16

Dimension 3: Regulatory framework for SME policy making

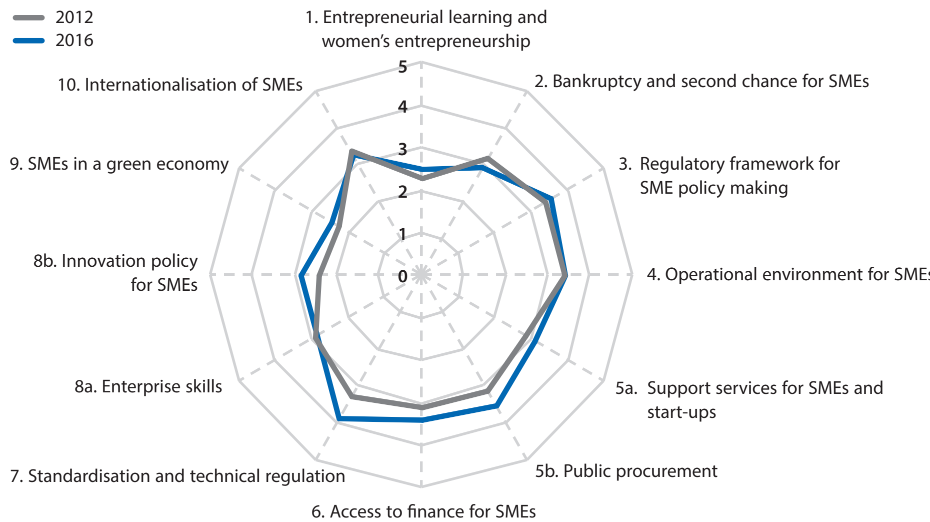
Effective institutional and regulatory frameworks are the cornerstone of all other SME support initiatives. Dimension 3 measures progress towards developing an institutional framework for SME policy making including the institutional set up, reforms to simplify business legislation and effective public-private consultations.

The 2016 SBA assessment has identified a growing sophistication in SME policy development in the EU pre-accession region which is increasingly moving beyond institution building and focusing on effective policy implementation, with early trends towards monitoring and evaluation. Starting from an already high base in the 2012 SBA assessment, Turkey and Serbia continue to be the strongest performers in the region, with sound institutional frameworks (Table 0.3), characterised by a dedicated SME unit in the Ministry of Economy, advanced policy co-ordination mechanisms and a steering committee involving private and public sector representatives. Albania, the Former Yugoslav Republic of Macedonia and Montenegro also improved their SME policies, but fall slightly short on monitoring and evaluation. The biggest improvement can be observed in Kosovo. Bosnia and Herzegovina still lags behind the other economies, although efforts to strengthen SME policy have been made at the level of its individual entities. The Former Yugoslav Republic of Macedonia, Montenegro and Serbia have carried out larger-scale reviews of legislation to eliminate burdensome business regulations. All economies have undertaken more general regulatory reform efforts to review, simplify and eliminate legislation, albeit with differences in scope and intensity. Since the 2012 assessment, progress has been made in introducing formal institutional frameworks and requirements to consult the SME sector but throughout the region, consultations take place on a rather sporadic, ad hoc basis.

Table 0.3. **Progress in Dimension 3: Regulatory framework for SME policy making**

Dimension 3	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
2016 average	**3.74**	**2.22**	**3.01**	**3.67**	**3.93**	**4.15**	**4.26**	**3.57**
2012 average	3.55	2.16	2.59	3.74	3.75	4.00	4.19	3.43

Figure 0.1. **Progress towards SME-supportive policies in the Western Balkans and Turkey, 2012 and 2016**



Notes: Overall dimension scores are calculated based on five levels of policy reform, with 1 being the weakest and 5 being the strongest. Dimension score levels can be broadly described as follows: **Level 1**: There is no framework (e.g. laws, institutions, projects, initiatives, etc.) in place to cover the area concerned; **Level 2**: A framework is at the early stages of development (e.g. draft, pilot), and there are some signs of government activity to address the area concerned; **Level 3**: A solid framework is in place for this specific policy area although implementation may contain significant gaps; **Level 4**: Level 3 applies, plus some concrete indications of effective policy implementation of the framework; **Level 5**: Level 4 applies, plus some significant record of concrete and effective policy implementation of the framework, including monitoring and evaluation. This level comes closest to good practices based on the Small Business Act for Europe and the OECD Bologna Process on SME & Entrepreneurship Policies. The methodology for calculating these scores is described in Annex A. The 2012 and 2016 scores for Dimensions 4 and 6 are not directly comparable due to changes in methodology.

In order to better monitor policy implementation and measure SME policy impact on the ground, more emphasis should be placed on effective policy implementation and monitoring and evaluation of policies and programmes. One precondition is the development of high-quality SME statistical data. More specific measures should be developed to address the informal economy and ease SMEs' transition to the formal sector. The Western Balkan economies and Turkey should also ensure that an "SME test" becomes a mandatory part of regulatory impact assessments.

Dimension 4: Operational environment for SMEs

Dimension 4 assesses the extent to which public administrations have simplified regulations and reduced costs and procedures for SMEs. The principle looks at three policy areas: 1) e-government systems and the online interaction between the public sector and SMEs; 2) company registration and business start-up processes; and 3) business licensing.

All Western Balkan economies and Turkey have taken steps to streamline their business regulations and reduce the costs for businesses in their interaction with government agencies. As in the 2012 assessment, the Former Yugoslav Republic of Macedonia leads the region in offering the broadest range of e-government services, with the development of a digital society being high on the political agenda. In Albania, key developments include the launch of an e-government portal in 2013 and the introduction of an online tax filing system in 2015. Kosovo has also successfully introduced various electronic systems for accessing pension accounts. The use of e-signatures has been operationalised in Albania, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia and Turkey. In Bosnia and Herzegovina, and Kosovo, legal provisions have been made to introduce e-signatures, but they have not come into force. One-stop shops for starting a business are in operation throughout the region, while the ability to register companies online varies. When it comes to business licensing, there are clear procedures for obtaining different types of licences but few examples of concrete efforts to streamline licensing procedures.

The Western Balkan economies and Turkey could maintain their reform momentum by streamlining company registration procedures in those economies which are lagging behind in the SEE region, e.g. Kosovo and Bosnia and Herzegovina. They should all expand their e-government services and intensify their efforts to raise awareness about e-services amongst SMEs. They could reduce transaction costs by improving the interconnectedness of government databases. In addition, governments may want to look into other bureaucratic barriers to business, such as licences and permits, which continue to be a major constraint in certain economic sectors.

Table 0.4. **Progress in Dimension 4: Operational environment for SMEs**

Dimension 4	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
2016 average	**4.28**	**1.75**	**3.20**	**4.38**	**3.56**	**3.55**	**3.24**	**3.42**
2012 average	4.32	2.02	3.08	4.11	3.62	3.61	3.12	3.41

Dimension 5a: Support services for SMEs and start-ups

Dimension 5a assesses the availability and accessibility of support services targeted at SMEs and start-ups. It also measures government efforts to use public policy tools to stimulate the development of a private business support services market.

The region has made only marginal progress in business support services since the 2012 assessment (Table 0.5). Starting from a very low base, Kosovo has caught up, while the other economies in the region have made only incremental progress, partially due to limited fiscal space. The picture is different for Turkey, which has a wide range of SME support services embedded in its national strategies and available to businesses. Turkey also has online portals offering ample information on starting and conducting a business. Although basic SME support services, such as information, consultation and training are also available in the SEE region and are usually included in national strategic documents, their scope could be further widened and made more sophisticated. Programmes specifically aimed at improving entrepreneurs' investment readiness are in their infancy. Implementation is often hampered by funding constraints or over-reliance on donor support. There are rarely any formal feedback mechanisms for SMEs and start-ups which limit how responsive service providers can be to their needs and the adequacy of the services offered.

Across the region, access to business support information needs to be broadened, as sources of information on starting and conducting a business are often fragmented and incomplete. Supply should be better matched to demand by adapting business support services to the specific needs of each SME segment (e.g. high-growth start-ups or export-oriented SMEs). Governments should further tailor their support to SMEs to increase their readiness for investment (e.g. providing information about equity finance, and improving the quality of business plans and presentation skills). Economies in the region should introduce quality control mechanisms for the various SME support programmes. Lastly, governments should focus their efforts in stimulating the development of the private business development service (BDS) market through business-to-business (B2B) portals and co-financing schemes.

Table 0.5. **Progress in Dimension 5a: Support services for SMEs and start-ups**

Dimension 5a	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
2016 average	**2.65**	**2.42**	**2.74**	**2.94**	**2.95**	**3.85**	**4.26**	**3.12**
2012 average	2.48	2.39	1.88	2.61	2.94	3.47	4.32	3.01

Dimension 5b: Public procurement

Dimension 5b analyses the policies and tools in place in the Western Balkans and Turkey to improve SMEs' access to the public procurement market.

There has been some progress in public procurement across the region and scores are relatively high compared to other dimensions (Table 0.6). The regulatory framework is largely in place and most economies have further developed their e-procurement systems. The Former Yugoslav Republic of Macedonia seems particularly advanced in this respect. The adoption of new legislation in Serbia meant the share of non-competitive negotiated procedures fell significantly. Bosnia and Herzegovina, and Montenegro have further opened up their procurement markets internationally by concluding bilateral or multilateral agreements.

Access to public procurement could still be improved by ensuring that qualification levels and financial requirements for SMEs are proportionate. It still takes considerable effort to take full advantage of the opportunities offered by e-procurement. The administrative burden should be reduced, for example by only requiring supporting documents from the winning tender and relying on self declarations for other bidders. Criteria based on quality should be more widely used to award contracts, instead of relying almost exclusively on the lowest price. Public procurement is particularly vulnerable to corruption and governments need to make more effort to prevent it from occurring within the procurement cycle.

Table 0.6. **Progress in Dimension 5b: Public procurement**

Dimension 5b	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
2016 average	**3.48**	**3.44**	**3.18**	**3.95**	**3.73**	**3.96**	**3.19**	**3.56**
2012 average	3.17	2.67	2.83	3.50	3.33	3.00	3.67	3.15

Dimension 6: Access to finance for SMEs

Dimension 6 measures progress in access to finance for SMEs across three broad areas: the legal and regulatory framework, the availability of financial instruments, and the readiness of entrepreneurs to become bankable customers.

It was already apparent during the 2012 assessment how the 2008-09 crisis had affected scores in this dimension (Table 0.7). The aftermath of this crisis, which has seen negative credit growth in the Western Balkans as well as rising levels of non-performing loans (NPLs), continues to affect SMEs' ability to secure funding from banks. Turkey, on the other hand, has seen significant credit growth in recent years, which has also translated into better availability of financing for SMEs. Despite the difficult banking environment, banks remain the main source of external finance for SMEs overall. Non-bank finance sources have gained attention in recent years as viable alternatives, but in most cases they have yet to reach their full potential. With a few exceptions, capital market instruments, private equity and venture capital remain limited in scope. There have been some improvements since 2012, notably in the legal and regulatory framework aimed at facilitating the use of immovable and movable assets as collateral, the expansion of credit information systems, and the introduction or reform of out-of-court mechanisms for insolvency proceedings. Financial literacy remains relatively low across the region, but governments have increased their efforts to improve levels, albeit to differing extents.

SMEs could benefit from targeted support to help them access finance without distorting the market, especially now that credit availability is so restricted in many economies. In some economies, strengthening enforcement in cases of default could help encourage lending. In addition, governments could support non-bank financing alternatives by reforming their legal frameworks to reduce legal uncertainty surrounding the use of instruments such as factoring. Introducing assessments of and programmes for financial literacy could also help improve access to external funding sources in the medium to long term.

Table 0.7. **Progress in Dimension 6: Access to finance for SMEs**

Dimension 6	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
2016 average	**3.26**	**3.25**	**3.21**	**3.46**	**3.25**	**3.62**	**3.89**	**3.42**
2012 average	3.04	3.09	2.17	2.96	3.07	3.83	3.72	3.13

Note: Substantial methodological changes to Dimension 6 do not allow for direct comparison between 2016 and 2012 scores.

Dimension 7: Standards and technical regulations

Technical barriers to trade are one of the most important obstacles to the liberalisation of trade between the EU and the EU pre-accession economies. They can severely distort trade by preventing market access, protecting domestic producers, and discriminating between domestic and foreign producers. Dimension 7 analyses government efforts to eliminate technical barriers to trade for industrial products and align with international and EU norms.

In comparison with the results of the previous SBA assessment, overall progress was made by all the economies, with Serbia and Turkey reaching the highest cumulative scores (Table 0.8). Turkey's performance can be explained by its customs union agreement with the EU, which has been in place since 1995. In Serbia, the assessment reflects its progress in the context of the EU accession process. Progress has also been made in adopting European standards, with the level of alignment as high as 97% in Turkey and Albania, and 96% in Serbia. All economies have made continuous progress in aligning legislation. They have all established responsible standardisation, accreditation and metrology bodies, and have a high level of involvement in the relevant European and international organisations.

Table 0.8. **Progress in Dimension 7: Standards and technical regulations**

Dimension 7	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
2016 average	**3.35**	**3.18**	**3.68**	**4.02**	**4.01**	**4.33**	**4.87**	**3.92**
2012 average	3.06	2.63	2.56	3.88	2.81	3.88	4.38	3.31

Further improvements could be made by adopting strategies and action plans to implement legislation, providing SMEs with a predictable legal framework for placing the products on the market. SMEs would also greatly benefit from a single source of information on standards, conformity assessment and other elements relevant for exporting to the EU, designed to meet their needs. Governments could also develop specific measures to encourage SMEs to participate in the development of standards and other relevant documents.

Dimension 8a: Enterprise skills

Dimension 8a focuses on how SME skills are addressed in each economy. The assessment pays particular attention to the use of data and wider intelligence on SME skills as inputs to policy making and support.

All economies have made good progress in data and intelligence building although they could improve their co-ordination of intelligence sources, as well as follow-up actions from policy makers. Similarly, they have made good efforts to develop training for start-ups and growing businesses. E-training is underdeveloped in all economies apart from Turkey. Governments need to make a more sustained effort to build knowledge and skills among SMEs keen to trade with the EU. Quality assurance of vocational education and training also needs further development.

To maximise the value of the range of intelligence sources on SME skills, all economies should identify a co-ordinating body to act as an observatory, with particular attention given to those sectors of the economy with potential to generate wealth and jobs. More developed monitoring and evaluation of training would reinforce quality and increase its impact at sector level. Turkey's "SME campus" e-training could be used as a model for e-training developments in all economies.

Table 0.9. **Progress in Dimension 8a: Enterprise skills**

Dimension 8a	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
2016 average	**2.67**	**2.83**	**2.44**	**2.89**	**2.78**	**3.11**	**3.22**	**2.85**
2012 average	3.13	2.31	3.06	3.38	2.69	2.94	3.06	2.94

Note: Some economies score lower than they did in 2012 due to the introduction of two new indicators.

Dimension 8b: Innovation

Dimension 8b evaluates the policy framework for innovation, analyses the institutional setup and available infrastructure and also the financial instruments available to support innovation, with a specific emphasis on innovative and high-growth SMEs.

Most economies have made substantial progress since the last SBA assessment in 2012 (Table 0.10). Governments have been paying increasing attention to developing innovation frameworks and infrastructure to promote innovation in general. Better innovation policies are in place and the infrastructure available has a broader scope, with innovation-related infrastructure such as incubators or technology transfer offices (TTOs) increasingly available in the region. They are supported by a number of emerging financial instruments specifically focused on innovation, although in most of the economies these remain quite small scale. The Former Yugoslav Republic of Macedonia, Serbia and Turkey have financial institutions providing dedicated support to innovation. The Former Yugoslav Republic of Macedonia and Turkey have made clear progress in the formulation and implementation of their policy frameworks and have created inter-governmental bodies to co-ordinate innovation policy. Bosnia and Herzegovina, Kosovo, and Montenegro all still lack an institutional and policy framework with a specific focus on innovation while the main issue in Albania is the implementation of the relatively comprehensive innovation strategy it adopted in 2011.

Although considerable efforts have been made, SME innovation remains an area which could be further improved in the region. The first steps should be the development and adoption of policy frameworks, accompanied by a further development of innovation-related infrastructure and financial instruments covering the entire financial cycle from start-ups to high-growth SMEs. These actions should take into consideration the existing innovation "ecosystem" and encourage deeper co-operation between academia and the private sector, and increasing awareness of innovation among the general public. Overall there is still a shortage of financial instruments promoting innovation within SMEs. Innovation voucher schemes, credit guarantee schemes and programmes to promote links between business and academia should be made more widely available throughout the region.

Table 0.10. **Progress in Dimension 8b: Innovation**

Dimension 8b	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
2016 average	**2.38**	**1.94**	**1.86**	**3.63**	**2.62**	**3.51**	**4.14**	**2.87**
2012 average	2.50	1.90	1.40	2.40	2.00	3.30	3.50	2.40

Dimension 9: SMEs in a green economy

Those SMEs which are particularly innovative and are able to exploit new technologies and commercial opportunities can play an important role by introducing eco-friendly products, thus helping develop new business opportunities and competitive advantages. However, the ability of SMEs to adopt sustainable strategies and comply with environmental standards is constrained by their limited capacity: lack of resources, time and expertise. Dimension 9 assesses the national strategies and frameworks that aid SMEs towards eco-efficiency and eco-innovation.

Overall, the region has not made noticeable improvements in terms of environmental policies targeting SMEs (Table 0.11). In many economies, environmental policies are disconnected from SME development although Kosovo, Montenegro and Turkey continue to ensure that SME strategies include environmental policy provisions. Encouragingly, in the Former Yugoslav Republic of Macedonia, environmental programmes are being developed with businesses and the non-governmental sector (especially ecological organisations). Bosnia and Herzegovina has also ensured that environmental authorities and business associations are working closely to develop pragmatic environmental management systems and green certification programmes. In Montenegro, the chamber of commerce is helping to introduce certification for cleaner production within enterprises. Most economies provide

Table 0.11. **Progress in Dimension 9: SMEs in a green economy**

Dimension 9	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
2016 average	**2.29**	**2.16**	**2.16**	**2.80**	**2.10**	**2.08**	**3.72**	**2.47**
2012 average	1.86	1.29	1.57	2.50	2.29	2.79	3.50	2.26

information on environmental standards and regulations through the relevant ministry websites and printed documents, but it is unclear if other methods are available (such as direct contact, outreach and training programmes) or what the uptake of information is among SMEs. Most economies have limited resources to provide the necessary regulatory and financial incentives to support environmentally oriented SMEs except for Turkey and Serbia. Serbia is establishing the Green Fund, which helps enterprises access the necessary finance for greening practices. Turkey provides subsidies for green certification and soft loans for the development of green technologies.

Economies in the region should strive to ensure that SMEs have access to the information they need on environmental policies and are given the appropriate guidance on how to adopt environmental practices. Governments could work to establish systems to regularly update SMEs on changes to environmentally related legislation and policies. Furthermore, governments could offer financial and regulatory incentives to help SMEs transition towards environmental practices – currently the lack of financing in particular is deterring firms from such a transition.

Dimension 10: Internationalisation of SMEs

Principle 10 assesses economies' trade performance and government measures to promote the export-orientation of SMEs and support access to foreign markets and integration into global value chains (GVCs).

Overall, the trade performance of the economies in the region is moving closer to the OECD average. All have export promotion programmes in place, most of which are linked with their export promotion strategies, except for Bosnia and Herzegovina. Export promotion agencies are operating throughout the region but in some cases they lack sufficient staff and budget. The degree of financial support varies across the region. No economy in the region has a government programme to support the integration of SMEs into global value chains. As in the previous assessment in 2012, Turkey and Serbia performed best, providing a range of services to export-oriented SMEs, closely followed by the Former Yugoslav Republic of Macedonia (Table 0.12). Some economies scored lower than they did in 2012, due to the introduction of two new sub-dimensions, trading performance and GVCs. Albania, Kosovo and Montenegro now rank around the average for the region, Kosovo having caught up significantly since the last assessment. Bosnia and Herzegovina still lags behind its regional neighbours due to burdensome administrative procedures for trading and limited export promotion capacities.

In general, governments should continue their efforts to reduce the regulatory barriers to trade, namely the number of documents, cost and time needed to export and import. Policy makers should develop a more proactive approach to promoting the integration of SMEs into global value chains, such as by facilitating links between foreign direct investment (FDI) and SMEs. Export promotion agencies should scale up existing support services and add more sophisticated products such as export financing. Governments should start monitoring and evaluating their activities in order to improve their efficiency.

Table 0.12. **Progress in Dimension 10: Internationalisation of SMEs**

Dimension 9	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
2016 average	**3.23**	**2.31**	**3.15**	**3.43**	**3.18**	**3.70**	**3.73**	**3.25**
2012 average	3.21	2.21	2.14	3.79	3.29	4.21	4.64	3.36

Overview of regional performance

Table 0.13 provides an overview of the region's progress compared to the 2012 assessment for each SBA dimension. Table 0.14 summarises each economy's performance to date and remaining challenges.

Table 0.13. **Summary of regional progress in SME policy development**

Policy dimension	2012 WBT average	2016 WBT average	Change 2012-16
1. Entrepreneurial learning and women's entrepreneurship	2.28	2.49	+0.21
2. Bankruptcy and second chance for SMEs	3.16	2.92	-0.24
3. Regulatory framework for SME policy making	3.43	3.57	+0.14
4. Operational environment for SMEs	3.41	3.42	+0.01
5a. Support services for SMEs and start-ups	2.87	3.12	+0.25
5b. Public procurement	3.17	3.56	+0.39
6. Access to finance for SMEs	3.13	3.42	+0.29
7. Standards and technical regulations	3.31	3.92	+0.61
8a. Enterprise skills	2.94	2.85	-0.09
8b. Innovation policy for SMEs	2.43	2.87	+0.44
9. SMEs in a green economy	2.26	2.47	+0.21
10. Internationalisation of SMEs	3.36	3.25	-0.11

Notes: the darker the shaded cells, the higher the level of policy development in the relevant dimension. The 2012 results for Dimensions 4 and 6 are not directly comparable due to a change in the indicators and methodology. For Dimensions 1 and 8a, comparison with 2012 has to be made with caution due to the introduction of a whole range of new indicators.

Table 0.14. **Summary of progress and remaining challenges for each SBA dimension**

	Stronger performance	Main areas for improvement
Albania	Dimension 4 (operational environment): 4.28	Dimension 1 (entrepreneurial learning and women's entrepreneurship): 2.29
	Dimension 3 (regulatory framework for SME policy making): 3.74	Dimension 8b (innovation): 2.38
	Dimension 5b (public procurement): 3.48	Dimension 9 (SME greening): 2.29
Bosnia and Herzegovina	Dimension 5b (public procurement):3.44	Dimension 4 (operational environment): 1.75
	Dimension 6 (access to finance for SMEs): 3.25	Dimension 8b (innovation): 1.94
	Dimension 7 (technical regulations): 3.18	Dimension 9 (SME greening): 2.16
Kosovo	Dimension 7 (technical regulations): 3.68	Dimension 8b (innovation): 1.86
	Dimension 6 (access to finance for SMEs): 3.21	Dimension 9 (SME greening): 2.16
	Dimension 4 (operational environment): 3.20	Dimension 1 (entrepreneurial learning and women's entrepreneurship): 2.33
Former Yugoslav Republic of Macedonia	Dimension 4 (operational environment): 4.38	Dimension 1 (entrepreneurial learning and women's entrepreneurship): 2.46
	Dimension 7 (technical regulations): 4.02	Dimension 9 (SME greening): 2.80
	Dimension 5b (public procurement): 3.95	Dimension 8a (enterprise skills): 2.89
Montenegro	Dimension 7 (technical regulations): 4.01	Dimension 9 (SME greening):2.10
	Dimension 3 (regulatory framework): 3.93	Dimension 8b (innovation): 2.62
	Dimension 5b (public procurement): 3.73	Dimension 1 (entrepreneurial learning and women's entrepreneurship): 2.70
Serbia	Dimension 7 (technical regulations): 4.33	Dimension 9 (SME greening): 2.08
	Dimension 3 (regulatory framework): 4.15	Dimension 1 (entrepreneurial learning and women's entrepreneurship): 2.71
	Dimension 5b (public procurement): 3.96	Dimension 2 (bankruptcy): 2.62
Turkey	Dimension 7 (technical regulations): 4.87	Dimension 1(entrepreneurial learning and women's entrepreneurship): 2.82
	Dimension 3 (regulatory framework): 4.26	Dimension 2 (bankruptcy): 2.85
	Dimension 5a (SME support services): 4.26	Dimension 5b (public procurement): 3.19

Key findings for each economy

Albania's level of income per capita is the second lowest in the region and its economy has a large agricultural sector both as a share of gross domestic product (GDP) (22.7%) and employment (40%). Strong ties of trade, remittances and the banking sector with Greece and Italy make Albania vulnerable to spillover effects from debt crises and weak growth in those two countries. The SME sector generated 67.7% of total value added in 2013, which is above the EU average of 58%. Albania has been proactive in strengthening its institutional, regulatory and operational environment for SME development since the 2012 SBA assessment. While it has sound policy frameworks in place, it now needs to match these with solid implementation and monitoring. In order to foster SME competitiveness and reap the benefits of EU-accession negotiations, the government needs to address the remaining challenges confronting its SMEs (Table 0.15).

Table 0.15. **Overview of Albania's key reforms and recommendations**

Key reforms	Key recommendations
• Drafting and adoption of the Business Investment and Development Strategy for 2014-2020 (BIDS) and action plan as a key framework for SME policy. • Introduction of a new e-government portal and launch of the e-tax filling system. • Launch of new targeted support programme on financial literacy and inclusion of financial training into school curricula. • Establishment of the National Economic Council (NEC) as a platform for dialogue between the government and business representatives.	• Match sound policy design with proper implementation and develop a monitoring system for the BIDS strategy, including efforts on tackling the informal economy. • Address existing shortcomings in the regulatory framework and formalise the regulatory impact analysis (RIA) process, including the application of an "SME test". • Further develop the infrastructure needed to promote innovation in SMEs (innovation centers, incubators) and implement financial instruments (voucher schemes). • Introduce an insolvency register. • Broaden access to finance for SMEs by introducing more non-bank financial instruments, broadening credit information and better enforcing creditor rights. • Establish a policy partnership for integrating entrepreneurial learning into the education system. • Build up intelligence on SME skills needs and create a single information point on the business training offered to entrepreneurs.

Bosnia and Herzegovina is the second biggest economy in the Western Balkans region with a highly volatile economy driven by industrial production and services. SMEs generated 68.4% of total employment in 2013 and contributed 60.1% of total value added. The size of the public sector poses a key challenge to growth in the Bosnian economy: a large state with multiple entities and considerable influence over the private sector creates high financial, administrative and regulatory costs and uncertainty. It has made incremental progress since the 2012 SBA Assessment on SME policy. To fully realise the potential offered by SMEs after the signing of the Stabilisation and Association Agreement (SAA), the government should strengthen its co-ordination mechanisms on SME policy and reduce market distortions and regulatory burdens on SMEs (Table 0.16).

Table 0.16. **Overview of Bosnia and Herzegovina's key reforms and recommendations**

Key reforms	Key recommendations
• Launch of prompt regulatory guillotine exercises at all levels of government with the aim of streamlining business legislation. • Adoption of a new public procurement law. • Adoption of a nationwide entrepreneurial learning strategy and action plan. • Launch of a pilot transnational innovation voucher scheme focusing on SMEs in the energy sector in 2014.	• Introduce a nationwide SME policy framework and improve co-ordination at all government levels. • Develop a single economic space that would eliminate current market distortions. • Enhance SME competitiveness through the provision of better-targeted business support services. • Improve insolvency, collateral, leasing and factoring frameworks to facilitate access to finance. • Adopt a national innovation strategy and establish a co-ordination body to ensure measures introduced at different levels of government complement each other. • Further implement the planned entrepreneurial learning reforms and ensure their sustainability. • Build up intelligence on SME skills needs and create a single information point on the business training offered to entrepreneurs. • Establish a state-wide dialogue and policy awareness campaign to bring forward women's entrepreneurship.

Kosovo is a small, consumption-driven economy dominated by the service sector but with a fairly large agricultural sector (12%). Due to its limited international integration it has not been severely exposed to the financial crisis but it remains the poorest economy in the region, highly dependent on remittances. Starting from a low base in 2012, Kosovo has made significant progress in its SBA framework, in particular the institutional framework. In order to strengthen economic growth and competitiveness, Kosovo should address remaining weaknesses in its SME policy (Table 0.17).

Table 0.17. **Overview of Kosovo's key reforms and recommendations**

Key reforms	Key recommendations
• Adoption of the Private Sector Development Strategy 2013-2017 and creation of a fully-operational agency in charge of implementing SME policy. • Continued progress in simplifying business registration (introduction of one-stop shops economy-wide) and e-government services. • Strengthening of the legal and regulatory framework for access to finance with the establishment of a credit registry and a real estate cadastre. • Enhanced SME competitiveness through expanded export promotion programmes.	• Address shortcomings in the regulatory framework through the introduction of RIA and an SME test. • Expand the collection of statistics and strengthen monitoring and evaluation for existing support schemes. • Further develop targeted support to innovative SMEs and upgrade quality infrastructure in line with EU rules. • Introduce a national strategy on financial literacy and broaden non-bank sources of finance for SMEs. • Adopt a strategy and action plan on innovation and improve financial sustainability and advisory capacity for innovative SMEs. • Set up a national policy partnership for entrepreneurial learning. • Build up intelligence on SME skills needs and create a single information point on the business training offered to entrepreneurs. • Provide broader supply of training and mentoring for women entrepreneurs.

The Former Yugoslav Republic of Macedonia, despite being a small landlocked economy, has been relatively competitive and dynamic in comparison to its regional competitors. The economy is driven by manufacturing and services with increasing external demand having a positive impact on its economic recovery. SMEs contribute 76.6% of total employment and 66.6% of value added. Both figures slightly increased between 2009 and 2013. Building on a solid track record as a top reformer of its business environment, it has taken a number of steps to further strengthen its operational and regulatory environment. Moving forward, SMEs need access to wider sources of finance and more and better targeted support services (Table 0.18).

Table 0.18. **Overview of the Former Yugoslav Republic of Macedonia's key reforms and recommendations**

Key reforms	Key recommendations
• Creation of a policy framework for lifelong entrepreneurial learning. • Continued progress in business registration and e-government services. • Establishment of an innovation framework for SMEs through the introduction of an innovation strategy and law and an innovation fund. • Strengthening of the banking regulatory framework through closer alignment with Basel II principles. • Further alignment of technical standards and regulations with the EU *acquis.*	• Strengthen SME policy co-ordination by anchoring SME policy in a nationwide strategy and strengthen the capacity of its SME agency. • Expand its collection of statistics and strengthen co-operation between the National Statistical Office and policy makers so that statistical information is used for policy monitoring and evaluation. • Further develop targeted support measures for SMEs in different policy areas with a focus on entrepreneurship, internationalisation and greening, and establish a single contact point for all services offered. • Establish a legal framework for factoring. • Promote competitiveness in the banking sector; develop capital markets as an alternative to bank finance. • Consider renewing efforts to establish an effective and independent credit guarantee scheme. • Strengthen entrepreneurial learning reform initiative by linking it to new strategies for education, employment and SME development. • Build up intelligence on SME skills needs and create a single information point on the business training offered to entrepreneurs. • Establish a state-wide dialogue and policy awareness campaign to promote women's entrepreneurship.

Montenegro is a small open economy dominated by the tourism sector and the metal industry. Although it has the highest per capita income in the region it has been vulnerable to external shocks and its growth volatility has been equally high. The number of SMEs in Montenegro has increased by 20% since 2010 and they generate 64.6% of total value added. Economic diversification in the economy remains low, and SMEs have limited links into global value chains, human capital constraints and limited cluster developments. To fully realise the potential offered by SMEs for economic diversification, the government should enhance their access to finance and increase its targeted support. It should also integrate entrepreneurship key competences into its curricula (Table 0.19).

Table 0.19. **Overview of Montenegro's key reforms and recommendations**

Key reforms	Key recommendations
• Continued progress in business registration, online tax filing and e-government services. • Strong policy framework developed for entrepreneurial learning and advanced integration of entrepreneurial learning into secondary school curricula. • Establishment of an institutional infrastructure and financial instruments to support SME innovation. • Formal introduction of RIA and application of an SME test. • Introduction of a law on insolvency.	• Develop a sound monitoring and evaluation system for the SME strategy and expand statistics collection for the purpose of M&E. • Reinforce public-private dialogue and further engage with the business community to prioritise burdensome legislation and keep track of its effects on the ground. • Broaden the coverage of the credit information system and consider establishing a credit guarantee scheme to help SMEs access bank financing. • Strengthen monitoring and evaluation for existing support schemes. • Create export finance tools and hold national SME events to support SME internationalisation. • Further develop entrepreneurship as a key competence at all levels of formal education. • Implement measures to link SME training offer with the results of training needs analysis. • Step up support for women entrepreneurs.

Serbia is a small open economy in global terms, although it is the biggest economy in the Western Balkan region, accounting for 4.9% of combined GDP in the Western Balkans. Its economy was severely hit by the financial crisis, resulting in the second-weakest post-crisis GDP growth in the region. SME employment fell slightly over the period 2009-13, contributing 70.4% of total employment in 2013. Serbia continues to have a proactive and well-developed approach to SME policy with a forward-looking SME strategy and a range of support services in place. Despite improvements in the operational business environment, this, together with access to finance and weak environmental policies, remains a challenge to SMEs (Table 0.20).

Table 0.20. **Overview of Serbia's key reforms and recommendations**

Key reforms	Key recommendations
• Introduction of online business registration and other electronic services. • Continued progress in business registration, online tax filing and e-government services. • Strong policy framework developed for SME training needs analysis, training provision and quality assurance. • Further strengthening of the innovation framework through enhanced involvement of SMEs in international collaboration programmes.	• Develop a sound monitoring and evaluation system for the SME strategy and expand the collection of statistics for M&E. • Develop a new strategy for innovation with more emphasis on SMEs and ensure implementation through a co-ordinated approach among all partner institutions. • Improve the legal framework for non-bank finance to broaden lending opportunities to SMEs. • Develop entrepreneurship as a key competence at all levels of formal education and implement measures to link SME training offer with the results of the training needs analysis. • Strengthen national policy partnership for women's entrepreneurship • Introduce financial and regulatory incentives for the greening of SMEs. • Complete the reorganisation of the Serbian export promotion agency and introduce independent evaluations of its export promotion activities.

Turkey is the biggest economy in the EU pre-accession region accounting for 89% of combined GDP and 80% of the combined population. With the highest income per capita, relatively strong post-crisis recovery and the lowest unemployment rate (around 10%), Turkey is the most developed economy of those covered by this report. SMEs contributed 75.5% to total employment and 53.9% to total value added. SME policy in Turkey has been further strengthened, with an extensive range of support services for SMEs now in place. However, despite improvements, doing business in Turkey continues to be cumbersome and costly and the informal economy remains large. To fully realise the potential offered by SMEs for economic growth and competitiveness, the government should further improve the business environment and increase access to finance for SMEs (Table 0.21).

Table 0.21. **Overview of Turkey's key reforms and recommendations**

Key reforms	Key recommendations
• Establishment of a steering committee for monitoring and evaluation of the SME strategy and activities co-ordinated by its SME agency. • Sound implementation of the innovation strategy with substantial financial instruments and schemes put in place to support SMEs. • Establishment of a national entrepreneurship action plan, which also includes an emphasis of promoting entrepreneurship across the education system. • Improved availability of non-bank financing through a new law on leasing and factoring as well as elimination of obstacles to venture capital.	• Address shortcomings in the regulatory framework through the introduction of RIA and an SME test. • Streamline business registration procedures and introduce fully-fledged online company registration. • Centralise the moveable asset register in order to reduce banks' reluctance to accept moveable collateral and make it available online. • Establish a legal framework for microfinance. • Develop entrepreneurship as a key competence in the education system through further curriculum reform and teacher training. • Build up intelligence on SME skills needs and create a single information point on the business training offered to entrepreneurs. • Step up support for women entrepreneurs. • Strengthen monitoring and evaluation mechanisms on export promotion activities and develop programmes to integrate SMEs into global value chains.

2016 SME Policy Index scores for the Western Balkans and Turkey

The SME Policy Index is a benchmarking tool (Box 0.1) to help emerging economies monitor and evaluate progress in policies that support small and medium-sized enterprises (SMEs). 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). The South East European Centre for Entrepreneurial Learning (SEECEL) joined the SBA assessment in 2015 (these make up the "partner organisations"; see Annex C). It has been applied to several regions which fall under the Enlargement Policy and the European Neighbourhood Policy: the Western Balkans (in 2006, 2009 and 2012, when Turkey was included for the first time); the Easter Partner (EaP) economies (in 2012 and 2016); and the Middle East and North Africa (in 2008 and 2014). In addition, the SME Policy Index framework and methodology were adapted and applied in the ten Association of Southeast Asian Nations (ASEAN) member countries for the first time in 2014 (in co-operation with the ASEAN Secretariat and the Economic Research Institute for ASEAN and East Asia). Overall, application of the SME Policy Index has expanded to 32 countries, indicating the appetite among policy makers for assessing

Box 0.1. **Scoring SME policy development**

The SME Policy Index assesses both quantitative and qualitative policy indicators. The quantitative indicators include data from the European Bank for Reconstruction and Development's Business Environment and Enterprise Performance Survey (BEEPS) and the World Bank's *Doing Business* reports, while the qualitative indicators assess the policy development path in a certain area, such as the establishment of a regulatory impact assessment or a credit guarantee scheme. Scores between 1 and 5 are used to assess the level of policy reform for each sub-dimension and dimension, with 1 being the weakest and 5 being the strongest. For qualitative indicators, the scores typically correspond to the levels of policy development shown in Table 0.22. Qualitative differences exist however between the different levels. While it is fairly easy to reach level 1 to 3, the jump to level 4 and 5 is more difficult and requires solid policy implementation and monitoring and evaluation.

Table 0.22. **Policy development scale**

Level 1	Level 2	Level 3	Level 4	Level 5
There is no law, institution, tool or (information) service in place for the area concerned	There is a draft law, institution, tool or (information) service and there are some signs of government activity to address the area concerned	A solid legal and/or institutional framework is in place for this specific policy area, tool or (information) service	Level 3, plus some concrete indications of effective policy implementation of the law, institution or tool	Level 4, plus some significant evidence of concrete and effective policy implementation of the law, institution, tool or service. This level comes closest to good practice identified for OECD countries

A detailed description of the policy framework underpinning the assessment, the scoring methodology and the assessment process is provided in the Policy Framework and Assessment Process chapter and the Technical Annex (Annex A).

the level of SME policy development. This 2016 report presents the findings of the fourth assessment of the Western Balkans and Turkey.

The main objective of the SME Policy Index is to provide governments with a framework for assessing policies targeting SME development. The index identifies strengths and weaknesses in policy design, implementation, monitoring and evaluation; allows for comparison across economies; and measures convergence towards European Union SME policy standards. It aims to support governments in setting targets for SME policy development and strategic priorities to further improve their business environments. It also engages governments in policy dialogue and facilitates the exchange of experiences within the region and with the partner organisations.

Table 0.23 displays the SME Policy Index scores in the SEE economies according to the Small Business Act assessment. The cut-off date for the assessment process was 30 October 2015, so scores reflect the situation of SME policy in the seven SEE economies and reforms introduced by that date.

Table 0.23. **SME Policy Index scores**

		Scores							Weights
		ALB	BIH	KOS	MKD	MNE	SRB	TRK	
I	Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded								
1	**Entrepreneurial learning and women's entrepreneurship**	**2.29**	**2.13**	**2.33**	**2.46**	**2.70**	**2.71**	**2.82**	
1.1	**Policy framework for entrepreneurial learning**	2.15	2.54	2.22	2.76	2.83	2.52	2.70	
1.1	*Policy partnership*	2.00	3.50	2.00	4.00	4.00	3.00	4.00	3
1.2	*Policy development process*	3.00	4.00	3.00	3.50	4.00	3.50	3.00	1
1.3	*Monitoring and evaluation*	2.00	2.00	2.00	2.00	3.00	3.00	2.00	1
1.4	*Non-formal learning*	2.00	2.50	2.00	2.50	2.50	2.50	2.50	1
1.5	*Good practice exchange*	3.00	3.00	3.00	3.00	3.00	3.00	3.00	1
1.6	*Entrepreneurial learning in lower secondary education: schools*	2.00	2.00	2.00	2.50	3.00	2.00	2.00	1
1.7	*Entrepreneurial learning in lower secondary education: teachers*	2.00	2.00	2.00	2.00	2.50	2.00	2.00	2
1.8	*Entrepreneurial learning in lower secondary education: students*	2.50	2.50	2.50	3.50	3.50	3.00	2.50	1
1.9	*Entrepreneurial learning in upper secondary education: schools*	2.00	3.00	2.00	2.50	2.50	2.50	2.00	1
1.10	*Entrepreneurial learning in upper secondary education: teachers*	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2
1.11	*Entrepreneurial learning in upper secondary education: students*	2.50	3.00	3.00	3.50	3.00	3.00	3.00	1
1.12	*Entrepreneurial experience for young people in upper secondary education*	2.00	2.50	2.00	2.00	3.00	3.00	2.50	1
1.13	*Entrepreneurship promotion in vocational education and training*	1.50	1.50	1.50	2.50	2.50	1.50	3.00	1
1.14	*Entrepreneurial learning in higher education*	2.00	2.00	2.00	2.50	2.00	2.00	2.50	3
1.15	*Higher education co-operation with the world of business*	2.50	3.00	3.00	3.00	3.00	3.00	3.50	2
1.16	*Good practice in entrepreneurial learning in higher education*	2.00	2.00	2.00	2.50	2.00	2.00	2.00	1
1.2	**Women's entrepreneurship**	**2.50**	**1.50**	**2.50**	**2.00**	**2.50**	**3.00**	**3.00**	**2**
II	Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance								
2	**Bankruptcy and second chance for SMEs**	**3.23**	**2.25**	**2.68**	**3.38**	**3.46**	**2.62**	**2.85**	
2.1	**Laws and procedures**	**3.33**	**2.37**	**2.87**	**3.56**	**3.65**	**2.73**	**2.96**	***65%***
	Implementation	2.33	1.47	1.47	3.25	3.58	2.92	3.83	*25%*
	Performance	3.67	2.67	3.33	3.67	3.67	2.67	2.67	*75%*
2.2	**Promoting second chance**	**2.29**	**1.23**	**1.00**	**1.79**	**1.79**	**1.64**	**1.83**	***35%***

Table 0.23. **SME Policy Index scores** *(continued)*

		Scores							Weights
		ALB	BIH	KOS	MKD	MNE	SRB	TRK	
III	**Design rules according to the "think small first" principle**								
3	**Regulatory framework for SME policy making**	**3.74**	**2.22**	**3.01**	**3.67**	**3.93**	**4.15**	**4.26**	
3.1	**Institutional framework**	**3.81**	**2.34**	**3.43**	**3.30**	**4.31**	**4.44**	**4.76**	***40%***
	Planning & design	4.41	2.74	3.99	3.68	4.56	4.36	4.83	*35%*
	Implementation	3.56	2.44	3.56	3.22	4.33	4.56	4.67	*45%*
	M&E	3.33	1.41	2.19	2.83	3.81	4.33	4.83	*20%*
3.2	**Legislative simplification and regulatory impact analysis**	**3.44**	**2.12**	**2.31**	**4.32**	**3.35**	**4.37**	**3.28**	***30%***
	Planning & design	3.51	2.25	2.73	4.73	3.80	4.60	3.93	*35%*
	Implementation	3.53	2.52	2.27	4.00	3.40	4.32	3.18	*45%*
	M&E	3.13	1.00	1.67	4.33	2.44	4.07	2.33	*20%*
3.3	**Public-private consultations**	**3.94**	**2.15**	**3.16**	**3.49**	**4.02**	**3.53**	**4.59**	***30%***
	Frequency and transparency	4.10	2.31	3.33	3.50	4.62	3.12	4.50	*40%*
	Private sector involvement	4.60	2.33	3.40	4.40	4.27	4.53	4.80	*40%*
	M&E	2.33	1.44	2.33	1.67	2.33	2.33	4.33	*20%*
IV	**Make public administration responsive to SMEs**								
4	**Operational environment for SMEs**	**4.28**	**1.75**	**3.20**	**4.38**	**3.56**	**3.55**	**3.24**	
4.1	**Interaction with government services (e-government)**	**4.16**	**1.88**	**3.42**	**3.96**	**3.27**	**3.79**	**3.31**	***45%***
	Planning & design	4.50	2.43	3.42	4.50	3.67	4.00	3.67	***35%***
	Implementation	3.13	1.83	2.25	3.07	2.20	3.30	4.07	*45%*
	M&E	4.00	1.00	2.00	5.00	5.00	4.50	1.00	*20%*
4.2	**Company registration**	**4.38**	**1.67**	**3.00**	**5.00**	**3.90**	**3.40**	**3.20**	***55%***
	Implementation	5.00	2.00	2.75	5.00	4.25	3.50	4.50	***40%***
	Performance	3.97	1.44	3.17	5.00	3.67	3.33	2.33	*60%*
4.3	**Business licensing**	**4.22**	**1.70**	**3.33**	**2.94**	**2.98**	**3.33**	**3.13**	
	Licence procedures	4.19	2.30	3.67	3.37	3.96	4.04	4.00	*50%*
	Monitoring and streamlining of licence systems	4.25	1.10	3.00	2.50	2.00	2.63	2.25	*50%*
V	**Adapt public policy tools to SME needs**								
5a	**Support services for SMEs and start-ups**	**2.65**	**2.42**	**2.74**	**2.94**	**2.95**	**3.85**	**4.26**	
5a.1	**SME support services by the government**	**2.99**	**2.65**	**3.04**	**3.41**	**3.48**	**4.09**	**4.23**	***50%***
	Planning & design	3.80	3.13	4.00	4.40	3.80	4.40	4.40	*35%*
	Implementation	3.09	2.82	3.50	3.63	3.63	4.15	4.50	*45%*
	M&E	2.00	1.83	1.17	2.00	2.83	3.67	3.50	*20%*
5a.2	**Government initiatives to stimulate private business support services development**	**2.30**	**2.20**	**2.45**	**2.46**	**2.43**	**3.60**	**4.30**	***50%***
	Planning & design	2.00	3.33	3.00	2.00	3.00	4.00	4.00	*35%*
	Implementation	2.60	1.98	2.40	2.80	2.60	4.20	4.60	*45%*
	M&E	2.00	1.50	2.00	2.25	1.50	2.00	4.00	*20%*
5b	**Public procurement**	**3.48**	**3.44**	**3.18**	**3.95**	**3.73**	**3.96**	**3.19**	
	Planning & design	3.48	3.86	3.38	4.38	4.14	3.95	2.81	*35%*
	Implementation	4.00	3.60	2.81	3.75	3.44	4.10	3.88	*45%*
	M&E	2.33	2.33	3.67	3.67	3.67	3.67	2.33	*20%*

Table 0.23. **SME Policy Index scores** *(continued)*

		Scores							Weights
		ALB	BIH	KOS	MKD	MNE	SRB	TRK	
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**	**3.26**	**3.25**	**3.21**	**3.46**	**3.25**	**3.62**	**3.89**	
6.1	**Legal and regulatory framework**	**3.59**	**3.79**	**3.60**	**3.98**	**4.12**	**4.40**	**4.28**	***60%***
	Creditor rights	4.18	4.07	3.97	4.27	5.00	4.15	3.53	*24%*
	Register	4.15	4.44	4.45	4.80	4.75	4.70	4.40	*24%*
	Credit information bureau	3.89	4.20	3.97	4.78	4.01	5.00	4.51	*24%*
	Banking regulations	3.50	2.50	3.50	1.50	1.50	4.50	5.00	*14%*
	Stock market	1.21	2.80	1.00	3.17	4.31	3.17	4.22	*14%*
6.2	**Bank financing**	**2.60**	**2.79**	**2.69**	**2.69**	**1.64**	**2.27**	**3.55**	***20%***
	Banking statistics	2.48	2.74	3.08	3.37	2.07	3.12	3.61	*60%*
	Credit guarantee schemes	2.78	2.85	2.11	1.67	1.00	1.00	3.44	*40%*
6.3	**Non-bank financing**	**3.83**	**2.78**	**2.96**	**3.40**	**2.83**	**2.81**	**2.73**	***10%***
	Microfinance	4.50	4.70	4.67	2.00	4.00	2.33	2.33	*25%*
	Saving and loan associations (SLAs)	4.00	1.00	1.00	4.33	1.00	1.00	1.00	*25%*
	Leasing	3.83	3.08	3.83	4.25	2.67	4.25	3.92	*25%*
	Factoring	3.00	2.33	2.33	3.00	3.67	3.67	3.67	*25%*
6.4	**Venture capital**	**1.49**	**1.41**	**2.11**	**2.31**	**1.47**	**2.21**	**4.19**	***5%***
	Legal framework	1.67	1.74	2.45	2.45	1.67	2.33	4.33	*35%*
	Design and implementation	1.58	1.33	2.34	2.78	1.54	2.66	4.90	*45%*
	M&E	1.00	1.00	1.00	1.00	1.00	1.00	2.33	*20%*
6.5	**Financial literacy**	**2.60**	**1.41**	**2.10**	**1.51**	**1.86**	**2.64**	**2.68**	***5%***
	Design and implementation	3.00	1.52	2.20	1.63	2.08	2.71	3.10	*80%*
	M&E	1.00	1.00	1.67	1.00	1.00	2.33	1.00	*20%*
VII	**Help SMEs to benefit more from the opportunities offered by the Single Market**								
7	**Standards and technical regulations**	**3.35**	**3.18**	**3.68**	**4.02**	**4.01**	**4.33**	**4.87**	
7.1	**Overall co-ordination and general measures**	**3.00**	**1.00**	**2.33**	**3.00**	**2.33**	**3.00**	**5.00**	***14%***
7.2	**Technical regulations**	**3.93**	**4.73**	**3.80**	**3.40**	**3.47**	**4.60**	**5.00**	***14%***
7.3	**Standardisation**	**4.14**	**3.71**	**4.14**	**4.43**	**4.00**	**4.24**	**4.29**	***14%***
7.4	**Accreditation**	**3.24**	**2.89**	**4.84**	**5.00**	**4.68**	**4.92**	**5.00**	***14%***
7.5	**Conformity assessment**	**2.92**	**2.67**	**3.75**	**3.67**	**3.58**	**4.92**	**5.00**	***14%***
7.6	**Metrology**	**3.67**	**3.22**	**3.22**	**3.67**	**5.00**	**4.67**	**4.78**	***14%***
7.7	**Market surveillance**	**2.56**	**4.00**	**3.67**	**5.00**	**5.00**	**4.00**	**5.00**	***14%***
VIII	**Promote the upgrading of skills and all forms of innovation**								
8a	**Enterprise skills**	**2.67**	**2.83**	**2.44**	**2.89**	**2.78**	**3.11**	**3.22**	
8a.1.1	*SME skills intelligence (TNA)*	3.50	3.50	2.50	3.50	3.50	3.50	3.50	3
8a.1.2	*Quality assurance*	3.00	3.00	3.00	3.00	3.00	3.50	3.50	1
8a.1.3	*Training for start-up firms*	2.50	2.50	2.50	2.50	2.50	3.00	3.00	1
8a.1.4	*Training for enterprise growth*	3.00	2.50	3.00	3.00	3.00	3.00	3.00	1
8a.1.5	*E-training for SMEs*	1.00	2.00	1.00	2.00	1.00	2.00	3.00	1
8a.1.6	*Training for internationalisation of SMEs*	2.00	2.50	2.50	2.50	2.50	3.00	3.00	2

Table 0.23. **SME Policy Index scores** *(continued)*

		Scores							Weights
		ALB	BIH	KOS	MKD	MNE	SRB	TRK	
8b	**Innovation**	**2.38**	**1.94**	**1.86**	**3.63**	**2.62**	**3.51**	**4.14**	
8b.1	**Policy framework for innovation**	**2.98**	**1.82**	**1.71**	**3.87**	**2.48**	**3.60**	**4.17**	***60%***
	Planning & design	3.65	2.05	3.04	4.76	2.09	3.00	4.64	*35%*
	Implementation	3.33	2.00	1.00	4.00	3.00	4.33	4.33	*45%*
	M&E	1.00	1.00	1.00	2.00	2.00	3.00	3.00	*20%*
8b.2	**Government institutional support services for innovative SMEs**	**1.62**	**2.31**	**2.04**	**3.19**	**2.52**	**3.28**	**3.74**	***20%***
	Planning & design	2.33	2.17	3.50	3.33	3.67	4.33	4.17	*35%*
	Implementation	1.33	2.60	1.37	2.87	2.30	3.47	4.63	*45%*
	M&E	1.00	1.89	1.00	3.67	1.00	1.00	1.00	*20%*
8b.3	**Government financial support services for innovative SMEs**	**1.35**	**1.93**	**2.12**	**3.36**	**3.15**	**3.49**	**4.44**	***20%***
	Planning & design	2.00	2.71	2.81	2.88	3.69	3.88	4.81	*35%*
	Implementation	1.00	1.73	1.20	3.00	2.80	3.40	4.80	*45%*
	M&E	1.00	1.00	3.00	5.00	3.00	3.00	3.00	*20%*
IX	**Enable SMEs to turn environmental changes into opportunities**								
9	**SMEs in a green economy**	**2.29**	**2.16**	**2.16**	**2.80**	**2.10**	**2.08**	**3.72**	
9.1	**Environmental policies targeting SMEs**	**2.22**	**2.88**	**3.01**	**3.12**	**3.74**	**2.63**	**3.74**	***40%***
	Planning & design	1.27	2.91	3.93	5.00	4.73	5.00	4.73	*35%*
	Implementation	3.50	3.50	2.00	2.00	3.00	1.50	3.00	*45%*
	M&E	1.00	1.44	3.67	2.33	3.67	1.00	3.67	*20%*
9.2	**Incentives and instruments**	**2.33**	**1.67**	**1.60**	**2.58**	**1.00**	**1.72**	**3.71**	***60%***
	Planning & design	2.33	1.44	1.00	2.33	1.00	2.33	4.56	*35%*
	Implementation	2.33	1.86	2.33	3.48	1.00	1.57	3.67	*45%*
	M&E	2.33	1.67	1.00	1.00	1.00	1.00	2.33	*20%*
X	**Encourage and support SMEs to benefit from growth markets**								
10	**Internationalisation of SMEs**	**3.23**	**2.31**	**3.15**	**3.43**	**3.18**	**3.70**	**3.73**	
10.1	**Export promotion**	**3.47**	**2.44**	**3.50**	**3.83**	**3.42**	**4.26**	**4.28**	***70%***
	Planning & design	3.67	2.55	4.67	4.67	4.67	4.67	4.67	*35%*
	Implementation	3.76	2.91	3.26	3.78	2.87	4.50	4.33	*45%*
	M&E	2.50	1.17	2.00	2.50	2.50	3.00	3.50	*20%*
10.2	**Integration of SMEs into global value chains**	**1.64**	**1.17**	**1.41**	**1.32**	**1.00**	**1.67**	**1.50**	***15%***
	Planning & design	2.83	1.47	2.17	1.92	1.00	2.92	2.42	*35%*
	Implementation	1.00	1.00	1.00	1.00	1.00	1.00	1.00	*45%*
	M&E	1.00	1.00	1.00	1.00	1.00	1.00	1.00	*20%*
10.3	**Trade dimension**	**3.67**	**2.87**	**3.27**	**3.67**	**4.20**	**3.13**	**3.40**	***15%***
	Exporting	3.40	2.78	3.13	3.67	3.93	2.87	3.93	*50%*
	Importing	3.93	2.96	3.40	3.67	4.47	3.40	2.87	*50%*

Notes: Scores have been generated using the methodology of the SBA assessment, with certain differences between Dimensions 1 and 8a, on the one hand, and the rest of dimensions on the other (see chapter on Policy Framework and Assessment Process). Policy questionnaires were used in the latter case to calculate overall scores per sub-dimension and thematic block. The weight of each of those sub-dimensions and thematic blocks for calculating the overall dimension scores is expressed in percentages. For Dimensions 1 and 8a, performance has been assessed based on a series of separate indicators and reflected in a single 1-5 score for each indicator. For all dimensions, figures presented in white cells are the scores received, while the figures in grey cells are their weighted averages. Dimension scores are presented based on the five levels of policy reform (see Table 0.22). For further information please see the Technical Annex (Annex A).

Policy framework and assessment process

The SME Policy Index assessment framework aims to assess, independently and rigorously, SME-related policy settings and reforms against European Union (EU) and international best practice, and to provide guidance for policy reform and development.

This time the SBA Assessment in the region is framed within a new enlargement policy context, where economic governance has become one of the key pillars for the enlargement policy. In order to prepare the Western Balkans and Turkey for European Union membership, each of the economies were invited to prepare since 2015 an annual Economic Reform Programme (ERP) inspired by the European Semester process. Recommendations of this report and the proposed policy roadmap should be integrated in wider national exercises.

While there are a number of other indices and benchmarking reports that assess the business environment in the South East European (SEE) economies, the SME Policy Index adds value through its holistic approach to SME development policies, providing policy makers with a single window through which to view progress in a specific context. It also:

- focuses on a specific region where shared history, culture and geography allow for more relevant benchmarking between countries
- takes a participatory approach to evaluation and measurement involving a tripartite of government, private sector and partner organisations (i.e. OECD, European Commission, EBRD, ETF and SEECEL; see Annex C)
- evaluates the SME policy environment comprehensively around the ten key principles of the Small Business Act for Europe (see below)
- provides guidance on how to improve policy frameworks through good practice examples and policy recommendations presented as country-level reform roadmaps
- incorporates relevant data by other organisations (e.g. World Bank's *Doing Business* report, EBRD-World Bank Business Environment and Enterprise Performance Survey, BEEPS)
- uses country context and broader factors affecting SMEs and policy developments to complement the analysis reflected in the scores.

However, the SME Policy Index methodology also has some limitations:

- Despite improvements in methodology, measuring effective implementation and outcomes of government policy can be difficult.
- The weighting system used based on expert opinion can be open to challenge.
- Shortage of national statistics on SMEs in the SEE region and diverging definitions of SMEs undermine the comparability of data across economies.

- The assessment framework is focused on the areas covered by the Small Business Act for Europe, rather than all aspects of SME policy.
- As the same set of indicators and weights is applied to all economies in a region, certain country-specific characteristics might not be given full consideration in the scoring.
- Intra-economy differences (e.g. differences in the level of SME activity in capitals and regions) may not be adequately captured in the analysis.

The SBA assessment framework

The SME Policy Index for the SEE economies records their progress against a framework of 12 SME policy dimensions (built around the 10 principles of the SBA). These policy dimensions are further broken down into 34 sub-dimensions that capture the critical policy elements in each area (Table 0.24).

Table 0.24. **The SBA assessment framework and its links to the Small Business Act principles**

SBA principle	SME Policy Index dimension	Related sub-dimensions
1. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded	1. Entrepreneurial learning and women's entrepreneurship	*Lifelong entrepreneurial learning* *Women's entrepreneurship*
2. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance	2. Bankruptcy and second chance for SMEs	*Laws and procedures* *Promoting second chance*
3. Design rules according to the "think small first" principle	3. 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	*Interaction with government services (e-government)* *Company registration* *Business licensing*
5. Adapt public policy tools to SME needs	5a. Support services for SMEs and start-ups	*SME support services and investment readiness programmes* *Government initiatives to stimulate private business support services development*
	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* *Bank financing* *Non-bank financing* *Venture capital* *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* *Technical regulations* *Standardisation* *Accreditation* *Conformity assessment* *Metrology* *Market surveillance*

Table 0.24. **The SBA assessment framework and its links to the Small Business Act principles** *(continued)*

SBA principle	SME Policy Index dimension	Related sub-dimensions
8. Promote the upgrading of skills and all forms of innovation	8a. Enterprise skills	*SME skills*
	8b. Innovation policy for SMEs	*Policy framework for innovation* *Government institutional support services for innovative SMEs* *Government financial support services for innovative SMEs*
9. Enable SMEs to turn environmental challenges into opportunities	9. SMEs in a green economy	*Environmental policies targeting SMEs* *Incentives and instruments*
10. Encourage and support SMEs to benefit from growth markets	10. Internationalisation of SMEs	*Trading performance* *Export promotion* *Integration of SMEs into global value chains*

Source: European Commission (2008), *Think Small First – A Small Business Act for Europe*.

The SBA assessment framework was extended to also monitor the implementation of the four reform priorities under the Western Balkans Enterprise Development and Innovation Facility (EDIF). The Technical Assistance pillar of the Western Balkan EDIF aims to enhance the regulatory environment for both innovative high-potential SMEs and investors through the implementation of a set of specific policy reforms: 1) increase the investment readiness of entrepreneurs (integrated under Dimension 5a, support services for SMEs and start-ups); 2) improve the regulatory framework for venture capital schemes and provide support for business angels (included under Dimension 6, Access to finance); 3) implement innovation policies and in increase the capacity and readiness for innovation in companies (included under Dimension 8b, Innovation policy); and 4) improve business licensing systems (incorporated under Dimension 4, Operational environment for SMEs).

A detailed description of the assessment methodology, including changes since the 2012 assessment, is provided in Annex A.

The assessment process

The SME Policy Index is based on the results of two parallel assessments. A self assessment is conducted by governments, and involves the SBA co-ordinator – the government official assigned to lead the policy assessment – collecting inputs from the various agencies and ministries involved in SME policy development and implementation. In addition, an independent assessment is conducted by the OECD and its partner organisations, which is based on inputs from a team of local experts who collect data and information and conduct interviews with key stakeholders and private sector representatives.

The final scores are the result of the consolidation of these two assessments, enhanced by further desk research by the five partner organisations, missions and consultations with government representatives. A series of stakeholder meetings is subsequently held in each economy to discuss and compare the two parallel assessments and help to reduce bias and misjudgements. These meetings are typically attended by 30-50 SME policy stakeholders, including representatives of ministries and government agencies, international donors, civil society, the academic community, NGOs and the private sector. At the meetings, discrepancies between the two parallel assessments are discussed, information gaps filled, and draft scores presented. Based on the information gathered at the stakeholder meetings, the partner organisations then decide on the final results and present them to the SBA co-ordinators in a regional meeting at the end of the assessment process.

Assessment methodology for Dimensions 1 and 8a

For Dimensions 1 (Entrepreneurial learning) and 8a (Enterprise skills), a different assessment (and scoring) methodology was applied. Facilitated by the partner organisations ETF and SEECEL, national expert teams were formed to support the SBA co-ordinator in drafting the self evaluation. National stakeholder consultations were then held in each economy (attracting around 30 stakeholders from all relevant sectors) to confirm the national self-evaluation. A further distinction in the assessment of Dimension 1 and 8a was the application of a structured peer-learning exercise whereby national expert teams peer reviewed another economy in the region. Based on the self evaluations, stakeholder meetings and peer reviews, the partner organisations (ETF and SEECEL) then proposed the final scores and discussed them with the SBA co-ordinators in a regional meeting at the end of the assessment process.

Timing of the 2016 assessment

The 2016 SBA assessment was carried out between March 2014 and April 2016 in three phases:

- Design phase (March 2014-October 2014): the methodology and assessment framework was updated through a series of workshops with partner organisations and one regional workshop held in July 2014, with the participation of the SEE economies. To ensure synergies in assessment tools used, as well as to promote cross-regional SBA co-operation, the regional workshops also included policy specialists and experts with experience in the SBA assessment exercise in the SEE economies. The finalised methodology was endorsed by all stakeholders at a side meeting during the EU SME Week in Naples, Italy in October 2014.
- Data collection and evaluation phase (October 2014-April 2015): SEE economies carried out a self evaluation of their policy frameworks (through the assessment questionnaires and other materials), which was complemented by independent assessments carried out by the OECD, the European Commission, EBRD, ETF and SEECEL with the support of local experts. Stocktaking missions and workshops were held in all seven economies to support the data collection exercise. For Dimensions 1 and 8a, focus groups were organised to build upon the self evaluations. Desk research and follow-ups with relevant stakeholders were used to fill information gaps and resolve inconsistencies. Finally, a seminar on SME statistics and policy monitoring was organised in April 2015 in Brussels with participants from the seven SEE economies.
- Consolidation and publication phase (May 2015-April 2016): A series of bilateral stakeholder meetings was held in each of the seven economies between May and June 2015 to consolidate the findings. The final report was prepared following a regional workshop involving government representatives and other stakeholders in October 2015 in Paris at the Regional Meeting of SBA Co-ordinators. This report – *SME Policy Index Western Balkans and Turkey 2016: Assessing the Implementation of the Small Business Act for Europe* – was launched in April 2016 in Paris.

Small Business Act for Europe: A key policy tool for EU Member States

SMEs are the backbone of Europe's economy. They represent 99% of all businesses in the EU. Between 2010 and 2014, they created around 85% of new jobs and provided two-thirds of all private-sector employment. The European Commission (EC) considers support for SMEs and entrepreneurship to be key to ensuring economic growth, innovation, job creation and social integration in the EU.

The SBA, which was adopted in June 2008, reflects the EC's political will to recognise the central role of SMEs in the EU economy. It aims to improve the approach to entrepreneurship in Europe, simplify the regulatory and policy environment for SMEs, permanently anchor the "think small first" principle in policy making and remove the remaining barriers to SME development. Built around ten principles and several concrete policy and legislative actions to implement them (Table 0.24), the SBA invites EU Member States to tackle the obstacles that hamper SMEs' potential to grow and create jobs. The main priorities of the SBA are: 1) promoting entrepreneurship; 2) reducing the regulatory burden; 3) increasing access to finance; and 4) increasing access to markets and internationalisation.

The SBA Review, launched in February 2011, was a major landmark in tracking the implementation of the Small Business Act. It aimed to integrate the SBA with the Europe 2020 strategy (EC, 2010). This review presented an overview of progress made in the first two years of the SBA, set out new actions to respond to challenges resulting from the economic crisis, and proposed ways to improve the uptake and implementation of the SBA through a clear role for stakeholders – with business organisations on the frontline.

Within the EU, the SME Performance Review is one of the main tools used by the EC to monitor and assess countries' progress annually in implementing the SBA. The review brings in comprehensive information on the performance of SMEs in EU Member States and other countries participating in the EU's dedicated programme for SMEs, the Programme for the Competitiveness of Enterprises and SMEs (COSME; Box 0.2). It

Box 0.2. **COSME**

The SME Performance Review, as well as other actions supporting the implementation of the SBA in EU Member States, are undertaken through the EU Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME). The programme started in 2014 and will run until 2020. DG GROW is responsible for the implementation of this EU Programme. COSME's objectives are as follows:

a. improving the framework conditions for the competitiveness and sustainability of EU enterprises, including in the tourism sector
b. promoting entrepreneurship, including among specific target groups
c. improving access to finance for SMEs in the form of equity and debt
d. improving access to markets inside the EU and globally.

COSME is also open to non-EU states. Like most other EU programmes, it allows the EU pre-accession countries to participate provided that a framework agreement on the general principles for the participation of the respective country in EU programmes is in place. Participation in EU programmes is meant to facilitate the political association and economic integration of partner countries.

All EU enlargement countries are part of COSME, except Kosovo, which for the time being lacks the necessary legal basis to participate in EU programmes and therefore cannot join.

As part of COSME, the Enterprise Europe Network is a key instrument in the EU's strategy to boost growth and jobs. Bringing together around 600 business support organisations from more than 60 countries, it helps small companies seize the unparalleled business opportunities in the EU Single Market and beyond. In addition to the services provided under COSME, the Network's services portfolio is enriched with innovation enhancement services to SMEs, co-funded under H2020.

Source: COSME. Europe's programme for small and medium-sized enterprises (2016). http://ec.europa.eu/growth/smes/cosme/.

consists of two parts – an annual report on European SMEs, and SBA country fact sheets. The SBA Factsheets present an assessment of the progress in the implementation of the Small Business Act at national level. The annual report provides a synopsis of the size, structure and importance of SMEs to the European economy.

References

EC (2015), *Joint Declaration of the Eastern Partnership Summit (Riga, 21-22 May 2015)*, European Commission, Brussels.

EC (2010), *Communication from the Commission: Europe 2020*, European Commission, Brussels.

EC (2008), *Think Small First – A Small Business Act for Europe*, European Union, Brussels.

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

The purpose of this section is to provide background information on the structure and recent economic trends of the economies covered by the report and profile the SME sector in each one.

The economic context

The EU pre-accession economies

The seven economies covered by the report differ significantly in size, economic structure and recent economic performance (Table 0.25).

Turkey is the most developed economy of those covered by this report with the highest income per capita, relatively strong post-crisis recovery and the lowest unemployment rate (10% in 2014). The EU is Turkey's major trade partner accounting for 39% of total trade, followed by the neighbouring economies of the Middle East, the Gulf and Eurasia. Turkey's economy is increasingly driven by industry and the service sector, although traditional agriculture remains an important contributor to GDP and employment (24% of total employment). The industrial sector in Turkey is dominated by products with low and medium technological content, although the automotive, construction and electronics industries are increasing in importance. In Turkey, the general labour force participation rate is 54% (World Bank, 2015). The male labour participation rate of 76% is the second highest of the EU pre-accession economies, but the female labour participation rate is only 32%.

Serbia is the biggest economy in the Western Balkan region, accounting for 44.5% of the combined GDP of the Western Balkan economies, and the second highest income level per capita after Montenegro. Similar to other Western Balkan economies, Serbia's economy is increasingly open and dominated by the manufacturing sector, driven largely by foreign investment, and with a significant share of agriculture in total employment (21%). Its industrial sector is dominated by low and medium-tech products, with a strong presence of metal products and chemicals. Levels of integration with EU markets are very high and trade flows with EU economies represent 60% of Serbia's total trade.

Bosnia and Herzegovina is the second biggest economy in the Western Balkans region, with an economy driven by industrial production and services, with metals, textiles and furniture products strongly present. Personal remittances are the second highest in the region, representing 11% of GDP. Its trade integration with the EU is around the regional average, with 50% of its total trade flow with EU economies. Bosnia and Herzegovina suffers the second highest unemployment rate in the region and in 2014, recorded the steepest deflation in the region. Its national currency is pegged to the euro which helps maintain confidence in the local currency and banking sector.

Albania's level of income per capita is the second lowest in the region and its economy is characteristic by a large agricultural sector both as a share of GDP (22.7%) and employment (40%). Strong trade, remittances and banking-sector ties with Greece and Italy make Albania vulnerable to spillover effects of the debt crises and weak growth in those two countries. Trade flows with EU economies represents 67% of total trade in Albania.

The Former Yugoslav Republic of Macedonia is a small open economy, closely linked to EU both as a customer for exports and a source of investment. The economy is driven by manufacturing and services, and increasing external demand has had a positive impact on an economic recovery. Its local currency is pegged to the euro and a prudent macroeconomic policy has contributed to macroeconomic stability during the global economic crisis.

Kosovo, with the lowest per capita income level, is the poorest economy covered in this report, and relies heavily on remittances from its diaspora, which make up 16% of GDP, and the international community. Kosovo does not hold its own currency, but adopted the euro as its legal tender.

Montenegro has at the same time the smallest population (approximately 620 000 people) and the highest income per capita in the Western Balkan region, with an economy dominated by tourism and metal industries. Trade with CEFTA economies and EU markets represent the vast majority of international trade in Montenegro. It adopted the euro as its sole legal tender after pegging formally to the deutschmark in 1999.

Table 0.25. **Structural and macroeconomic indicators**

Selected structural and macroeconomic indicators (2014)

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Population (million) [1]	*2.77*	3.87	1.82 [2]	2.07	*0.62*	*7.16*	*76.90*
GDP growth % year-to-year [1]	*1.9*	1.1	*2.7*	3.8	1.5	-1.8	2.9
Consumer price inflation (%) [1]	1.6	-0.9	*0.4*	-0.1	-0.7	2.1	8.9
Government balance (% of GDP) [1]	-5.4	-3.0	*-2.6*	-4.2	-1.3	-6.3	-1.0
Current account balance (% of GDP) [1]	*-13.0*	*-7.7*	*-8.0*	-1.3	-15.4	-6.0	-5.8
Nominal GDP in USD (billion) [1]	*13.3*	18.2	*7.3*	11.3	4.6	43.9	798.3
Inward FDI (% of GDP) [3]	8.0	3.1	2.3	3.3	10.3	3.7	0.7
Unemployment rate (% of labour force) [1]	17.5	27.5	n.a.	28.0	19.1	19.7	9.9

Sources: (1) IMF (2015), *World Economic Outlook Database*; (2) World Bank (2015), *World Development Indicators 2015*; (3) EBRD (2015a) *Transition Report 2015-16: Rebalancing Finance*. Italics indicate estimates in the original sources.

Recent economic trends

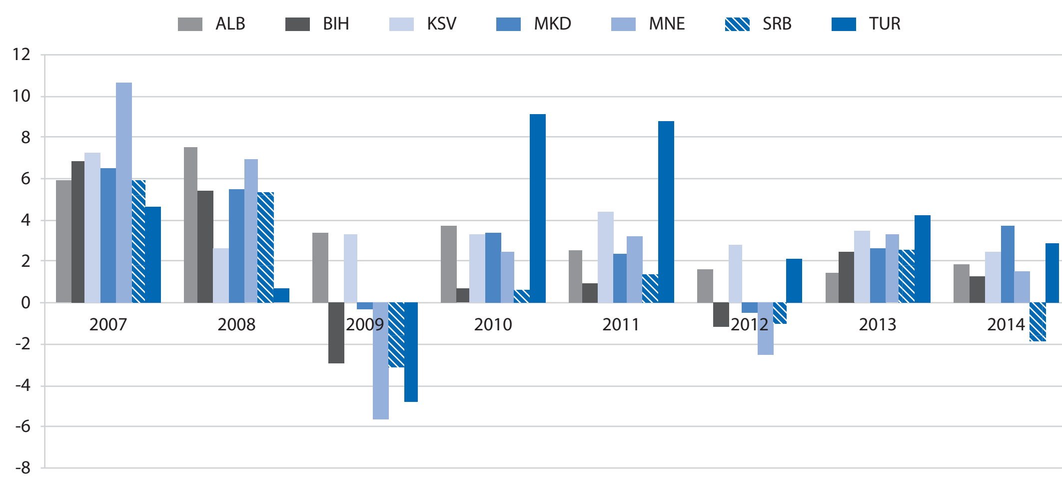
The financial and economic crisis of 2008 had a significant and negative impact on all EU pre-accession economies. All of them except Albania and Kosovo experienced a recession in 2009. The first year of the crisis was characterised by falling GDP, rising unemployment, declining rates of investment, falling industrial output and generally decreasing current account deficits. The economic contraction was the most severe in Montenegro and Turkey where the economy contracted by 5.7% and 4.8% respectively in

2009. In Serbia and Turkey, unemployment increased by 3%, and the fall in domestic and foreign demand had a negative impact on the production sector.

In almost all of the economies analysed in this report, increasing domestic demand after 2010 was the main contributor to the economic recovery (Figure 0.2). Turkey's GDP grew by 9.1% and surpassed the 2008 level. The speed of economic recovery was more modest in Western Balkan economies. Serbia, and Bosnia and Herzegovina, the two biggest economies, grew by 0.6% and 0.7% respectively. Albania and the Former Yugoslav Republic of Macedonia experienced relatively satisfactory level of recovery in 2010, with GDP growth of 3.7% and 3.3% respectively.

Figure 0.2. **GDP growth in EU pre-accession economies, 2007-14**

Year-on-year change (%)



Source: World Bank (2015), *World Development Indicators 2015*, World Bank, Washington, DC, http://data.worldbank.org/data-catalog/world-development-indicators.

These positive trends were then negatively affected by the sovereign debt crisis in the euro zone, and after modest recovery in 2010-11 Western Balkans economies experienced a double-dip recession in 2012. Decreasing export activity led to falling GDP in Serbia (-1%), Montenegro (-2.5%), the Former Yugoslav Republic of Macedonia (-0.4%), and Bosnia and Herzegovina (-1.2%). Recession had a negative impact on many macroeconomic indicators. Credit activity decreased and unemployment rates remained very high which led to falls in domestic demand. Slow recovery in the euro zone combined with stagnating (decreasing in Serbia) domestic demand led to only modest recovery in 2013 and 2014 in most of the economies covered here. Serbia's economy continued to decrease and contracted by 1.8% in 2014.

After inflationary pressure in 2011, inflation has fallen and remained under control in 2012 and 2013. However, slow economic recovery and stagnating domestic demand combined with low lending activity led to falling inflation below target levels in all Western Balkan economies. Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, and Montenegro recorded deflation in 2014. Average inflation in 2014 in Turkey was 8.9% which is slightly above the inflationary target.

The banking sector has remained stable, with capital adequacy ratios above minimum requirements. This is due to the implementation of appropriate policies and no systemic negative effects coming from countries highly affected by the crisis until now. The average ratio of capital to total assets remained stable, which indicates the stability of the banking sector. However, the level of non-performing loans (NPLs) is very high and may indicate future problems with liquidity. In Serbia and Albania NPLs make up over 20% of total gross loans. These high levels constitute a drag on lending. Domestic credit to the private sector has been stagnating or decreasing in all Western Balkan economies.

Economic forecasts for the Western Balkans envisage modest economic growth in the coming period mainly driven by low oil prices and quantitative easing (EBRD, 2015b). Growth in the region is expected to further pick up in 2016, limited mainly by domestic factors. Serbia's economy is expected to grow by 0.3% in 2015 and 1.8% in 2016. Economic growth in the rest of the Western Balkan economies is expected to be around 3% in 2015 and 2016. Growth in Turkey will remain broadly unchanged at 3% in 2015 and 2016, significantly below the its long-term potential. The positive effect of lower oil prices is expected to be offset by weaker external demand and limited room to cut interest rates, due to pressures on country risk premium and the exchange rate.

The SME sector in the EU pre-accession economies

There is no single source of comparable data for structural business statistics for all EU pre-accession economies. The data presented below originate from national statistical offices (Bosnia and Herzegovina), SBA government questionnaires (Kosovo and Montenegro) and the European Commission (Albania, the Former Yugoslav Republic of Macedonia, Serbia and Turkey). The size classification of enterprises is in line with EU requirements in all EU pre-accession economies but the data available do not necessarily follow this classification (Bosnia and Herzegovina, and Turkey). Analysis of the SME dynamics in the EU pre-accession economies will help us to draw an imperfect, but useful picture of post-crisis trends and developments in their SME sectors.

The structure of the SME sector in EU pre-accession economies is comparable to that of the 28 European Union member states (EU-28). The sector is dominated by micro enterprises (fewer than 10 employees), which account for more than 90% of all enterprises, ranging from 90.9% in the Former Yugoslav Republic of Macedonia to 97% in Turkey (Table 0.26). The share of small enterprises (from 10 to 49 employees) range from 3.9% in Albania to 7.6% in the Former Yugoslav Republic of Macedonia and Kosovo. Medium and large enterprises account for a tiny minority of businesses, less than 2% and 1% respectively of the total enterprise population.

The contribution of micro enterprises to employment and total value added generated by business sector is significantly lower than their share of the number of enterprises, usually accounting for less than 50% of total employment and less than 30% of total value added generated by the business sector. The contribution of small, medium and large enterprises to creating employment is distributed evenly while large enterprises are the main contributors to the amount of value added, followed by small and medium enterprises, reflecting large enterprises' higher productivity.

Performance of the SME sector in the EU pre-accession economies

The SME sector is a key contributor to the employment and total value added generated by businesses in all the economies analysed for this report, and therefore one of the priorities of policy makers in the region should be a dynamic and vibrant SME environment which will result in economic growth and job creation.

Table 0.26. **SME sector statistics**

	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	73 916	95.11%	22 801	94.83%	19 718	90.92%	48 394	90.86%	20 364	92.91%	269 931	95.95%	2 362 995	97.01%
Small	3 026	3.89%			1 643	7.58%	4 041	7.59%	1 278	5.83%	8 903	3.16%	48 229	1.98%
Medium	678	0.87%	1 059	4.40%	278	1.28%	702	1.32%	238	1.09%	2 011	0.71%	20 692	0.85%
Large	99	0.13%	185	0.77%	48	0.22%	123	0.23%	37	0.17%	489	0.17%	3 858	0.16%
SMEs	77 620	99.87%	23 860	99.23%	21 639	99.78%	53 137	99.77%	21 880	99.83%	280 845	99.83%	2 431 916	99.84%
Total	77 719		24 045		21 687		53 260		21 917		281334		2 435 774	
Employment														
Micro	139 120	43.42%	155 255	39.69%	47 148	33.49%	113 536	33.26%	n.a.	n.a.	589 686	42.41%	5 312 800	45.19%
Small	58 067	18.12%			30 442	21.62%	75 758	22.19%	n.a.	n.a.	179 178	12.89%	1 491 995	12.69%
Medium	62 362	19.47%	103 657	26.50%	27 866	19.79%	72 234	21.16%	n.a.	n.a.	210 609	15.15%	2 072 448	17.63%
Large	60 823	18.99%	132 241	33.81%	35 332	25.10%	79 838	23.39%	n.a.	n.a.	411 030	29.56%	2 879 712	24.49%
SMEs	259 549	81.01%	258 912	66.19%	105 456	74.90%	261 528	76.61%	n.a.	n.a.	979 473	70.44%	8 877 243	75.51%
Total	320 373		391 153		140 788		341 365		n.a.	n.a.	1 390 503		11 756 955	
Value added (in EUR million)														
Micro	704.7	25.24%	2 157	36.82%	n.a.	n.a.	803.1	23.82%	480	35.85%	2 998	20.08%	32 785	20.50%
Small	624.0	22.35%			n.a.	n.a.	775.9	23.01%			2 203	14.75%	20 480	12.81%
Medium	562.1	20.14%	1 362	23.25%	n.a.	n.a.	665.6	19.74%	384	28.70%	2 713	18.17%	32 925	20.59%
Large	900.8	32.27%	2 340	39.94%	n.a.	n.a.	1 127.0	33.43%	475	35.45%	7 019	47.00%	73 743	46.11%
SMEs	1 891	67.73%	3 519	60.06%	n.a.	n.a.	2 244.6	66.57%	864	64.55%	7 914	53.00%	86 190	53.89%
Total	2 792		5 859		n.a.	n.a.	3 371.6		1 339		14 933		159 933	

Note: Data for 2013 or latest available year.

Sources: European Commission (DG GROW) and German Institute for Economic Research (DIW ECON); National statistical offices; SBA government questionnaire.

The performance of the SME sector can be assessed by comparing the growth of three performance variables: the output of enterprises via their value added, the number of employees and the number of enterprises. Together, these three indicators give a mixed and relatively comprehensive picture. Analysis of the SME sector dynamics was performed only for those EU pre-accession economies where internationally comparable time-series data are available: Albania, the Former Yugoslav Republic of Macedonia, Serbia and Turkey.

The economic crisis in 2008 caused deterioration in the business climate and worsened the economic performance of SMEs in the Western Balkans and Turkey. Before the crisis, SMEs in the Western Balkan region had benefited from growing domestic and external demand, which led to a growing SME sector, and an increase in the employment and production of SMEs. After 2010 the SME sector experienced a modest recovery, but with intra-regional differences.

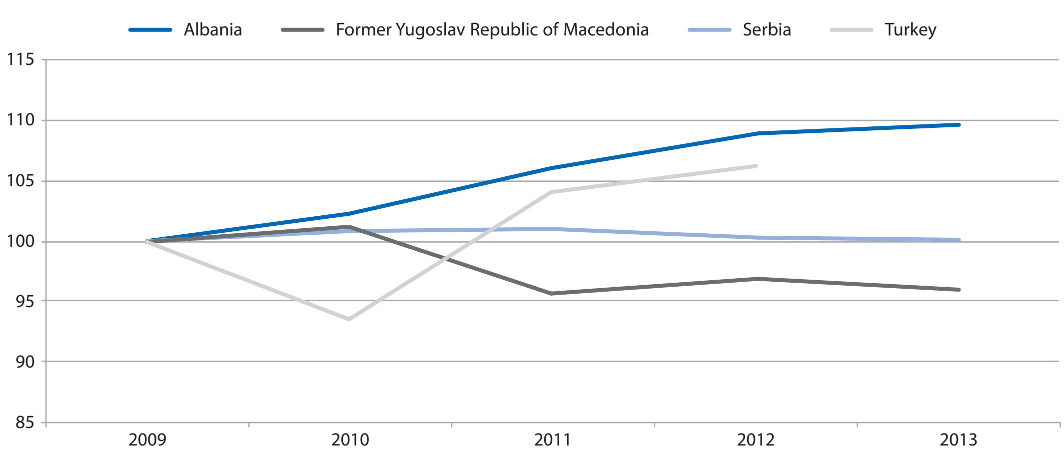
Growth in the number of SMEs

SMEs represent the vast majority of the business population in the EU pre-accession region. A growing SME population may indicate a dynamic business environment which supports the creation of new enterprises, and ultimately leads to greater competition and higher productivity.

The post-crisis period was characterised by a shrinking SME sector in Turkey and the Former Yugoslav Republic of Macedonia, where the SME population decreased by 6% and 4% respectively after 2009 (Figure 0.3). SME population growth in Serbia stagnated while Albania was the only economy where the SME sector recorded modest expansion. After 2010, the SME population in Albania and Turkey experienced remarkable growth but an unfavourable macroeconomic situation prevented the expansion of the SME sector in the Former Yugoslav Republic of Macedonia and Serbia.

Figure 0.3. **Number of SMEs operating in EU pre-accession economies, 2009-13**

Index (2009=100)



Sources: European Commission (DG GROW) and German Institute for Economic Research (DIW ECON).

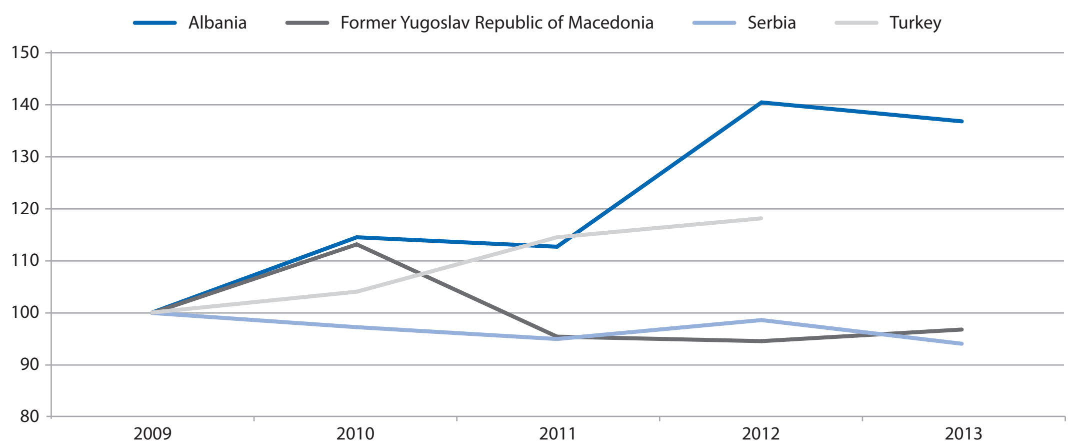
Value added generated by the SME sector

Value added is another measure of SME performance, since it reflects productivity of all inputs (capital, labour and technology). In very simple terms, value added corresponds to the difference between production and any intermediate consumption, where total intermediate consumption should always be valued at purchasers' prices.

The expansion of value added generated by the SME sector differs significantly across the region (Figure 0.4). Albania outperformed its peers and recorded a 37% increase in value added generated by the SME sector. Increasing domestic demand in Turkey led to strong economic growth in the post-crisis period and had a positive impact on Turkey's SME sector. In the period 2009-12 value added generated by SMEs in Turkey increased by 19%. On the other hand SMEs in the Former Yugoslav Republic of Macedonia and Serbia

Figure 0.4. **Growth of value added generated by the SME sector, 2009-13**

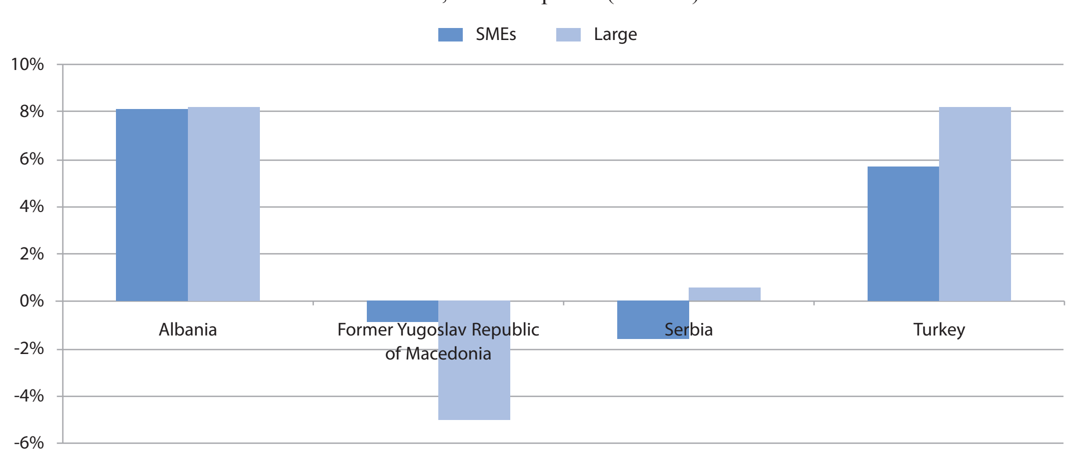
Index (2009=100), constant prices



Sources: European Commission (DG GROW) and German Institute for Economic Research (DIW ECON); World Bank (2015), *World Development Indicators 2015*, World Bank, Washington, DC, http://data.worldbank.org/data-catalog/world-development-indicators; OECD staff calculations.

Figure 0.5. **Value added growth: SMEs versus large enterprises**

CAGR, constant prices (2009-13)



Note: data for Turkey cover the period 2009-12.

Sources: European Commission (DG GROW) and German Institute for Economic Research (DIW ECON); World Bank (2015), *World Development Indicators 2015*, World Bank, Washington, DC, http://data.worldbank.org/data-catalog/world-development-indicators; OECD staff calculations.

suffered from negative macroeconomic developments and the total value added generated by the SME sectors in those two economies fell slightly in 2009-13.

Different patterns emerge when the compound average growth rates (CAGR) of value added generated by SMEs and large enterprises are compared (Figure 0.5). In the Former Yugoslav Republic of Macedonia, SMEs outperformed large enterprises, although both sectors experienced negative growth. In Albania, Serbia and Turkey SMEs generated weaker average growth in value added than large enterprises.

Employment growth in the SME sector

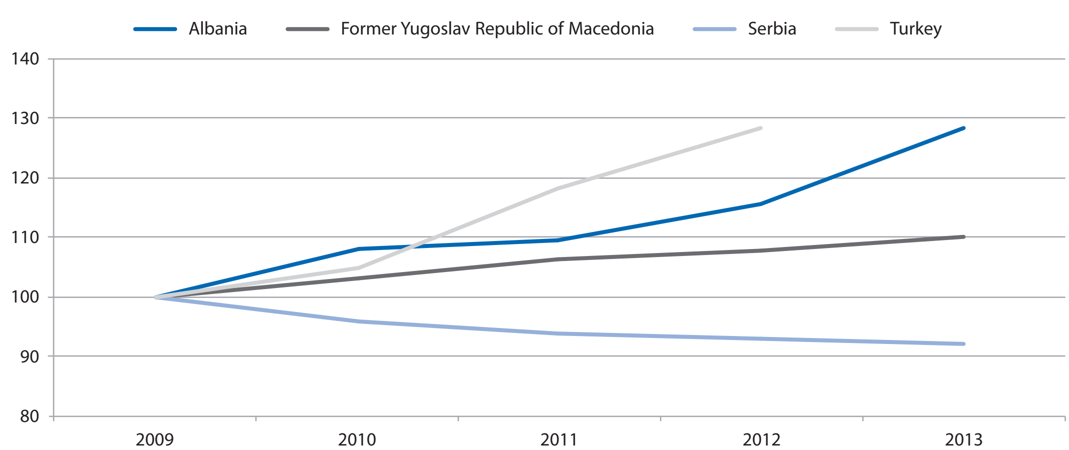
Small and medium-sized enterprises in the EU pre-accession region generate a large share of jobs, ranging from 60% to 80% of employment. Given the strikingly high unemployment rate in the Western Balkan region, and its rising trend since 2008, the SME sector is getting more attention from policy makers as a major contributor to employment.

The importance of SMEs in the labour market is often assessed on the basis of their contribution to net job creation. In the period 2009-13 SMEs contributed significantly to total net job creation, providing the majority of new jobs, although there are differences across economies (Figure 0.6). The greatest increase in employment generated by the SME sector was recorded in Turkey and Albania (both 28%), with SMEs contributing 70% and 80% respectively of total net job creation. The deteriorating macroeconomic situation in Serbia had a negative impact on the labour market and private-sector employment in Serbia fell by 9%. SMEs contributed 60% of the net job destruction. Employment in the SME sector in the Former Yugoslav Republic of Macedonia increased by 10%, almost exclusively driven by SMEs.

In Albania, Serbia and Turkey, large enterprises outperformed SMEs in terms of net job creation, which is in line with the distribution of value added growth in those economies (Figure 0.7). Overall, Turkey recorded the fastest growth of employment in both SMEs and large enterprises, while in Serbia employment decreased in both sectors. In the Former Yugoslav Republic of Macedonia employment growth in SMEs was positive but the decrease in value added generated by the SME sector indicates decreased labour productivity in SMEs.

Figure 0.6. **Employment growth in the SME sector, 2009-13**

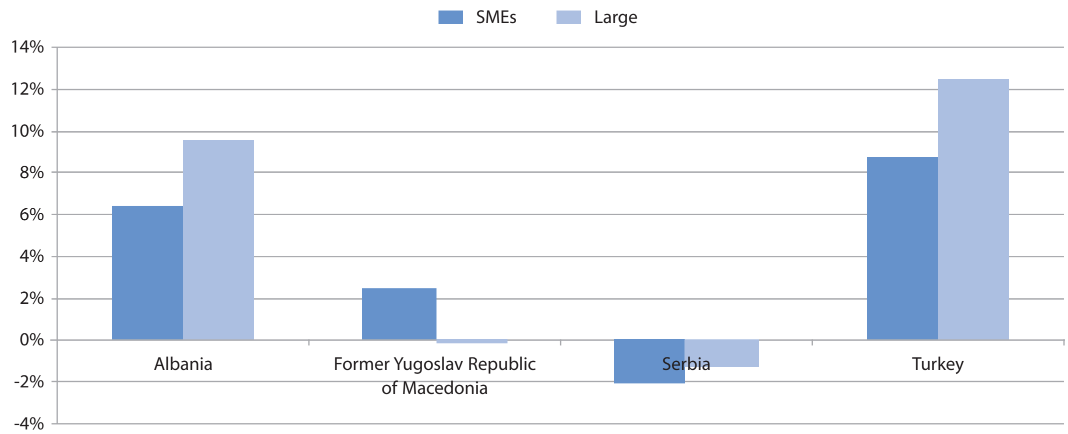
Index (2009=100)



Sources: European Commission (DG GROW) and German Institute for Economic Research (DIW ECON).

Figure 0.7. **Employment growth: SMEs versus large enterprises**

CAGR, 2009-13



Note: Data for Turkey cover the period 2009-12.

Sources: European Commission (DG GROW) and German Institute for Economic Research (DIW ECON).

Performance of the SME sector in selected EU economies and EU pre-accession economies compared

Despite different levels of economic development (in terms of GDP per capita) and the fact that EU economies have different structure with high share of sophisticated production and services, both EU pre-accession economies and EU economies share at least two common features. SMEs play a very important role in both markets (in numbers, value added generated and contribution to total employment), and both markets were severely hit by the economic crisis of 2008.

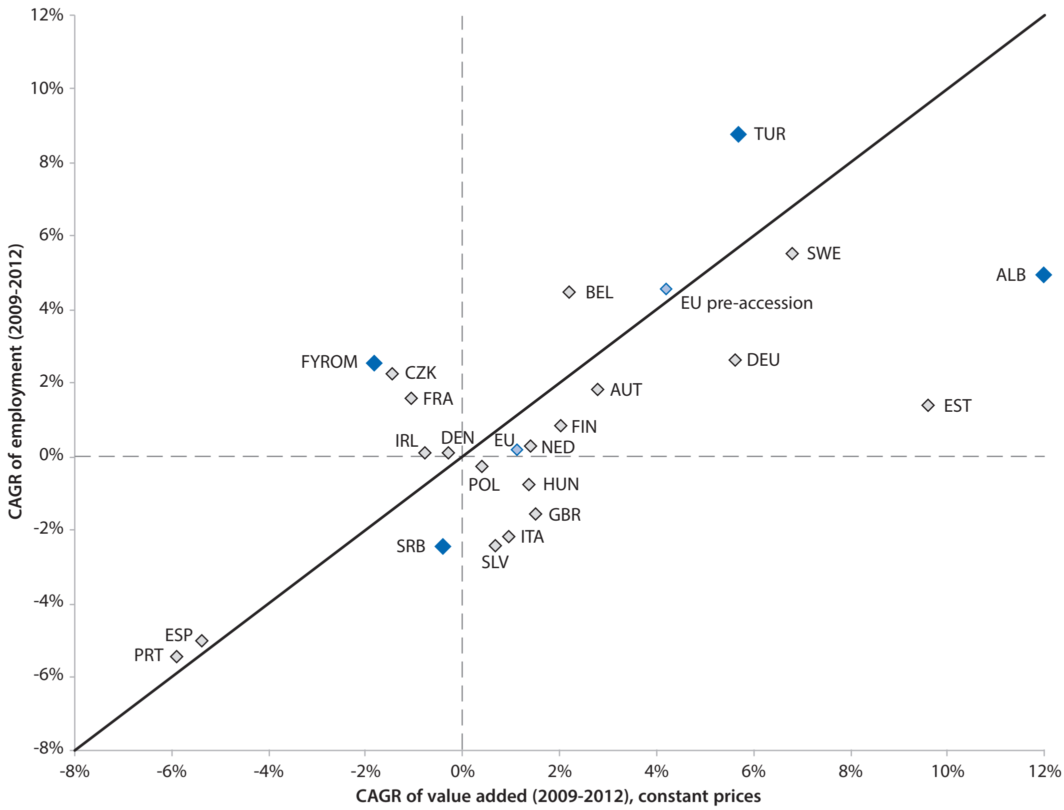
Generally, most economies recorded faster growth in the value added generated by the SME sector than the growth in employment, indicating an overall increase in labour productivity (Figure 0.8). The SME sector in Albania displayed the fastest growth in value added within the sample analysed here. On average, value added by SMEs in the EU pre-accession economies region grew by 4%, outperforming the selected EU economies by 3%. Portugal and Spain, whose economies were severely hit by the crisis, suffered the most from falling value added generated by SMEs, followed by the Former Yugoslav Republic of Macedonia.

The post-crisis period was characterised by stronger employment growth in the SME sector in the EU pre-accession economies than in the selected economies in the EU. Turkey had the strongest SME employment growth in the analysed sample, at 8.8%. On average employment growth in the SME sector in pre-accession economies outperformed selected EU economies by 4%.

Despite some positive post-crisis trends in the EU pre-accession region, differences in labour productivity between SMEs in the EU-28 countries and the EU pre-accession region remain significant. Average labour productivity in SMEs for the EU-28 is approximately 5 times higher than for SMEs in the EU pre-accession economies analysed. Increasing labour productivity is the key determinant of overall economic growth, and ultimately of economic convergence between EU pre-accession economies and the EU-28. Therefore, in order to restart the process of economic convergence, growth rates for value added, employment and labour productivity in SMEs need to be significantly higher.

Figure 0.8. **SME sector performance: EU pre-accession region and selected EU economies**

CAGR of value added (constant prices) and employment (2009-12)



Sources: OECD (2015), *Structural and Business Demographic Statistics* (database), OECD, www.oecd.org/std/business-stats/structuralanddemographicbusinessstatisticssdbsoecd.htm#data (accessed in September 2015); European Commission (DG GROW) and German Institute for Economic Research (DIW ECON); World Bank (2015), *World Development Indicators 2015*, World Bank, Washington, DC; OECD staff calculations, http://data.worldbank.org/data-catalog/world-development-indicators.

The accession process into the European Union

The primary objective of the governments of the Western Balkans and Turkey is EU integration, which has encouraged the region's policy makers to enhance reforms and the reconciliation process after the wars in the last decades (Table 0.27). The EU is the most important trade partner for the Western Balkans and lifted visa restrictions for the Former Yugoslav Republic of Macedonia, Montenegro and Serbia in 2009 and for Albania and Bosnia and Herzegovina in 2010.

Albania was granted EU candidate status in 2014. Since then it has made an effort to implement its obligations under its SAA with the EU and continued high-level dialogue meetings. The government is working on reforms and addressing the key priorities to start accession negotiations (European Commission, 2015b). After years of support and co-operation with the NATO Alliance, Albania started accession talks to become a member in 2008, and officially joined in April 2009.

Bosnia and Herzegovina also has the key foreign policy goal of approximation to the EU. On 1 June 2015 its SAA with the EU entered into force (European Commission, 2015c). In July 2015, the country adopted a Reform Agenda aimed at tackling the difficult socio-economic situation and advancing the judicial and public administration reforms.

Its implementation has started. On 15 February 2016, the country's presidency submitted an official application for EU membership. Its ethnic and political divisions, multi-tiered system of government and lack of identification with the state, paired with repeated flaring up of nationalism in the entities, remain problematic for the development of its democracy and economy. Its central institutions are deficient, due to its complex state structure and high levels of corruption contribute to the standstill of reforms. In 2006 Bosnia and Herzegovina joined NATO's Partnership for Peace programme. Since it aspires to join NATO, an Intensified Dialogue on related reforms started in 2008. In 2010, NATO agreed to launch the Membership Action Plan for Bosnia and Herzegovina.

On 27 October 2015 **Kosovo** signed a Stabilisation and Association Agreement (SAA) with the European Union that was initialled in July 2014. The SAA will deepen political, economic and trade ties between the EU and Kosovo (European Commission, 2015a). NATO has been conducting a peace-support mission (KFOR) on the basis of UN Resolution 1244 (1999) in Kosovo since June 1999 (NATO, 2015).

The Former Yugoslav Republic of Macedonia has been an EU candidate since 2005. In March 2012 the European Commission launched the High Level Accession Dialogue for the reform process for accession to the European Union and it was invited to join NATO in 2008. Greece's objections against its accession to both NATO and EU because of a dispute over the use of the name Macedonia remains a barrier to further progress. The domestic political situation has been volatile in the Former Yugoslav Republic of Macedonia over recent years. Inter-communal relations have deteriorated and tensions between ethnic groups are grounds for potential conflicts. Depending on the implementation of a political agreement reached in the summer of 2015 under EU mediation, and its progress on reforms, the European Commission wants to extend its recommendation to start accession negotiations and will come back to the issue after the country's elections in April 2016.

Montenegro has been an EU membership candidate since 2010. The accession negotiations started in June 2012 and it is progressing with negotiating the chapters of the *acquis*. In June 2015 the sixth meeting of the Accession Conference with Montenegro took place and two more chapters of the *acquis* were opened for negotiation (Chapter 9 – Financial services and Chapter 21 – Trans-European networks). It has opened 20 out of 35 chapters for negotiations so far and 2 have already been provisionally closed (European Council, 2015b). In the first year of its independence, in December 2006, Montenegro joined NATO's Partnership for Peace programme and joined the Membership Action Plan in December 2009. On 2 December 2015, Montenegro was invited to start accession negotiations to join NATO (NATO, 2015).

Serbia was granted EU membership candidate status in March 2012. In January 2014, accession negotiations started with the First Inter-Governmental Conference (IGC) in Brussels, after an agreement between Kosovo and Serbia to reconcile their relations. The process of screening the chapters of the EU *acquis* began in September 2013 and was completed in March 2015. In December 2015, with the Second Meeting of the Accession Conference, two chapters were opened for negotiations: Chapter 32, on financial control and Chapter 35, on normalisation of relations between Serbia and Kosovo (European Council, 2015a). Unlike the other economies in the region, Serbia does not aim to join the North Atlantic Treaty Organization (NATO). NATO accepts Serbia's military neutrality. However, an Individual Partnership Action Plan was agreed in January 2015 in order to enhance the co-operation between Serbia and NATO (NATO, 2015).

Turkey has been an EU membership candidate since 1999 and accession negotiations started in 2005. Since then 15 chapters have been opened to negotiations and one of these has already been provisionally closed. Disputes with Greece over the island of Cyprus have hampered the progress of EU approximation. Turkey has recognised Cyprus as an EU member, but full diplomatic recognition is still pending. During a summit between the EU and Turkey in November 2015, the governments agreed that the accession process should be re-energised. On 14 December 2015, the next chapter – Chapter 17 on Economic and Monetary Policy – was opened. Turkey is NATO's strongest partner in the region and has been a member since 1952.

Table 0.27. **Overview of the accession status of SEE economies**

ALB	BIH	KOS	MKD	MNE	SRB	TUR
EU membership candidate status since 2014	Potential EU membership candidate	Potential EU membership candidate	EU membership candidate since 2005	EU membership candidate since 2010	EU membership candidate status since 2012	EU membership candidate since 1999
	EU Association Agreement in force since June 2015	EU Association Agreement signed in October 2015	High Level Accession Dialogue with EC launched in 2012	Accession negotiations since 2012	Accession negotiations since 2014	Accession negotiations since 2005
		EU Association Agreement expected to entry into force in 2016		20 of 35 chapters opened for negotiations; 2 of them provisionally closed	2 of 35 chapters opened for negotiations;	15 of 35 chapters opened for negotiations; 1 of them provisionally closed

Ten years of the SME Policy Index: Progress achieved in converging towards EU SME policy practices and standards

Over the last decade, the pre-accession economies have been involved in a process of small business policy development in the course of implementing the Small Business Act for Europe, which replaced the European Charter for SMEs in 2008. The SME Policy Index was developed to monitor the implementation of the charter and to support the process of policy development. Since its introduction in 2007, it has been restructured several times. The first assessment included 56 indicators and ranked each country's performance on a five-point scale. In 2009, more individual indicators were added. For the assessment that followed in 2012, the SME Policy Index was remodelled to adjust it to the ten principles of the Small Business Act for Europe (SBA). The 10 policy dimensions of the EU Small Business Act were broken down into 23 sub-dimensions and 108 policy indicators. The new policy dimensions of women's entrepreneurship, public procurement and green innovation were introduced and Turkey participated for the first time in the assessment.

The SME Policy Index focused initially on institutional development and policy processes rather than on the effectiveness of policies and their impact on SMEs. Therefore, in 2015 the SME Policy Index methodology was significantly revised to enhance the focus on policy implementation and SME performance. When Croatia joined the EU in 2013, it received observer status in the recent SBA assessment process. Despite all the changes undertaken since 2007, a subset of the 37 indicators remains unchanged and can be used to measure progress over the past decade. These indicators provide an accurate picture of the development of key elements of SME policy and the progress that has been made from the first assessment in 2007 until today (Roper and Richter, forthcoming).

The overall performance of the SEE economies has improved over the last decade, but the pace of convergence differs.

Since the first policy benchmarking exercise in 2007, the overall development of SME policies in each of the Western Balkan economies has been clearly positive. The SEE economies have continuously converged towards EU SME policy practices and standards. Supporting factors include the progressive alignment of the economies with the EU *acquis*, particularly Chapter 20, Enterprise and industrial policy; economies' participation in EU programmes such as CIP (2007-13) or COSME (2014-20); and EU support for beneficiary economies' initiatives, for example through Instruments of Pre-accession Assistance (IPA) funds. With the OECD, the European Commission and project partners monitoring the implementation of the EU Charter and then the SBA, and engaging governments in an ongoing process of policy advice, recommendations and development, the progress towards EU SME policy practices and standards has been positive. However, the progress has not been consistent either across the region or across policy areas. When the first assessment was conducted in 2007, only Croatia had solid frameworks and institutions in place with some SME support services. Montenegro, the Former Yugoslav Republic of Macedonia and Serbia were still in the institution-building phase with Albania slightly lagging behind. SME policy in Kosovo and Bosnia and Herzegovina remained at a very early stage of development. By 2012, Kosovo and Bosnia and Herzegovina had made up ground and achieved the same levels of policy convergence as Serbia and Albania in 2007 (Roper and Richter, forthcoming).

Bosnia and Herzegovina, and Kosovo can be considered as unique cases though. Since the Dayton Agreement of 2005, Bosnia and Herzegovina has consisted of two federal entities. Although positive steps have been taken at entity level, the lack of consensus between the entities hinders the development of coherent policies and institutions at the state level. The SME Policy Index focuses on national progress and therefore can only partially take entity-level developments into account, for policies that do not require central governance such as support services to SMEs. In the case of Kosovo, the process of institution building and policy development only began after 2008, when it declared its independence. However, it has successfully established its institutional frameworks and significantly accelerated progress since then. The government has successfully engaged in implementing relevant measures to enhance SME policies and Kosovo's scores have moved closer to the regional average (Roper and Richter, forthcoming).

Since Turkey joined the SBA assessment in 2012, it and Serbia have become the regional leaders. Serbia already enjoyed relatively well-resourced and developed policy institutions in 2006/07. In the years that followed, Serbia focused its SME policy on further simplifying business regulations and providing services. Once economies reach the advanced stages, as Turkey and Serbia have done, it becomes more difficult to keep up the pace of progress since improvements require more resources. Therefore, Turkey and Serbia have slightly stagnated in 2016 in comparison with previous SBA assessment. Meanwhile, the Former Yugoslav Republic of Macedonia has increased its performance between assessments, as have Albania and Montenegro. By 2016, the Former Yugoslav Republic of Macedonia has moved even closer to the regional leaders Turkey and Serbia.

While progress has been consistent in some policy areas, the speed of reforms has been unequal in other dimensions.

Looking at the individual policy dimensions there are areas with steady policy convergence and significant progress, as well as areas with unequal progress. Since the SME Policy Index was introduced, there has been consistent progress in strengthening institutional and regulatory frameworks for SME policy making, simplifying business registration, and enhancing skills and training structures for small firms. There has been uneven progress in the development of public services for SMEs and business support services, improving access to finance, and supporting technological transfers and innovation in SMEs.

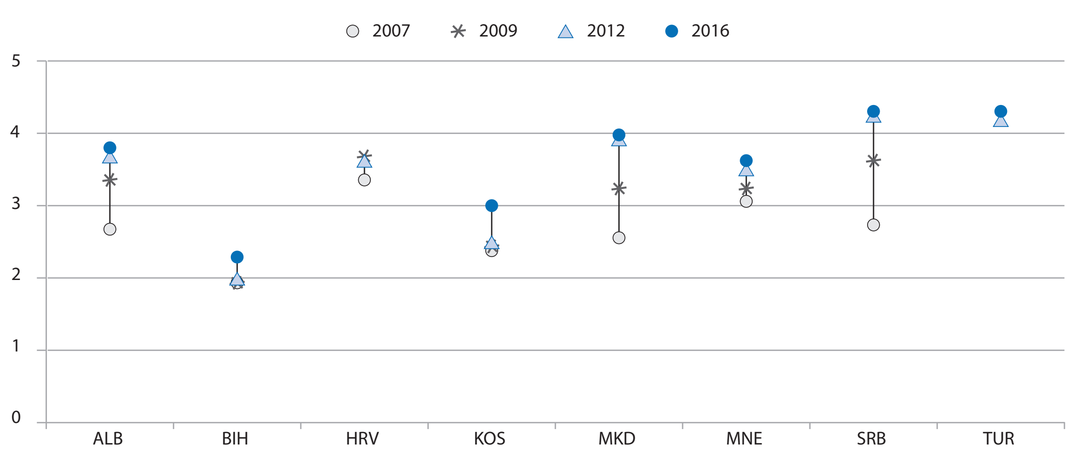
This divergence in the pace and consistency of progress can be explained to a certain extent by the nature of the reforms and the costs that have been involved. Light-touch and cost-effective reforms can be implemented in the short to medium term, whereas more complex reforms and resource intensive changes require more time, and also more co-ordination (Roper and Richter, forthcoming).

Institutional and regulatory framework

While all economies improved their scores for institutional and regulatory framework, Serbia stands out, improving from 2.75 in 2007 to 4.38 in 2016 (Figure 0.9). Albania, Kosovo and Serbia have made significant efforts to implement a SME development strategy. In 2007, Montenegro already scored 4 for SME strategy and intergovernmental co-ordination in policy elaboration. Since it is more difficult to achieve further improvements once a high level has been reached, its scores have remained on that level over the years. The development of SME policy implementation agencies has improved rather marginally, since many economies do not provide them with sufficient funding and personnel to ensure their operability.

All economies have taken positive steps in the areas of legislative simplification, silence-is-consent principle and the use of regulatory impact analysis. The Former Yugoslav Republic of Macedonia simplified existing legislation within just two years in the period 2007-09. Consequently, its score jumped from a low level of 1 to 4 and has remained there over the years. The Former Yugoslav Republic of Macedonia also improved its score for RIA significantly, from 1.5 points in 2007 to 5 points in 2016. Serbia, which was the only systematically applying RIA to new regulations and legislation in 2007, raised its score from 4.5 in 2007 to the highest level of 5 in 2016.

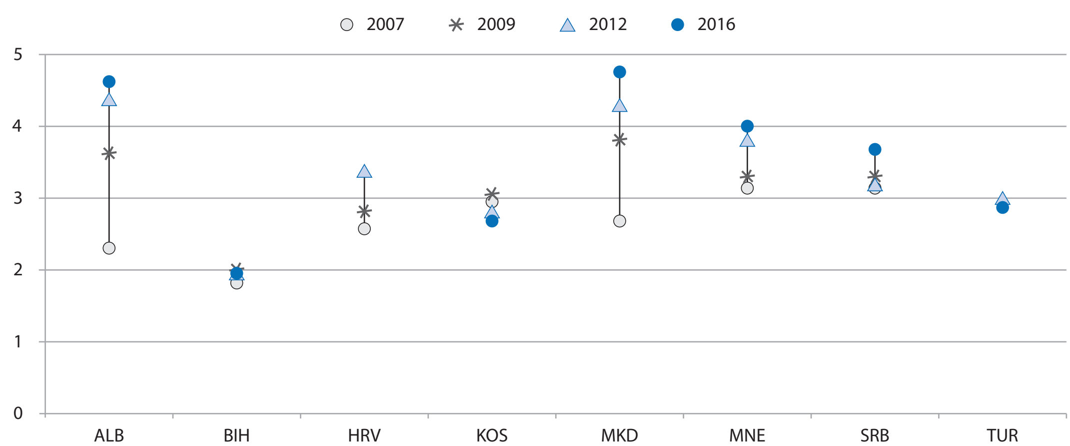
Figure 0.9. **Institutional and regulatory framework**



Business registration

Business registration procedures have been simplified and made more efficient across the region. Progress in this policy area can be explained by the nature of the reforms, since the reduction in administrative burdens for business registration does not require any resources and can be accomplished quickly. Today, Albania, Kosovo, the Former Yugoslav Republic of Macedonia and Montenegro outperform the OECD average in at least one indicator for the ease of starting a business. Albania and the Former Yugoslav Republic of Macedonia have made major progress in online registration starting from scores of 1 and 1.5 respectively in 2007 to 5 in 2016. The Former Yugoslav Republic of Macedonia, for instance, reduced the number of administrative steps needed to start a business from 10 in 2007 to only 1 in 2016, outperforming the OECD high income countries, where the average is 4.7 administrative steps, and the EU average, which is 5 days. As a result, it improved its score from 2.69 in 2007 to 4.75 in 2016 (Figure 0.10). Albania also managed to improve significantly from 2.31 in 2007 to 4.63 in 2016, and reduced the number of days needed to start a business from 39 in 2007 to 5.5 in 2016, which is better than the average for OECD countries of 8.3 days but not for the EU average of 3.5 days. Only Kosovo's score deteriorated, from 2.94 in 2007 to 2.69 in 2016 after an initial rise to 3.06 in the 2009 assessment.

Figure 0.10. **Business registration**

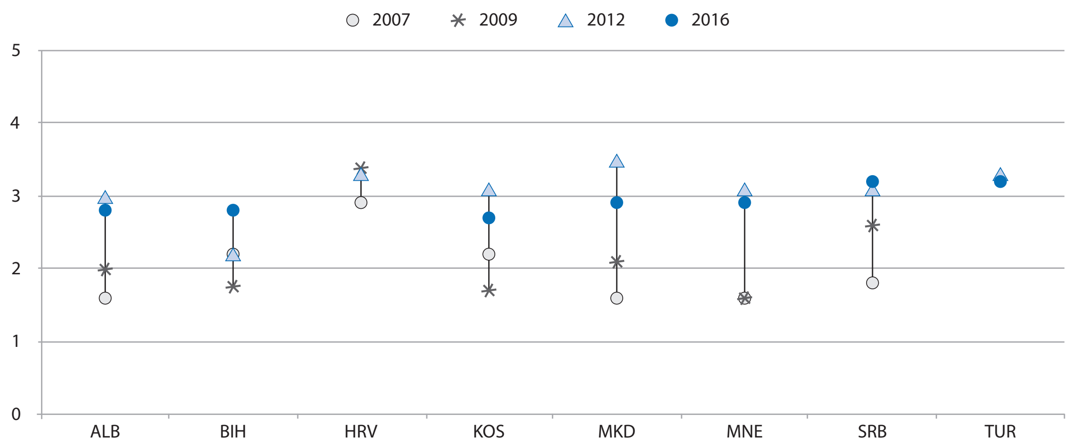


Note: This comparison only includes the average of indicators which remained the same over time.

Entrepreneurial learning, women's entrepreneurship and enterprise skills

All economies have also made significant improvements in entrepreneurial learning, women's entrepreneurship and enterprise skills (Figure 0.11). When the first assessment took place in 2007, entrepreneurship education and training was only just being developed. Enhancement in this policy area requires complex structural reforms in the education system and labour market areas which take time to provide results. However, good progress has been made in all economies on gathering intelligence on SME skills since the introduction of the EU Charter. For example, Serbia provides a start-up training drive at 14 regional development agencies and the Former Yugoslav Republic of Macedonia offers mentoring for innovative start-ups at the National Centre for Innovation and Entrepreneurial Learning. All economies have raised their scores by more than one point since 2007, except for Kosovo, which improved by only 0.5, and Bosnia and Herzegovina, which improved by 0.6. The introduction of a whole range of new indicators in the 2016 assessment made it tougher for economies to achieve high scores.

Figure 0.11. **Entrepreneurial learning, women's entrepreneurship and enterprise skills**



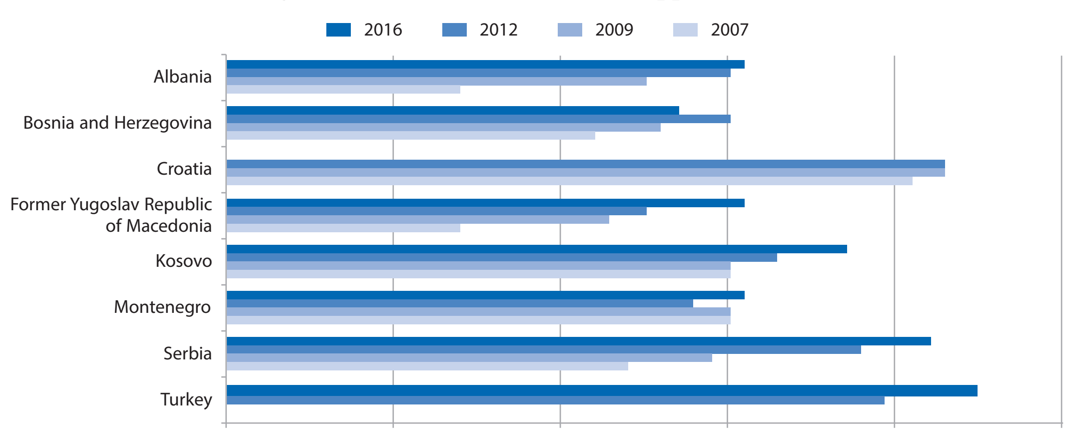
Note: This comparison only includes the average of indicators which remained the same over time.

E-services and SME support services

Progress on e-services and SME support services has been unequal across the region. Albania, Kosovo and Serbia have made major improvements over the last decade: Serbia raised its score from 2.4 in 2007 to 4.2 in 2016 and Albania and Kosovo both improved their scores from 1.4 in 2007 to 3.10 in 2016 (Figure 0.12). At the other end of the spectrum, Montenegro's performance has barely changed, scoring 3.0 in 2007 and 3.1 in 2016, while Bosnia and Herzegovina rose from 2.2 to just 2.7. All economies have progressed in the area of e-signatures. In 2007 only Croatia and Serbia had a policy in place, although Serbia had no certification authority for electronic signatures. By 2016, e-signatures were operational in Albania, the Former Yugoslav Republic of Macedonia, Serbia and Turkey. Facilities for the use of e-signatures have been established in Montenegro, but they continue to be limited and remain costly. Bosnia and Herzegovina and Kosovo have not yet implemented the legal provisions to introduce e-signatures. Albania, Kosovo and Serbia have also made great steps forward in the field of online tax returns, improving their scores from 1 in 2007 to 4 in 2016.

Across the region, some progress has been made developing business incubators. Albania, for instance, has no business incubators, but its Business and Investment Development Strategy 2014-2020 foresees the creation of one technology business incubator and three

Figure 0.12. **E-services and SME support services**



Note: This comparison only includes the average of indicators which remained the same over time.

new clusters. While SME support services are available, economies in the region still struggle to give SMEs enough information about them and how to access them. Serbia and Turkey provide information about private business support services via online portals and organise business plan competitions and awareness-raising events. These efforts are reflected in the improvement of Serbia's score from 3 to 4.5 in 2016.

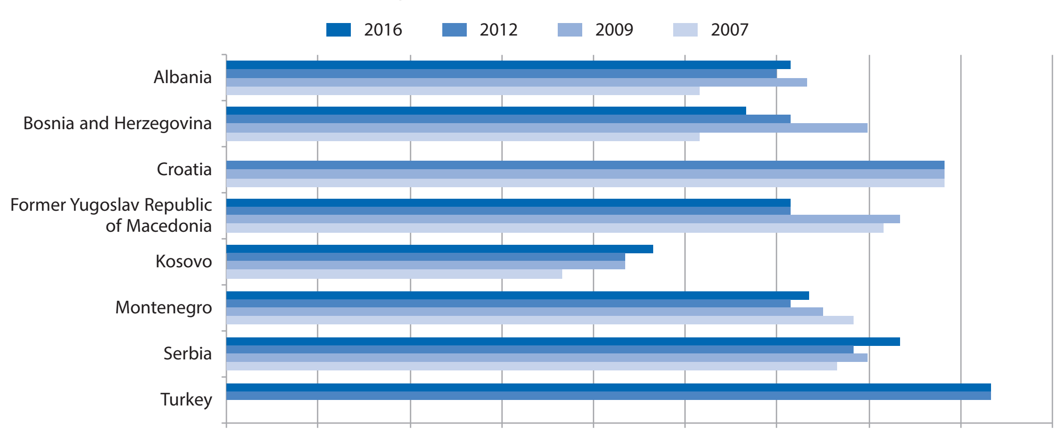
Business support services have been put in place all over the region, but their scope remains limited. In order to improve, economies need to better target their services to specific segments of the SME sector. Only Serbia has broadened the geographical scope and range of business support services continuously since 2007 and therefore improved its score from 2 in 2007 to 4 in 2016. Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, and Montenegro have remained on 3 in this area from 2007 to 2016.

Access to finance

Overall, results in the area of access to finance improved between the 2007 and 2009 assessments, but then deteriorated from 2009 to 2012 (Figure 0.13). This decline is mostly due to the financial crisis, which resulted in reduced bank lending and disproportionally affected SMEs. Since 2012, economies have largely made progress, albeit relatively limited, with the exception of Kosovo. It should be noted, howver, that scores between 2012 and 2016 are not directly comparable due to changes in the methodology which are explain in more detail in Chapter 6.

Bank lending, the main source of external finance for SMEs, has remained below pre-crisis levels across the Western Balkan region in particular. This has been driven both by more conservative lending behaviour of banks as well as less demand by firms. BEEPS V data indicate that the share of credit-constrained firms in the Western Balkans has increased from around 40% to 50% of those firms saying they need a loan. In a more difficult economic environment, governments can have a harder time enacting reforms which may the reason why measures to counter credit constraints have not been expansive. For instance, a credit guarantee scheme can help SMEs access financing but requires careful design, financial resources and co-ordination between different stakeholders. During the time of the financial crisis, such changes were not on the agenda of the region's governments (Roper and Richter, forthcoming) even though such a risk-sharing mechanism would be beneficial in an environment where credit terms, including high collateral requirements, can make finance difficult to access. Economies thus continue to rank low in such measures with scores for credit guarantee schemes ranging from 1 to 3.5.

Figure 0.13. **Access to finance**

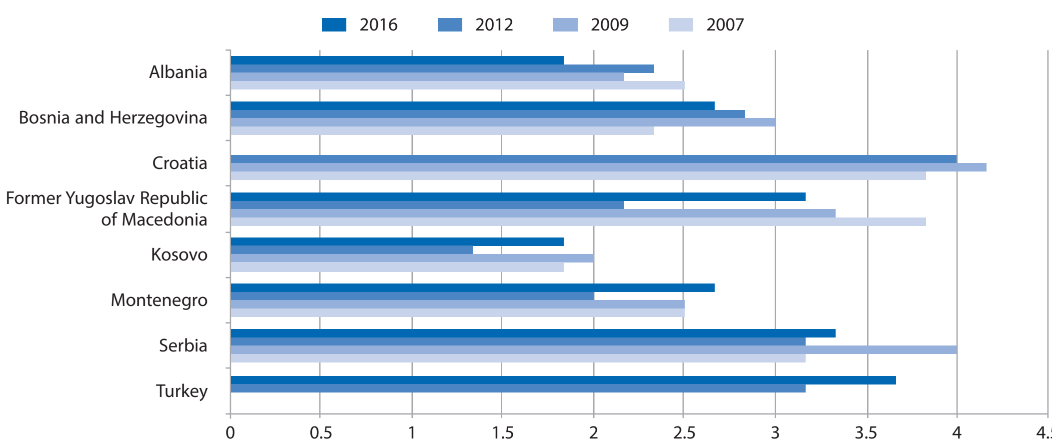


Note: This comparison only includes the average of indicators which remained the same over time.

Technology and innovation

Progress has been significantly slower in the technology and innovation dimension. The region accelerated its reform efforts to set up innovation policy frameworks and improve its innovation infrastructure only since 2012 (Figure 0.14). Serbia has made the most progress in the region. Effective implementation is often constrained, however, due to lack of resources. Policy measures to enhance technology and innovation, such as establishing science parks, are complex and require high levels of resources. Some economies have established new institutions to co-ordinate policies and provide financial incentives, such as the Fund for Innovation and Technological Development (FITD) in the Former Yugoslav Republic of Macedonia, the Scientific and Technological Research Council of Turkey (TÜBITAK) and the Small and Medium Enterprises Development Organisation (KOSGEB) in Turkey, and the Innovation Fund in Serbia. Technology parks have been established in Turkey and Bosnia and Herzegovina and are planned in Serbia and Montenegro.

Figure 0.14. **Technology and innovation**



Note: This comparison only includes the average of indicators which remained the same over time.

Ten years of SBA assessment shows that the SME Policy Index is an effective tool to encourage the policy transfer of EU good practices to EU pre-accession economies.

The results of the SME Policy Index provide an accurate picture of SME policy development in the SEE region over the past decade. They show that the pre-accession economies have taken positive steps to implement the principles of the Small Business Act for Europe. The results for the newly introduced policy dimensions make the positive impact of the SBA assessment even more evident. While economies initially performed rather weakly on more recently introduced indicators, their scores have picked up in the period between the benchmarking exercises. For instance, Serbia ranked with an average score of 3.0 in the dimension of public procurement when it was introduced in 2012 but its score has already improved to 3.96 in 2016. Similarly, Kosovo has improved its performance on the sub-dimension of women's entrepreneurship since its introduction from 1.75 in 2012 to 2.5 in 2016.

Serbia has shown most progress over the last years, closely followed by the Former Yugoslav Republic of Macedonia. Both have made improvements particularly in the areas of institutional and regulatory framework, simplifying business registration procedures and enhancing skills and training. Albania has progressed in most of the policy dimensions, except for technology and innovation. Montenegro has mostly improved in terms of enterprise skills and training. Kosovo enhanced its scores most for SME support services. Only Bosnia and Herzegovina has shown only marginal improvements across the policy dimensions.

The pre-accession economies have now achieved fairly good levels of institutional building over the last decade, but their capacities and resources need to be further strengthened to ensure effective implementation of reforms. Therefore, policy recommendations deriving from the SME Policy Index should be anchored in higher level national policies on the one side, and better linked to international development programmes on the other side.

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Part I

Small Business Act assessment: Findings by SBA dimension

Chapter 1

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

Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded (Small Business Act Principle 1)

Entrepreneurial learning and women's entrepreneurship are important policy areas in the European Union's 2020 strategy. Promoting entrepreneurship across the education system – particularly in schools – is a key part of building competitive, job-creating economies. Fully integrating women into the entrepreneurship drive will also boost the economy and jobs. For entrepreneurial learning, the assessment found a reinforced policy commitment in all the economies of the Western Balkans and Turkey to lifelong entrepreneurial learning but system-based monitoring and evaluation remains underdeveloped. The biggest challenge is in translating policy into the concrete reforms needed at school level to address entrepreneurship as a key competence – particularly the curriculum and teacher-training requirements. New developments within the European Union on the entrepreneurship key competence provide a further policy incentive for economies to pay entrepreneurial learning more concerted attention. Higher education's engagement with and contribution to the Small Business Act assessment process remains underdeveloped. For women's entrepreneurship, the main challenges are to increase awareness of the economic value of women's entrepreneurship and to deploy effective policy partnership instruments and resources to achieve sustainable change in the medium term. Training and access to finance for women entrepreneurs need more co-ordination for better impact among women's start-ups and growing firms.

Introduction

In its bid to tackle weak growth and lingering unemployment, the European Union is paying particular attention to the role of small and medium-sized enterprises (SMEs) in turning around ailing economies and creating jobs (European Commission, 2010). Young people and women feature significantly in the policy conversation (European Union, 2015a). The EU's pre-accession region faces similar challenges as its economies begin to show signs of modest recovery. Joblessness remains stubbornly high amongst young people (particularly in the Western Balkans, where it is 50%), with women's unemployment in the pre-accession region standing at 17%).[1] Policies and reforms to build more resilient and robust economies are essential (World Bank, 2015) and must address labour-market concerns (Kovtun et al., 2014).

With human capital critical to building growth and employment, there is renewed policy interest and commitment at European level to entrepreneurial learning to build the necessary skills for a more entrepreneurial culture (European Commission, 2013). This includes understanding the role and contribution of women to a nation's competitiveness drive. The shift in awareness is understanding that women's entrepreneurship is less a question of gender and more an imperative for growth (Bekh, 2013).

Addressing entrepreneurship consistently in the school and university system is a major challenge in most EU countries (European Commission, 2014; SEECEL, 2016). The pre-accession economies face similar challenges, particularly in terms of policy implementation, monitoring and evaluation. Translating the EU's recommendations on the entrepreneurship key competence (European Union, 2006) into curriculum reforms and teacher readiness requires time to see through the changes across the schooling system (European Commission, 2014). For EU candidate countries in particular, greater commitment to the key competence developments in vocational education and training is likely following the recommendation of the Education Council in Riga in June 2015 (European Union, 2015b).

The higher education communities in most economies continue to address entrepreneurship in a piecemeal fashion despite their potential for developing high-skilled, entrepreneurial economies. A critical issue is ensuring that all students across all disciplines have an opportunity for entrepreneurial learning (European Commission, 2008).

Challenges for women's entrepreneurship include low awareness among policy makers of the economic value of women's participation in business, and a lack of government focus on policy partnership and targeted support systems to increase women's entrepreneurial capital (European Parliament, 2015). A further factor is the low share of women-led companies and their limited contribution to growth and jobs (European Commission, 2013). Poor awareness and policy focus brings further challenges. The SME data available do not sufficiently capture women's contribution to the economy, compromising policy makers' ability to set clear objectives and for institutional support. The lack of policy focus helps explain why so few resources are allocated to train and support women entrepreneurs and potential entrepreneurs.

This chapter considers developments in lifelong entrepreneurial learning and women's entrepreneurship since the 2012 assessment. It concludes with a number of follow-up recommendations.

Assessment framework

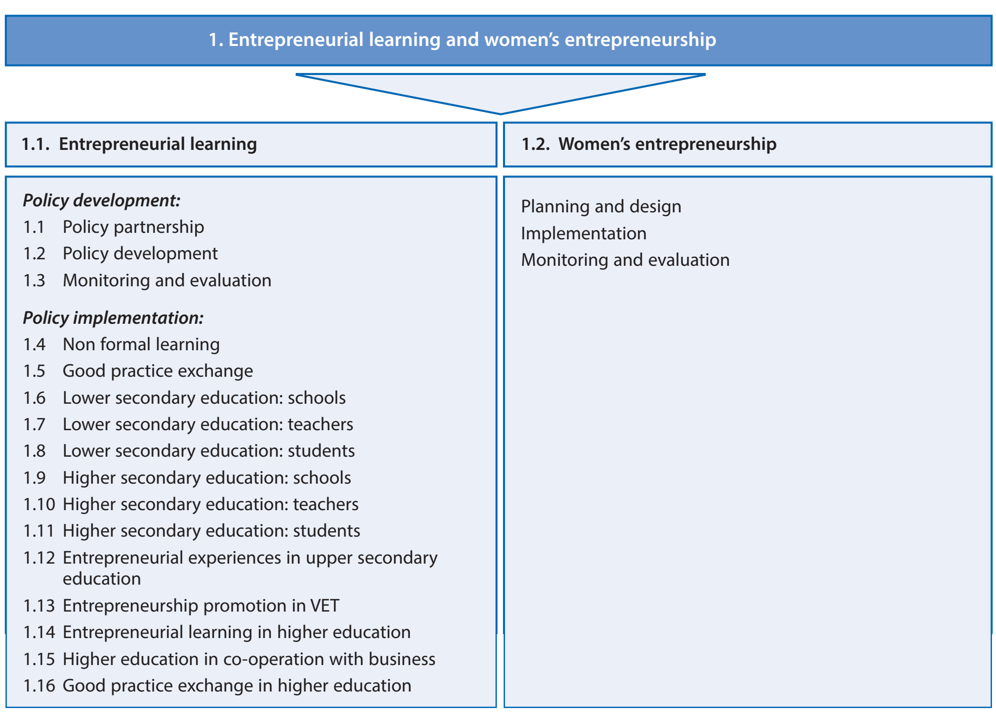
Entrepreneurial learning

The assessment followed the approach used in previous SBA assessments: 1) self assessment by country stakeholders; 2) dedicated focus groups addressing each indicator and reviewing evidence facilitated by the European Training Foundation (ETF) and the South East European Centre for Entrepreneural Learning (SEECEL); and 3) follow-up bilateral exchanges with the partner economies to finalise evidence and scoring.

In the assessment, entrepreneurial learning comprises two sub-dimensions (Figure 1.1). The first focuses on the broader education and training policy arrangements, including monitoring and evaluation. The second addresses policy implementation, in particular how entrepreneurship is promoted in secondary, vocational and tertiary education. Non-formal entrepreneurial learning is also included here, examining how entrepreneurship is promoted outside the national curriculum (i.e. not subject to formal assessment or examination). Finally, the assessment looks at how good practice is exchanged. This is considered important as entrepreneurial learning is evolving in both policy and practice. Good practice exchange can generate inspiration and momentum for change and improvements both at policy-making and policy-implementation levels.

For the purposes of the SBA assessment, entrepreneurial learning is defined as "all forms of education and training, formal and non-formal, which contribute to entrepreneurial spirit or behaviour with or without a commercial objective".[2] This definition goes beyond the notion of entrepreneurship as being a purely business phenomenon with a focus on start-up training. It includes entrepreneurship as a key competence (European Union, 2006), which comprises both the cognitive and behavioural traits necessary for turning ideas into action (such as opportunity seeking, risk taking and creativity), thus building more entrepreneurial characters able to bring initiative, innovation and added-value to the workplace.

Figure 1.1. **Assessment framework for Dimension 1**



More specifically, on the policy environment, the indicators assess how the range of stakeholders work together on the policy agenda (policy partnership) and how policy on entrepreneurial learning evolves set against a country's wider policy entrepreneurship framework (policy development). This includes monitoring and evaluation arrangements specifically for entrepreneurial learning developments (monitoring and evaluation).

The following changes have been made to the indicator package:

- The 2012 SBA indicators for lower and upper secondary education were replaced with new indicators (see Indicators 1.6-1.11 in Table 1.1 below). These focus on three key aspects of entrepreneurial learning: the school (covering school directors and school "culture"), teachers (covering pre-service and in-service teacher training) and students (covering the curriculum and extra-curricular activities). The added value of this approach is that it raises awareness of the complexity of incorporating entrepreneurial learning into these levels of education and of the need to adopt an "entrepreneurship education ecosystem" approach (European Commission, 2014).
- A new indicator on entrepreneurial experience (Indicator 1.12) was added. The objective was to prompt the pre-accession economies to introduce learning-by-doing options within the curriculum to build entrepreneurial competence (European Commission, 2013).
- A new indicator (Indicator 1.13) specifically addresses how entrepreneurship is promoted in vocational education and training (VET).

Three indicators track progress of entrepreneurship promotion in tertiary education (Indicators, 1.14, 1.15 and 1.16). Finally, the assessment includes developments in non-formal learning (Indicator 1.4), as well as good practice sharing (Indicators 1.5, 1.16).

Women's entrepreneurship

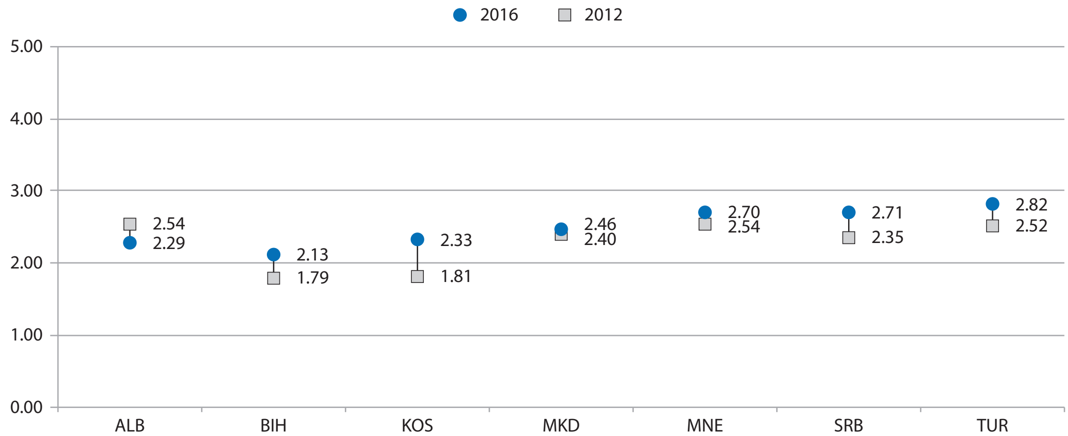
The assessment of women's entrepreneurship applied the new methodological approach introduced across all SBA dimensions, except for entrepreneurial learning and enterprise skills (Dimension 8a). The change to the 2016 assessment on women's entrepreneurship is a pilot initiative.

The assessment involved three thematic blocks: planning and design (30% of the final score), implementation (40%), and monitoring and evaluation (30%). The planning and design assessment looked at the existence of policy partnerships, policy frameworks, institutional support and the extent to which women entrepreneurs are given strategic importance. The implementation assessment focused on good practice and data on women's participation in training, ranging from start-up training to training for enterprise growth. Finally, the monitoring and evaluation indicator focused on the impact of training and policy evaluation.

Analysis

This section considers the key findings from the assessment in these two areas: 1) entrepreneurial learning and 2) women's entrepreneurship.

Figure 1.2. **Weighted scores for Dimension 1 compared to 2012**



Note: The comparison of scores for Dimension 1 between the 2012 and 2016 assessments should be interpreted with caution, since the 2016 assessment included new indicators and new criteria for a number of existing indicators. To compare performance over time, the reader should focus on the qualitative/narrative parts of report.

A more systematic approach to lifelong entrepreneurial learning and good practice exchange would pay dividends

Policy partnership arrangements are taking hold in most economies, delivering strategies and action plans as a first step. Good efforts are also being made to address entrepreneurship as a key competence. However, entrepreneurship promotion in higher education remains piecemeal everywhere. Overall, monitoring and evaluation is still not in place in most economies, with little evidence of system-based approaches. Paying more attention to exchange of experience and good practice, both in local/national contexts and at a multi-country/regional level, will bring value not only to the education and training community but also to the policy environment.

Policy partnership and policy development process

Almost all economies have a co-ordinating framework in place to support lifelong entrepreneurial learning. While partnership arrangements take different forms, a common factor is that key ministries and agencies, the business world, and other civic stakeholders come together to advance entrepreneurial learning in the economy.

In Montenegro, the SME Agency leads a national partnership specifically dedicated to entrepreneurial learning. The partnership includes representation of schools, universities, employer associations, chambers of commerce, teacher training authorities and other government bodies. The partnership financially supports stakeholder co-ordination and reports to government on the implementation of an action plan that accompanies a national entrepreneurial learning strategy. In Turkey, the Council for Entrepreneurship is a national institutional partnership framework to support entrepreneurship development, including entrepreneurial learning. Established in 2012, the Council comprises 32 public and private bodies and is the nerve centre of Turkey's entrepreneurship ecosystem. A key output has been the 2015-18 entrepreneurship strategy that pays particular attention to entrepreneurial learning. Likewise, in Serbia a co-ordinating body oversees a new entrepreneurship and competitiveness strategy. This is linked to a wider education strategy that also addresses entrepreneurial learning.

The partnership paradigm in both the Former Yugoslav Republic of Macedonia, and Bosnia and Herzegovina stands out in that the education authorities lead and co-ordinate on all entrepreneurial learning developments. This is good practice. Albania and Kosovo need to establish better cross-stakeholder partnership working arrangements for entrepreneurial learning.

All economies should pay particular attention to "internal partnership" where connections within the formal education system could be improved (Gribben, 2013). Embedding entrepreneurship into national qualification frameworks will be important here (European Commission, 2014). All partnerships will need to create better synergies with the wider policy environment especially with SME and employment policies for non-formal entrepreneurial learning, and innovation policies for higher education. A more developed policy advocacy role for lifelong entrepreneurial learning within wider entrepreneurship support structures would also reinforce entrepreneurial learning in all economies, and improve coherence between formal and non-formal entrepreneurial learning.

Given the newness of the policy area, and with considerable effort going into piloting initiatives particularly on the entrepreneurship key competence, a more system-based approach to monitoring and evaluation of lifelong entrepreneurial learning is essential. In this regard, the contribution of the pedagogic institutes in Bosnia and Herzegovina and the Bureau of Education in Montenegro to monitoring and evaluation is good practice.

Entrepreneurship promotion in secondary education (schools, teachers and pupils)

The 2015 assessment introduced a new set of indicators focusing particularly on how prepared schools are to support entrepreneurial learning, how well teachers are prepared and what proportion of pupils are currently developing entrepreneurship competence through curricular and extra-curricular activities.

All the economies have included entrepreneurship as a key competence into their national curricula, national curriculum frameworks or other regulatory documents, with many also defining entrepreneurship as a cross-curricular competence. However, the implementation of entrepreneurial learning in general secondary education (not including VET schools) is still at an early stage in most of the region and data on how entrepreneurship is included in the teaching and learning process are underdeveloped. Montenegro's lower secondary school network has the most advanced integration of entrepreneurial learning into its curricula, perhaps in part due to the size of the school network. It is one of the few countries to have organised specific training on entrepreneurial learning for school management and teachers. The Former Yugoslav Republic of Macedonia has also included entrepreneurship as a compulsory part of the curriculum in secondary education (both as a separate subject and cross-curricular competence) and has begun training teachers and school management.

Most other economies are still at an early stage of implementing entrepreneurial learning. With SEECEL support, all have already embarked on piloting entrepreneurship key competence with specific reference to curricula, teacher training and school management. More than 120 schools and universities have been involved in pilots.

A European Entrepreneurship Competence Framework, to be published by the European Commission in 2016, will provide a further reference for the configuration of curricula, assessment and teacher training. A good paradigm for capacity building is "schools learning from schools", and "teachers learning from teachers", at national as well as regional level. This should build on the existing school networks facilitated by SEECEL.

In addition to curricular approaches to entrepreneurial learning, schools in all economies participate in programmes run by local non-governmental organisations (NGOs) or international organisations such as KulturKontakt or Junior Achievement. These promote school-based (but usually extra-curricular) entrepreneurial experiences and are valuable for providing practical entrepreneurial experience.

Perhaps the most critical challenge for the entrepreneurial learning agenda is the readiness of teachers to accommodate the shift in teaching ethos and practice to meet the demands of the entrepreneurship key competence. This requires a significant investment in training as it concerns teachers in all schools. Currently, no pre-service teacher training programmes in the region include the entrepreneurship key competence. There are some in-service teacher training options covering entrepreneurial learning but the numbers of teachers participating is limited. One significant effort to instigate system-level change in this area has been the SEECEL initiative to work directly with teacher training authorities in each economy to develop entrepreneurial learning training modules. This has resulted in Montenegro and Albania accrediting the SEECEL modules as part of the national in-service teacher training on offer.

There needs to be a more dedicated commitment by both policy makers and teacher training authorities to ensure that new teachers are prepared for entrepreneurial teaching and learning. Pre-service teacher training should be given priority to ensure that each new generation of teachers is immediately able to meet the demands of the entrepreneurial learning agenda; to be followed up with on-the-job training. All economies would benefit from further developing the co-operation between their teacher training authorities and SEECEL and to review how other countries are already addressing teacher training.

Box 1.1 highlights good practice in this area from Austria.

Learning by doing: Ensuring pupils acquire entrepreneurial experience

In its Entrepreneurship 2020 Action Plan, the European Commission (2013) called upon EU member states to provide young people with the opportunity to have at least one practical entrepreneurial experience before leaving compulsory education, such as running a mini-company, being responsible for an entrepreneurial project for a company or a social project. All economies in the region are on a sound footing to bring this forward, with many schools across the region already employing innovative ways to build the entrepreneurial experience e.g. school-based enterprises. However, these are generally not integrated into curriculum and rely on the special interest and commitment of school managers and teachers at the schools concerned. All economies should explore how entrepreneurial experience can be developed and brought into mainstream education. Know-how can be shared through dedicated events at national and regional level, while SEECEL's online "community of practice" platform could facilitate further knowledge sharing.

Entrepreneurship in vocational education and training

The assessment points to good efforts in all economies to include entrepreneurship in VET courses. These range from obligatory courses, such as the Basics of Entrepreneurship course in Albania, to including aspects of the entrepreneurship key competence in VET curriculum (for example, Turkey includes creativity in its VET curriculum). Most VET systems lack any kind of tracking mechanism to determine where vocational graduates finally end up in the labour market, particularly in terms of self-employment or start-ups.

Box 1.1. **Building an entrepreneurial learning ecosystem (Austria)**

Austria's lifelong learning strategy places a strong emphasis on developing new curricula for all types of schools, with a focus on integrating in the entrepreneurship key competence alongside wider key competences (such as digital competence) in these curricula (Republic of Austria, 2011). The National Platform (LLL:2020) is the partnership in charge of monitoring the implementation of the strategy. The national youth strategy also emphasises entrepreneurial education. Austria is in the process of incorporating entrepreneurial skills into the descriptors of its national qualifications framework (Euro Guidance Österreich, 2014). The significance of this is that the NQF will ensure that all students completing a given qualification will need to have acquired elements of the entrepreneurship key competence.

From 2012 to 2014 a reference framework for entrepreneurship education was elaborated and entrepreneurship is now established as a teaching principle across all subjects. Entrepreneurial learning is based on a so-called "TRIO model", consisting of three levels of competences:

- competences: supporting entrepreneurial core education (focusing on basic economic education and business skills)
- strengthening entrepreneurial culture (focusing on skills to turn ideas into action, such as creativity, risk-taking or teamwork)
- fostering entrepreneurial civic education (focusing on attitudes and skills such as responsibility, autonomy, and solidarity on a basis of an eco-social market economy) (EESI, n.d.a).

Austria has a range of in-service teacher training options relating to entrepreneurial learning (WKO, 2015). Pre-service teacher training is still under development. Finally, Austria's commitment to entrepreneurial learning is further evidenced by the existence of the Entrepreneurship Education for Innovation at Schools (EESI) Impulse Centre, whose entrepreneurship promotion activities include accrediting "Entrepreneurship Schools" (EESI, n.d.b). The accreditation (which is valid for two years) serves to confirm that a particular school has implemented specific entrepreneurship activities into school life, while ensuring that learning and teaching activities are planned and designed in an entrepreneurial way. The EESI Impulse Centre is supported by the Austrian Federal Ministry for Education and Women.

Source: EESI Impulse Centre www.eesi-impulszentrum.at/.

In June 2015, EU education ministers and EU candidate countries agreed to take a more strategic approach to the development of key competences in VET (European Union, 2015b). A new set of "Riga" indicators will be elaborated in 2016. In the interests of efficiency, particularly for the candidate countries, it will be important that the Riga indicators complement the SBA VET indicators. Discussions between the institutions supporting the SBA (ETF, SEECEL), SBA co-ordinators and the national VET authorities will explore options to create synergies between the Riga and SBA monitoring systems. The discussions will also include how non-candidate countries should be addressed.

Entrepreneurship promotion in higher education

Entrepreneurship in higher education shows the weakest progress since the 2012 SBA assessment.

The assessment addressed three higher education areas: Indicator 1.14, "cross campus" developments; Indicator 1.15, university-business co-operation; and Indicator 1.16, sharing good practice. University-business co-operation is the better performing area. Most economies already have a regulatory framework requiring universities to co-operate with businesses. Because no formal monitoring arrangements are in place, it is difficult to assess the impact of a regulatory framework in terms of how many universities in each economy have co-operation agreements with business.

Despite a generally weak performance, there are several examples of good practice in the region that could provide inspiration for further developments. For example, Turkey has launched an Entrepreneurial and Innovative Universities Index to benchmark performance of universities in areas such as commercialisation, entrepreneurship and innovation. The Former Yugoslav Republic of Macedonia is the only economy with a National Entrepreneurship Educators' Network which exchanges good practice between educators at both higher education and pre-tertiary education levels.

However, as with the 2012 SBA assessment, the higher education community's commitment to the SBA self-assessment and focus groups was weak, at best confined to one or two representatives from individual universities. Lack of engagement – and consequent lack of information – undermines the third-level education pillar of the SBA assessment.

Higher education is too important not to be fully integrated into a country's SBA development drive. Dialogue is needed between government, the higher education community and business on how entrepreneurship could be promoted in tertiary education institutions. Meanwhile, universities or faculties with specific interests in promoting entrepreneurial learning should network at national and regional level, sharing expertise. The European Commission, in co-operation with the OECD, has developed a self-assessment tool for higher education institutions wishing to explore and develop their entrepreneurial and innovative potential (European Commission and OEDC, n.d.). The tool helps higher education institutions to identify ways and means to develop their potential set against the local and national environments. It also encourages universities to plan forward. Networks could also act as policy advocacy groups with the objective of creating scale and value in tertiary-level entrepreneurial learning.

Non-formal entrepreneurial learning

Non-formal entrepreneurial learning provides opportunities to develop the entrepreneurship key competence, self-efficacy and specific entrepreneurship skills. Non-formal learning means that it is not subject to the rigours of formal assessment in public examination. This allows for flexibility and innovation in the teaching and learning process. It often parallels wider entrepreneurship support within formal education, creating added value.

The assessment points to a wide range of non-formal learning activity, supported particularly by employment authorities, SME and regional development agencies, and NGOs working in education, employment and business support. Conferences and fairs allow non-formal entrepreneurial learning to get recognition. Junior Achievement Serbia holds an annual head teachers' conference which provides information to upper secondary school management about the entrepreneurship school programmes in Serbia and other European countries. It also provides an opportunity for head teachers to get additional training on topics that link school leaders with educational programmes in entrepreneurship. In Bosnia and Herzegovina, a local NGO, Nešto Više, organises an annual conference as part of the project Work Skills for the Future – Let's Learn, Let's Work which awards the best entrepreneurial projects in primary schools.

However, two issues stand out in the assessment as areas all economies could reflect upon. First, where possible, good practice in non-formal entrepreneurial learning could be integrated into formal education. For instance, start-up training provided by SME agencies could be adapted relatively easily to support VET and higher education institutions with their entrepreneurship curriculum. Second, given the richness of their experience in non-formal entrepreneurial learning, and the many agents involved, non-formal entrepreneurial learning providers have the potential to act as a policy advocacy resource, providing advice and providing inputs to the policy conversation.

Good practice exchange

Two indicators address good practice: Indicator 1.5 covers exchange of good practice between entrepreneurial learning providers in general and Indicator 1.16 covers good practice exchange specifically between higher education institutions. The importance of sharing good practice has already been raised. It allows for more efficient design and delivery of entrepreneurial learning. It also has the potential to inform and shape policies and practice. What works best and at what cost are important factors for policy makers and fellow practitioners.

The assessment highlights that education and training providers at all levels still do not effectively share their best work with their peers. Knowledge-sharing events are usually confined to conferences where learning from good practices is rarely explicit. National entrepreneurial learning partnerships should give consideration to building a more developed and critical approach to good practice exchange. Nonetheless, there are examples of where good practice is borrowed upon, and to good effect. For example, Montenegro's integration of the school-based "training firm" (originally supported by KulturKontakt) into its vocational school curriculum demonstrates a smart transition from donor-supported to mainstream development.

Women's entrepreneurship needs a more concerted policy focus

Women make up between 15% and 33% of entrepreneurs in the pre-accession region (SEECEL, 2013a). Since the 2012 SBA assessment, governments and key stakeholders have invested a lot of effort in raising awareness of women's entrepreneurship both as an important economic issue and as a critical success factor for growth and jobs in the region. The last years have been marked by increasing regional collaboration aimed at promoting women's entrepreneurship, creating new networks and peer learning activities around the development pillars of the South East Europe 2020 strategy (RCC, 2013). Economies of the region participated in the European Commission's Network of Female Entrepreneurship Ambassadors and the European Network of Mentors for Women Entrepreneurs (European Commission, 2016),and have been involved in activities under the EU Entrepreneurship 2020 Action Plan (European Commission, 2013).

At the regional level, the economies have been involved in the implementation of activities under the Women's Entrepreneurship – a Job Creation Engine for South East European Region – a project implemented by SEECEL in co-operation with the Regional Cooperation Council (RCC) and the Gender Task Force, with support from the Swedish International Development Agency (SIDA). These initiatives have contributed to strengthening the capacity of governments, social partners and civic interest groups in policy development.

Key obstacles to development of women's entrepreneurial capital are:

- lack of policy awareness of the economic impact of women's entrepreneurship on national competitiveness
- undeveloped policy partnerships for the promotion of women's entrepreneurship
- uneven data quality across economies and lack of comparability of gender-disaggregated data for policy making
- insufficient policy measures and institutions supporting women's entrepreneurship, in particular training and mentoring linked to access to finance
- lack of statistics on women's participation in publicly-financed training, and particularly impact data in all economies
- lack of access to networks and good practice exchanges.

Progress across the region has been uneven, with Albania, Kosovo, Montenegro, Serbia and Turkey moving faster on some aspects of the policy agenda.

Box 1.2 provides a good practice example from Hungary, offering targeted training to women entrepreneurs.

Box 1.2. **Competence development for women entrepreneurs in Hungary: The Dobbantó programme**

Hungary launched the Dobbantó (Springboard) women entrepreneurs' competence development programme in 2004 to increase entrepreneurial potential and develop key competences for women intending to start a business or already running one.

The programme is an accredited intensive training programme (90 hours spread over 6 weeks) for groups of 20 participants and covers themes such as business planning, presentation, information technology (IT) and networking skills through a combination of training, advice and mentoring. The programme ends with participants presenting their own business plan.

Over the past 9 years the Dobbantó programme has helped 470 women entrepreneurs to launch or renew their businesses, creating at least 200 new enterprises.

Dobbantó is based on a well-developed training strategy that has been improved over the years. To provide a firm evidence base for the programme, it was preceded by a survey of 1 000 Hungarian women entrepreneurs. The survey identified factors promoting and hindering women's entrepreneurship. The results underlined that low self-esteem and weak competences are core barriers to women's entrepreneurship.The programme is managed by the Foundation for Small Enterprise Economic Development, an institution whose mission is to promote the sustainable and equitable economy and where women's entrepreneurship is a core area of development. The programme is financed by Budapest Bank's Corporate Citizenship programme and by contributions from participants.

Source: EIGE (n.d.) "Dobbantó: Women entrepreneurs' competence development", European Institute for Gender Equality website, http://eige.europa.eu/gender-mainstreaming/good-practices/hungary/dobbanto-women-entrepreneurs-competence-development.

Further information: SEED (n.d.), "Dobbantó", Small Enterprise Economic Development foundation website, http://seed.hu/en/projekt/dobbanto.

Women's entrepreneurship training and support: Policy planning and design

Policy frameworks have been agreed in Albania, Kosovo, Montenegro, Serbia and Turkey. Such frameworks range from the inclusion of a special pillar or section on women's entrepreneurship within an SME strategy (in Kosovo, Montenegro and Serbia), to the development of women's entrepreneurship training within a broader strategy such as Albania's Business Investment and Development Strategy. Support for women's entrepreneurship in Bosnia and Herzegovina comes through the Gender Action Plan, with women's entrepreneurship also an integral feature of the Strategy for Development of SMEs and Entrepreneurship in the Republika Srpska. In the Former Yugoslav Republic of Macedonia, the Strategy and Action Plan on Gender Equality 2013-2020 and the annual programme of the Ministry of Economy both support business development among women. There are no dedicated women's entrepreneurship strategies in the region. More work needs to be done to ensure that issues affecting women's entrepreneurship are included in the mainstream policies and strategies that affect women entrepreneurs.

Partnerships and institutional support structures have taken different forms. Montenegro set up a multi-stakeholder national partnership to draft its national women's entrepreneurship strategy. In Albania, a national working group oversees the developments on women entrepreneurship promotion in association with the Albanian Investment Development Agency (AIDA). In Turkey, a stakeholder forum established by the Small and Medium Enterprises Development Organisation (KOSGEB) oversees women's entrepreneurship developments and promotes policy discussions and good-practice exchange.

Progress in production and collection of gender-disaggregated SME statistics is critical to enhancing the quality of the women's entrepreneurship policy in the region. To date, most of the pre-accession economies have women's entrepreneurship statistics – a major advance on the 2012 assessment. However, there is still room for improvement in the quality and comparability of the statistics available. Different institutions are responsible for the production, collection and use of women's entrepreneurship statistics. In Albania, the National Institute of Statistics collects gender-disaggregated data. In Montenegro, the government has been publishing women's entrepreneurship statistics since 2012. In Kosovo, data are produced in disaggregated format and managed by the Ministry of Trade and Industry. In the Former Yugoslav Republic of Macedonia, the collection and analysis of data on women's entrepreneurship is a result of co-operation between the Ministry of Economy, the Association of Business Women and the business registration office. In Turkey gender-disaggregated data is produced by the Turkish Statistical Institute.

All economies have public finance for training and support services for women entrepreneurs. Bosnia and Herzegovina offers an interesting example of a state-funded programme where a training offer for women entrepreneurs is directly linked to access to finance. Montenegro uses its National Investment Fund to support women entrepreneurs.

Implementation

The project Women Entrepreneurship – A Job Creation Engine for South Eastern Europe has provided significant support to the skills intelligence capacity of national institutions in the pre-accession region (SEECEL, 2014c). All of the economies have obtained practical experience and know-how in skills needs and skill gaps analysis for women entrepreneurs, and have been using the results of national training needs analyses (carried out in co-operation with SEECEL) to improve the quality, variety and relevance of the training on offer.

Data is a critical element in the assessment of quality and cost-effectiveness of training services. Only a few economies had data to demonstrate the share of women participating in publicly financed SME training courses. Serbia and Turkey monitor access by women to entrepreneurship training and to good effect. For example, the efforts of the government and institutional support from KOSGEB in Turkey resulted in women benefiting from 45% of wider SME training. Serbia reports a similar level of women's participation in publicly-funded training.

Much effort is dedicated to good practice exchange in the region. SEECEL has supported regional online collaboration platforms, communities of practice and the production of a series of promotional videos featuring success stories of women entrepreneurs. All economies have active national-level women's entrepreneurship networks supported by governments and civic interest groups. There are also policy collaboration platforms, including a women's entrepreneurship platform managed by the Association of Business Women of Macedonia and the National Platform for Women's Entrepreneurship in Kosovo.

Good practice is actively exchanged and contributes to awareness of women's entrepreneurship. Dedicated websites, events organised by public and private partners, and special awards programmes to recognise the business success of women allow for exchanges of good practice and contribute to the awareness of women's entrepreneurship in society. Chambers of commerce are strong partners and promoters of women's entrepreneurship, with good examples in Republika Srpska (in Bosnia and Herzegovina) and the Former Yugoslav Republic of Macedonia.

Table 1.1. **Scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship**

		ALB	BIH	KOS	MKD	MNE	SRB	TUR
1.	**Entrepreneurial learning and women's entrepreneurship**	2.29	2.13	2.33	2.46	2.70	2.71	2.82
1.1	**Policy framework for entrepreneurial learning**	2.15	2.54	2.22	2.76	2.83	2.52	2.70
1.1	Policy partnership	2.00	3.50	2.00	4.00	4.00	3.00	4.00
1.2	Policy development process	3.00	4.00	3.00	3.50	4.00	3.50	3.00
1.3	Monitoring and evaluation	2.00	2.00	2.00	2.00	3.00	3.00	2.00
1.4	Non-formal entrepreneurial learning	2.00	2.50	2.00	2.50	2.50	2.50	2.50
1.5	Good practice exchange	3.00	3.00	3.00	3.00	3.00	3.00	3.00
1.6	Lower secondary education: entrepreneurial school	2.00	2.00	2.00	2.50	3.00	2.00	2.00
1.7	Lower secondary education: entrepreneurial teacher	2.00	2.00	2.00	2.00	2.50	2.00	2.00
1.8	Lower secondary education: entrepreneurial student	2.50	2.50	2.50	3.50	3.50	3.00	2.50
1.9	Upper secondary education: entrepreneurial school	2.00	3.00	2.00	2.50	2.50	2.50	2.00
1.10	Upper secondary education: entrepreneurial teacher	2.00	2.00	2.00	2.00	2.00	2.00	2.00
1.11	Upper secondary education: entrepreneurial student	2.50	3.00	3.00	3.50	3.00	3.00	3.00
1.12	Entrepreneurial experience for young people	2.00	2.50	2.00	2.00	3.00	3.00	2.50
1.13	Entrepreneurship promotion in vocational education and training	1.50	1.50	1.50	2.50	2.50	1.50	3.00
1.14	Entrepreneurial learning in higher education	2.00	2.00	2.00	2.50	2.00	2.00	2.50
1.15	Higher education co-operation with the world of business	2.50	3.00	3.00	3.00	3.00	3.00	3.50
1.16	Good practice exchange in higher education	2.00	2.00	2.00	2.50	2.00	2.00	2.00
1.2	**Women's entrepreneurship**	**2.50**	**1.50**	**2.50**	**2.00**	**2.50**	**3.00**	**3.00**

Monitoring and evaluation

All economies are still working on the development of more systematic monitoring and evaluation of women's entrepreneurship policies and programmes although some have progressed substantially. For example, the National Agency for Regional Development (NARD) in Serbia tracks participants through training, coaching and mentoring services via data gathered by regional development agencies. NARD also provides quality assurance of training provision administered through its regional network. Further, all activities under the new strategy on SMEs in Serbia (including the pillar on women's entrepreneurship) are monitored on a quarterly and annual basis by the Ministry of Economy, with support by all relevant stakeholders and the Council for SMEs, Entrepreneurship and Competitiveness. Furthermore, the Association of Business Women in Serbia also monitors women's entrepreneurship development. In 2013, the Montenegrin Government in co-operation with the Montenegrin Employers Federation and the ILO, produced an assessment of women's entrepreneurship. In Albania, a formal women's entrepreneurship support network produces annual reports in consultation with stakeholders. In Turkey, KOSGEB publishes a biannual report on the training needs of women entrepreneurs. In Bosnia and Herzegovina, the Republika Srpska also issues a report containing gender analysis biannually.

The way forward

A number of areas are proposed to bring forward developments in entrepreneurial learning and women's entrepreneurship.

Entrepreneurial learning

- **Entrepreneurship as a key competence**. The European Commission will publish a European Entrepreneurship Competence Framework in 2016. It builds on a key competence framework from pre-primary through to tertiary education already elaborated by experts from the EU pre-accession region (SEECEL, 2011, 2013b, 2014a, 2014b). All economies determine how the learning outcomes from European Entrepreneurship Competence Framework can be best addressed within national curriculum and qualifications developments. This will have implications for policy makers, curriculum and assessment specialists, teacher trainers, and education and training providers at all levels. To this end, the existing structured regional co-operation in developing and piloting the entrepreneurship key competence (co-ordinated by SEECEL in co-operation with each economy's national authorities) should be further strengthened. Fostering good practice exchange between economies within such a regional framework will also make a valuable contribution to developing effective policies and practice in this area.
- **Implications of the Riga recommendations for the entrepreneurship key competence in VET.** All relevant national VET stakeholders already engaged in the SBA assessment, in particular in the EU candidate countries, should familiarise themselves with the 2015 EU Education Council's Riga Recommendations. The ETF and SEECEL will work with the relevant authorities to determine how the SBA indicators and upcoming Riga indicators can be harmonised.
- **Entrepreneurial learning in higher education.** Each economy should hold a national seminar on how entrepreneurial learning can be better integrated within the higher education policy agenda. The aim should be twofold: 1) to address poor engagement of the higher education community in the national SBA assessment and

development drive, and 2) to determine how to maximise the potential of higher education institutions for a competitive, entrepreneurial economy. Simultaneously, individual universities and teachers should create their own networks, both nationally and regionally, as well as connecting into wider networks in Europe, like the European Foundation for Entrepreneurship Research, which has a strong networking and capacity-building function.

Table 1.2. **Key policy instruments for improving entrepreneurial learning and women's entrepreneurship**

Challenges	Policy instruments
Entrepreneurship key competence across all levels of formal education and training	• Borrow from learning outcomes and support tools from the European Entrepreneurship Competence Framework to be published in 2016. • Connect up developments in entrepreneurship key competence with the broader initiatives for integrating all eight key competences for lifelong learning into national education systems. • Further develop existing national and regional initiatives for piloting the key competence approach to entrepreneurship and foster structured regional co-operation in this area.
Weakness of entrepreneurship in higher education in wider SBA reform effort	• A national seminar involving education and economy ministries, business world and higher education community (e.g. rectors' conference) should how higher education could better contribute to the country's SBA objectives. • Universities should make use of the European Commission's tool to assess institutional capacity in entrepreneurship promotion (www.heinnovate.eu).
Monitoring and evaluation	• Establish a system-based approach to monitoring and evaluation of lifelong entrepreneurial learning with dedicated staff and resources. • Set up monitoring and evaluation arrangements for women's entrepreneurship policies, including access to monitoring and evaluation reports by wider public and supply of quality, sex-disaggregated statistics.
Good practice sharing	• Strengthen existing good-practice exchange at the regional level for developing effective policies and practices in this area. • Encourage national entrepreneurial learning stakeholders to form national good practice networks and make good practices available online. • Promote systematic good-practice exchange on women's entrepreneurship.
Lack of policy awareness and policy partnership on women's entrepreneurship	• National dialogue and policy awareness campaigns, policy advocacy networks and promotional measures. • Further develop national policy partnership and inter-agency co-ordination mechanisms, with clear goals and resources.
Women's entrepreneurship training offer – quantity, quality and relevance	• Expand training and mentoring support,driven by the training needs of women entrepreneurs and informed by training needs analysis. • Ensure training meets the specific requirements of different categories of women entrepreneurs. • Link training and access to finance.

Women's entrepreneurship

Further work is required to build/reinforce national policy partnerships to support women's entrepreneurship. This should include more effective inter-agency co-ordination mechanisms, with clear goals, action steps, distribution of roles, and monitoring and evaluation arrangements to support national policy. More specifically, the following actions are recommended:

- **Consider state-wide dialogue and policy awareness campaigns** to ensure buy-in and ownership for women's entrepreneurship policy support. National governments and their partners could deploy policy advocacy networks and promotional campaigns.
- **Set institutional mechanisms to build women's entrepreneurship into the broader national policy context.** Along with adoption of strategies that specifically address women's entrepreneurship, governments need to envisage mechanisms for the continued improvement of women's entrepreneurship policies.
- **Improve measures for the comprehensive monitoring and evaluation of policies.** These should include dedicated tools, procedures, public access to monitoring and evaluation reports, and further improvements in the supply of gender-disaggregated data for policy making.
- **Governments should continue to support training and mentoring programmes** and strengthen collaboration with public and private training providers.
- **Link training and mentoring support to training needs analyses,** fine tuned to the specific requirements of different categories of women entrepreneurs and potential entrepreneurs. This includes start-up training and training (including coaching and mentoring services) for SME growth and internationalisation. Online training provision should be made available. Training and access to finance should be provided as an integrated package to women's start-ups and growing businesses.

Notes

1. All data spans 2013 and 2014 is rounded and is sourced from national statistics offices and/or Eurostat.
2. This framework was agreed by an international working group in Geneva on 18 January 2012. The working group comprised ETF, ILO, UNESCO, UNEVOC and GIZ.

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Chapter 2

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

Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance (Small Business Act Principle 2)

Realistically, policy makers understand that many SMEs will not succeed, and thus need bankruptcy laws to help them exit the market in an orderly fashion. These laws need to protect the rights of both creditors (repayment of loans, legal recourse due to firm failures) and debtors (maximising the preservation of assets, providing options to reorganise or liquidate an enterprise, and potentially restarting). Just as importantly, governments should promote a positive attitude towards second chances, encouraging honest entrepreneurs to start a new business after failure.

Most economies in the Western Balkans and Turkey have established sound insolvency laws, with clearly defined procedures for distressed firms, with the exception of Kosovo which is drafting a new law. However, most economies still have procedural delays and lack some institutional support mechanisms such as early warning systems to identify distressed companies before they need to enter formal bankruptcy procedures. Discouragingly, not one economy has a programme in place to promote second chances after bankruptcy, thus exacerbating the stigma associated with failed entrepreneurs.

Introduction

Policy makers endeavour to provide the conditions SMEs need to grow, remain economically viable and generate long-term employment growth. However, it is just as imperative to ensure that the appropriate measures and legal provisions are in place when a business fails. Insolvency laws are crucial for both entrepreneurs and lenders, both of whom require legal recourses when an insolvent and indebted enterprise is no longer economically viable.

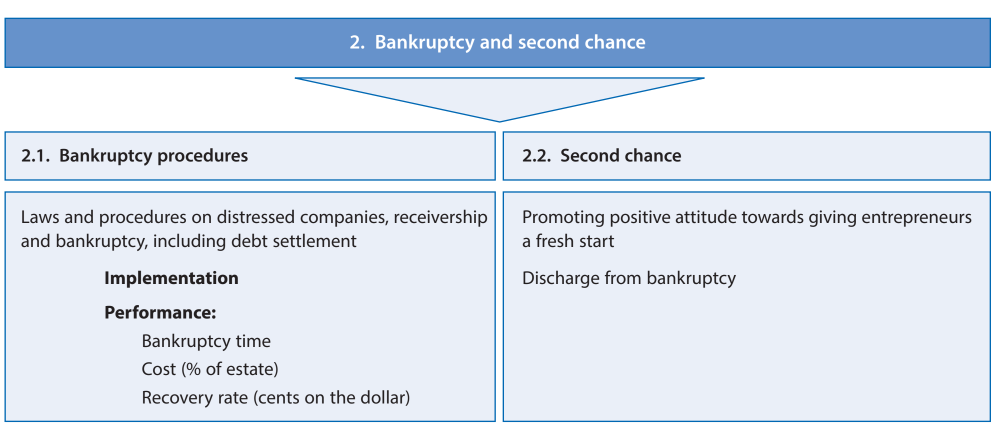
In order for a market economy to function efficiently, when new firms are created and unviable ones destroyed, there must be laws to help the latter exit from the market in an orderly fashion. Insolvency laws protect the interests of both the creditor and the debtor, as such laws work to maximise the preservation of a firm's assets. Efficient insolvency frameworks should promote the reorganisation of viable firms and the liquidation of unviable ones at the lowest possible cost, whilst preserving the principle of fair and equal treatment of all parties involved (Cirmizi et al., 2011). In the absence of such laws, or where they do not work well, lenders are reluctant to extend loans to enterprises as they would have no legal recourse if the borrower fails to repay a loan. Insolvency laws should also aim to limit burdensome and lengthy procedures, as protracted proceedings could further reduce the value of an insolvent business and threaten the successful reorganisation of a salvageable one.

Policy makers should work to strike the appropriate balance between the interest of debtors and creditors (IFC, 2011). They should work to ensure firms can reorganise and potentially restart, and to give creditors legal support to claim debt repayments and thus feel secure in future lending. In partnership with insolvency laws, policy makers should work to put supporting institutions/mechanisms in place such as early warning systems (to identify distressed companies), the option of out-of-court settlement, efficient court procedures and post-bankruptcy provisions such as discharge and the promotion of second chances.

Assessment framework

The assessment framework of Dimension 2 is composed of two sub-dimensions. The first analyses the strength, effectiveness and efficiency of the insolvency legal framework and the second the environment promoting a second chance for entrepreneurs (Figure 2.1). One minor change in the framework since the 2012 assessment has been to move debt settlement procedures into the sub-dimension assessing bankruptcy procedures. The

Figure 2.1. **Assessment framework for Dimension 2**



second chance sub-dimension therefore concentrates on the post-insolvency process and the frameworks for debt discharge and any measures to actively promote second chances for entrepreneurs.

Sub-dimension 1: Bankruptcy procedures

This sub-dimension considers bankruptcy procedures both on paper and in practice, and their alignment with international standards. It looks at the existence of alternatives to in-court bankruptcy processes, the establishment of an early warning systems (such as self-tests, call centres or training courses to identify financially distressed firms) and out-of-court settlement mechanisms such as mediation and arbitration (European Commission, 2014). The dimension also assesses whether court procedures are consistent with international standards, including the protection of creditors' rights, the strength of reorganisation procedures as an alternative to liquidation, the availability of incentives for post-petition finance and the existence of a temporary moratorium on other actions against firms undergoing bankruptcy.

Finally, this sub-dimension assesses the actual performance of insolvency frameworks by assessing the average time, cost and recovery rate of a typical bankruptcy case, as measured by the resolving insolvency indicators of the World Bank's *Doing Business* report (World Bank, 2015). These figures are particularly useful for identifying potential weaknesses in insolvency procedures and limitations in administrative capacity. These indicators have also been found to be highly correlated with the availability of credit and investment opportunities to enterprises (Succurro, 2012).

Sub-dimension 2: Second chance

The second sub-dimension looks at the measures in place to facilitate second chances for entrepreneurs and to reduce the stigma of business failure. The primary policy objective is to help entrepreneurs who have had failed businesses to start new ones and to view bankruptcy as a means to better understand how to start afresh. Achieving this should minimise the economic impact of lost entrepreneurial potential which may stem from discrimination against failed entrepreneurs and the stigma associated with undergoing bankruptcy (European Commission, 2011). This can be achieved through promotional campaigns advocating second chances as a reinvigorated fresh start, and by reducing the barriers for those restarting a business (Timmons and Spinelli, 2004). Economies that promote second chances often have higher levels of entrepreneurship, with businesses set up by "re-starters" often growing faster and contributing more to employment than first timers (Stam et al., 2008; Armour and Cumming, 2008).

Policy makers can use several mechanisms to promote such second chances, such as campaigns to promote a positive attitude towards giving entrepreneurs a fresh start and encouraging potential re-starters through training and information campaigns. An effective basket of policy measures should include discharges to release entrepreneurs from pre-bankruptcy debt within a period of time after a final court decision.

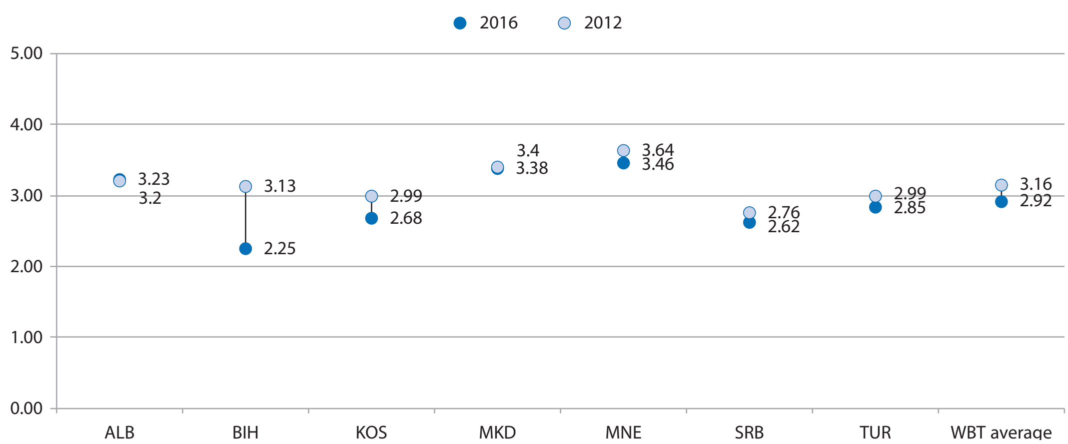
Analysis

Most economies have made only minor developments concerning bankruptcy since the 2012 assessment, as they had the fundamental insolvency laws in place. Future progress will depend on reducing procedural delays and establishing the necessary institutional support mechanisms such as early warning systems and publicly available bankruptcy registers. The economies have also worked to develop institutions and support mechanisms to facilitate effective bankruptcy procedures such as clearly defined discharge rules and out-of-court settlement procedures. As Figure 2.2 shows, the average regional score for this dimension stands at 2.92 for 2016, slightly down from the 2012 regional average of 3.16, with most economies having scored slightly worse. Montenegro is the regional leader, with a score of 3.46 (a decrease from 3.64 in 2012), followed by the Former Yugoslav Republic of Macedonia with a score of 3.38 and Albania with a score of 3.23. Turkey (score of 2.85), Kosovo (2.68) and Serbia (2.62) ranked in the middle. The worst performer is Bosnia and Herzegovina, with a score of 2.25. Most economies' scores fell slightly, primarily due to methodological changes. However, for the most part these declines are marginal and the overall picture is one of policy stagnation.

The outstanding challenges in this dimension are:

- Procedural bankruptcy processes need to be improved as the time taken to undergo bankruptcy procedures has not changed since the 2012 assessment. Costs are high in some economies, and the recovery rate is well below the OECD average.
- Most economies have not worked to develop an early warning system in order to identify distressed enterprises before they need to enter bankruptcy.
- None of the economies have established promotion and training programmes to entrepreneurs on the concept of a second chance.

Figure 2.2. **Weighted scores for Dimension 2 compared to 2012**



Note: See Annex A for further information on the assessment methodology.

Economies in the region could strengthen their existing insolvency laws

Almost all the economies in South East Europe have functioning insolvency laws in place to govern the formal procedures of distressed companies. The exception is Kosovo, which is currently drafting a new law on insolvency, as its former law under UN supervision has been revoked. Bosnia and Herzegovina has no national-level bankruptcy law; bankruptcy is governed by the insolvency laws of the two major entities, the Federation of Bosnia and Herzegovina (FBIH) and the Republika Srpska (RS).

Most economies have worked to ensure that their insolvency laws follow the UNCITRAL *Guide on Insolvency Law* (UNCITRAL, 2004), which is the international standard. In most cases, the legislation is in line with international standards on court proceedings against the debtor and the necessary protection of creditors' rights, but the level of compliance with international standards varies. Montenegro and Serbia exhibit high levels of compliance; other economies, such as the Former Yugoslav Republic of Macedonia, recognise that they need further improvement with provisions to strengthen judicial intervention and rules on reorganisation at earlier stages of bankruptcy procedures. In all economies the respective laws' procedures are considered to be applied in a transparent and systematic manner. Insolvency laws apply equally to state-owned enterprises, except in Albania and Kosovo.

Some economies have made minor amendments to their laws to address procedural delays. For instance in Serbia, which performs relatively weakly in this area, the government implemented new changes to the bankruptcy law in July 2014, which will reduce the deadline for bankruptcy procedures, reduce the associated costs of restructuring and sale of assets, establish an electronic registry, and reduce administrative procedures for bankruptcy proceedings. Turkey is attempting to address its relatively lengthy and expensive bankruptcy procedures by restructuring the enforcement of the bankruptcy system, establishing a single enforcement office (currently being piloted in some courts) and abolishing the historical practice of multiple enforcement offices in the same location. As mentioned above, Kosovo has revoked the insolvency law that existed during the UN administration and is currently drafting a new insolvency law.

Most economies lack institutional support for effective and efficient bankruptcy procedures

The bankruptcy process remains an issue throughout the region. The time it takes to undergo bankruptcy procedures – typically two years in most economies – has not changed since the 2012 assessment (see Box 2.1 for more details). In Serbia, Turkey and Kosovo the average cost of bankruptcy proceedings remains high, at 20%, 15%, and 14.5% of the value of the estate respectively. The other regional economies are more in line with OECD average level of 9%; the average for the region stands at 12.4%. Recovery rates also remain relatively low in most economies; the average recovery rate in the region is 36.9%, well below the OECD average of 72.3%.

Most economies maintain registers of insolvency cases (typically handled by commercial courts, central banks or a central register), but they are not open to the public except in Montenegro and Turkey. Encouragingly, every economy has established provisions in their laws to ensure that out-of-court settlements are available, and often these are considered a cheaper alternative to formal bankruptcy filings.

Finally, most economies have not established formal early-warning system to identify distressed companies although, in some cases, banks and private credit assign a risk "rating" (to different types of loans, based on calculated risk of default.

Table 2.1 gives the scores for the sub-dimension on laws and procedures for bankruptcy.

Table 2.1. **Scores for Sub-dimension 2.1: Laws and procedures**

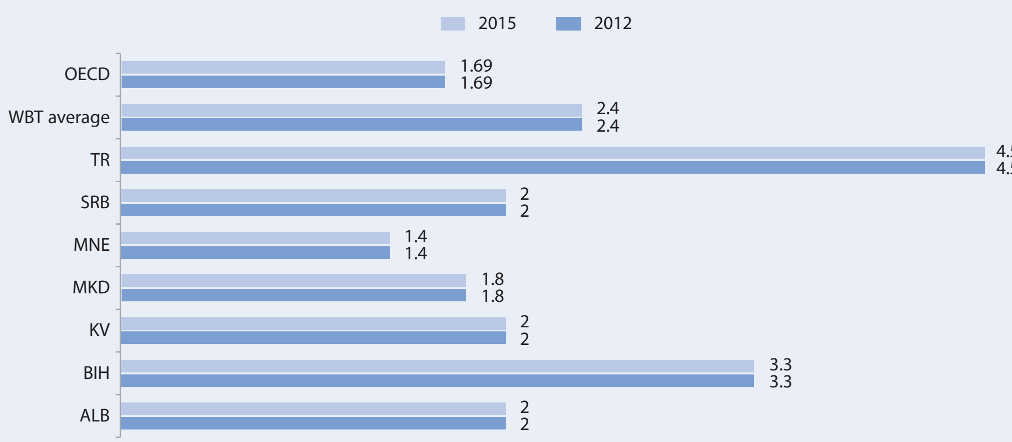
	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Implementation	2.33	1.47	1.47	3.25	3.58	2.92	3.83
Performance	3.67	2.67	3.33	3.67	3.67	2.67	2.67
Weighted average	**3.33**	**2.37**	**2.87**	**3.56**	**3.65**	**2.73**	**2.96**

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

Box 2.1. Key findings from the World Bank Doing Business 2016 indicators on resolving insolvency

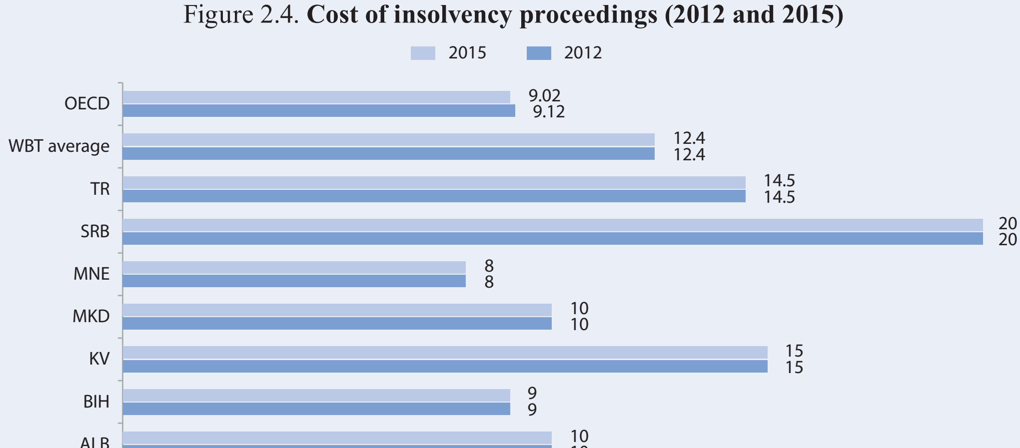
For the most part economies in the Western Balkans and Turkey have not made significant improvements on key metrics measuring the ease of undertaking insolvency laws. In part this is the result of many economies already having converged on OECD levels. For instance the regional average time to complete insolvency procedures stands at 2.4 years compared with the OECD average of 1.69 years, but this average is distorted by outliers such as Turkey (4.5 years) and Bosnia and Herzegovina (3.3 years). Many economies have already reached or surpassed the OECD average (Figure 2.3). A similar story emerges regarding the average cost of insolvency proceedings, with Serbia, Turkey, and Bosnia and Herzegovina distorting the results upwards (Figure 2.4). Most economies have bankruptcy proceeding costs which are near or below the OECD average. However, the Western Balkans and Turkey do lag behind in the recovery rate from the bankruptcy procedures. Here the regional average is 36.9%, which is virtually the same as it was in 2012, and well below the OECD average of 72.3% (which has increased from 68.4% since the 2012 assessment). Although most economies in the region are seeing improvements, albeit marginal ones, in this measure Turkey is sliding backwards – and its recovery rate stands at 18.7%, down from 23.6% (Figure 2.5).

Figure 2.3. **Time taken to complete insolvency proceedings (2012 and 2015)**



Source: World Bank (2015), *Doing Business 2016: Measuring Regulatory Quality and Efficiency*, World Bank, Washington, DC, www.doingbusiness.org/reports/global-reports/doing-business-2016.

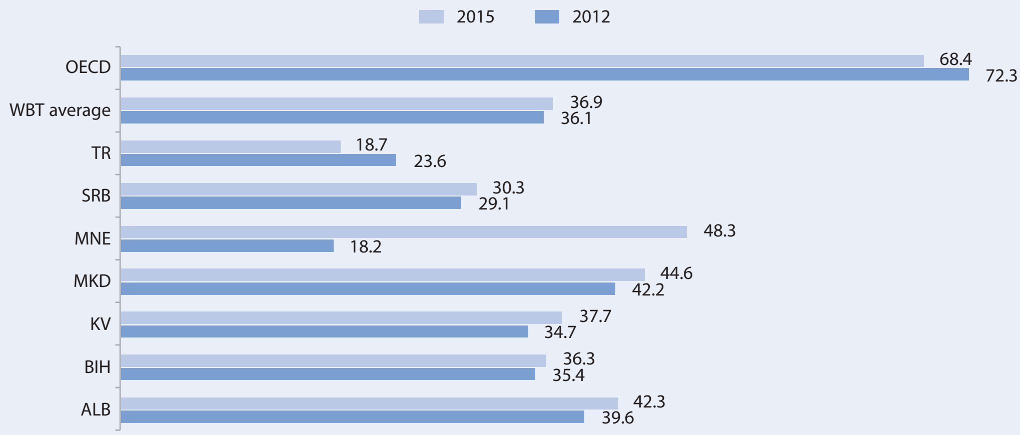
Figure 2.4. **Cost of insolvency proceedings (2012 and 2015)**



Source: World Bank (2015), *Doing Business 2016: Measuring Regulatory Quality and Efficiency*, World Bank, Washington, DC, www.doingbusiness.org/reports/global-reports/doing-business-2016.

Box 2.1. **Key findings from the World Bank Doing Business 2016 indicators on resolving insolvency** *(continued)*

Figure 2.5. **Recovery rate for insolvency proceedings (2012 and 2015)**



Source: World Bank (2015), *Doing Business 2016: Measuring Regulatory Quality and Efficiency*, World Bank, Washington, DC, www.doingbusiness.org/reports/global-reports/doing-business-2016.

Across the region there is a lack of programmes to promote second chances among entrepreneurs

There is a region-wide lack of provision of government-supported programmes to promote second chances among entrepreneurs who have had a failed business. Not one economy has included provisions in any national strategy to establish an information campaign to raise awareness about second-chance opportunities, although Turkey is in the process of developing a second-chance strategy. Nor is there any evidence that support or training programmes are being targeted towards honest entrepreneurs who have undergone non-fraudulent bankruptcy. Governments in the region may consider examining the initiatives introduced in a number of EU Member States (see Box 2.2), and how they can be applied in the context of their own economies. Table 2.2 gives the scores for this sub-dimension.

Table 2.2. **Scores for Sub-dimension 2.2: Promoting second chance**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Second chance	2.29	1.23	1.00	1.79	1.79	1.64	1.83
Weighted average	**2.29**	**1.23**	**1.00**	**1.79**	**1.79**	**1.64**	**1.83**

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

The way forward

Most economies in the region have relatively well-developed insolvency laws in place that largely meet international standards. However, the remaining issues could be addressed:

- **Strengthen current insolvency laws by establishing prevention systems and public insolvency registers.** Putting early warning systems in place could help to identify distressed companies and thus potentially prevent bankruptcy altogether – minimising both costs to the enterprises, creditors, and the government. Insolvency and bankruptcy registers should be made available to the public.

- **Promote second chances among entrepreneurs.** The region faces a severe shortfall of programmes that promote second chance for honest entrepreneurs. Such programmes should support a fresh start and minimise stigma against those who have had a failed businesses. In this regard, public policy and legislation should progressively introduce a distinction between honest and dishonest entrepreneurs to ensure that the former are able to re-enter the market as soon as possible (see Box 2.2).

Box 2.2. **Support for second chance in the EU**

Beyond the limitation of maximum discharge periods to three years and a number of other legislative measures to facilitate quick business re-entry by honest entrepreneurs, a number of EU Member States have introduced programmes and initiatives to actively promote business re-entry and support those entrepreneurs in their new ventures.

A recent survey of 33 European countries has tried to assess the ease of second chance and identify some of the practices in use (European Commission, 2014). While the study concluded that more needs to be done to promote second chance in EU Member States, the survey identified at least one support measure in over half of the countries covered, including:

- assistance with access to finance (Ireland)
- preparation of guidelines for re-starters (Germany)
- awareness-raising activities (Croatia, France, Germany, Lithuania)
- second chance coaching and education (Germany, Belgium, Luxembourg).

Many of these initiatives are delivered by associations or other non-governmental entities. For instance, in Belgium, free coaching for re-starters is provided by associations while in Luxembourg the Chamber of Commerce organises regular seminars on business administration specifically targeting those entrepreneurs. In France, an association ("Initiative France") provides mixed financial services and mentoring for new ventures and re-starters.

Source: European Commission (2014), *Commission Recommendation of 12.3.2014 on a New Approach to Business Failure and Insolvency,* COM(2014) 1500 final, European Commission, Brussels.

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Chapter 3

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

Design rules according to the "think small first" principle (Small Business Act Principle 3)

The "think small first" principle requires public authorities to take SMEs' interests into consideration early on in the policy-making process. It takes a comprehensive and coherence policy and institutional framework to ensure that laws and regulations are SME friendly and that public initiatives effectively address the needs of SMEs. This dimension therefore assesses three inter-related aspects of the SME policy process: 1) the institutional frameworks themselves; 2) the adoption of legislative simplification and regulatory impact analysis tools to ensure SME needs are incorporated into existing and future laws and regulations; and 3) the existence of participatory platforms for public-private consultations on SME-related topics.

This assessment found that the economies of the Western Balkans and Turkey are demonstrating increasingly sophisticated SME policy development, moving beyond initial institution building towards tracking policy implementation and monitoring. On the other hand, the limited availability of good-quality statistical data on the SME sector and limited consideration of SMEs' particular needs in regulatory reviews remain major obstacles to effective SME policy making in the region.

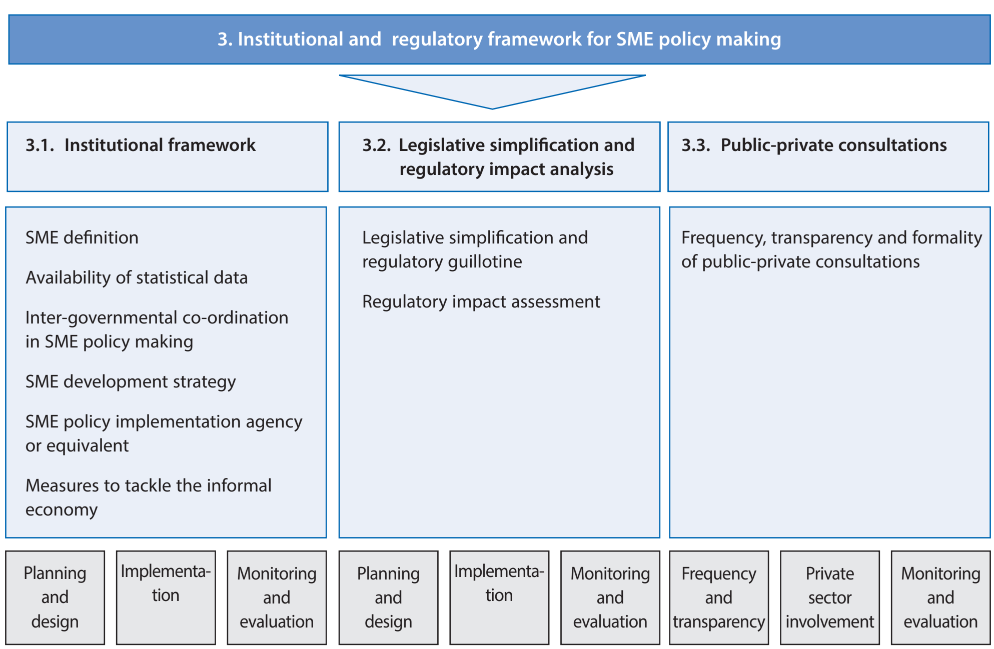
Introduction

The "think small first" principle of the EU Small Business Act requires public authorities to take into consideration the interests of SMEs at an early stage of policy making. Given that SMEs make up the largest share of companies in most economies, SME-friendly institutions and legislation, as well as regular consultations with the private sector which give full consideration to the specific needs of SMEs, are important for a favourable business environment.

Institutions, laws and regulations provide the "rules of the game" that constrain and encourage economic actors and influence their incentives to act (North, 1990; Schmid, 2008; Williamson, 2000). A strong legal framework reduces the transaction costs of economic activities and ensures that economic gains from starting and growing businesses are not expropriated, providing the incentives for individuals to maximise profits. Thus strong property rights and contract enforcement are foundations for the development of the SME sector (Aidis et al., 2012; Verheul et al., 2002). But, given their peculiarities, SMEs require a specific approach to policy making. For instance, SMEs face proportionally larger costs complying with regulations than larger firms (European Commission, 2007). Market failures justify proactive policies to encourage SME access to finance, skills upgrading and innovation development. Having a policy and institutional framework to tackle SME needs is an important precondition for creating a thriving SME sector.

This chapter assesses the extent to which the economies of the Western Balkans and Turkey (WBT) have the building blocks of a supportive SME framework in place, and compares their progress since 2012. It concludes with recommendations for the next steps.

Figure 3.1. **Assessment framework for Dimension 3**



Assessment framework

The assessment framework of Dimension 3 is composed of three sub-dimensions: 1) the strength of the overall institutional framework for SME policy making; 2) the existence and relative strength of legislative simplification and regulatory impact assessment (RIA) mechanisms; and 3) the degree of development of public-private consultations (PPCs). Each sub-dimension is structured into three thematic blocks covering the entire policy cycle, from planning and design to implementation and monitoring and evaluation (Figure 3.1).

Institutional framework

This sub-dimension assesses the level of development of the institutional framework for SME policy making. It includes the existence of formal laws, regulations and procedures, as well as the government institutions in charge of small enterprise policy. The "think small first" principle implies that governments must place SME concerns in the mainstream of public policy, particularly in areas affecting the overall business enabling environment. This requires certain institutional developments to be reflected in legislation, government structures and policy documents.

- Having a clear and consistent definition of SMEs enshrined in legislation is one of the core pillars of this sub-dimension.
- Extensive and accurate statistics about SMEs are a fundamental requirement for evidence-based policy making.
- Inter-governmental co-ordination in SME policy making. Given the cross-cutting nature of SME development policies, several government ministries, agencies and departments are typically involved in the design and implementation of SME policy. Inter-governmental co-ordination in SME policy making is therefore vital to ensure consistency, effective communication and collaboration across institutions (OECD, 2010).
- SME development strategy. A well-developed SME strategy helps governments define policy priorities, targets and benchmarks. Strategies should be based on a clear diagnosis of the main constraints confronting the SME sector (based on statistics and enterprise-level surveys) and grounded in the economy's broader socio-economic or development strategic framework. They should prioritise and sequence planned reforms and initiatives, set out a clear division of labour, and define targets and performance indicators to monitor progress. Estonia's SME strategy provides a good example of how policy implementation can be maximised through successful monitoring and evaluation (Box 3.1).
- SME policy implementation agency or equivalent. Implementation of the SME strategy should be co-ordinated by an autonomous agency in order to ensure a separation between policy design and implementation.
- Measures to tackle the informal economy. The shadow economy affects SMEs and micro-enterprises in particular, as the incidence of informality decreases with firm size due to higher costs of regulatory compliance for smaller firms (Andrews et al., 2011). SMEs also tend to operate in markets where informal firms are most active.

Legislative simplification and regulatory impact analysis

This sub-dimension assesses the mechanisms for legislative simplification and RIA, including whether there is an "SME test" to ensure that the specific impact of new laws and regulations on SMEs is properly measured and mitigated (European Commission, 2009). Regular reviews and elimination of redundant, outdated or burdensome legislation (often referred to as regulatory guillotine exercises) allow for a strong regulatory framework which is still conducive to private-sector development. While regulatory reviews focus on the simplification of existing legislation ex post, RIA operates as an ex ante mechanism to avoid the overburdening of businesses. RIA therefore refers to a process of systematically evaluating the costs, benefits and social impacts that may arise from the adoption of new legislation or regulations (OECD, 2009b).

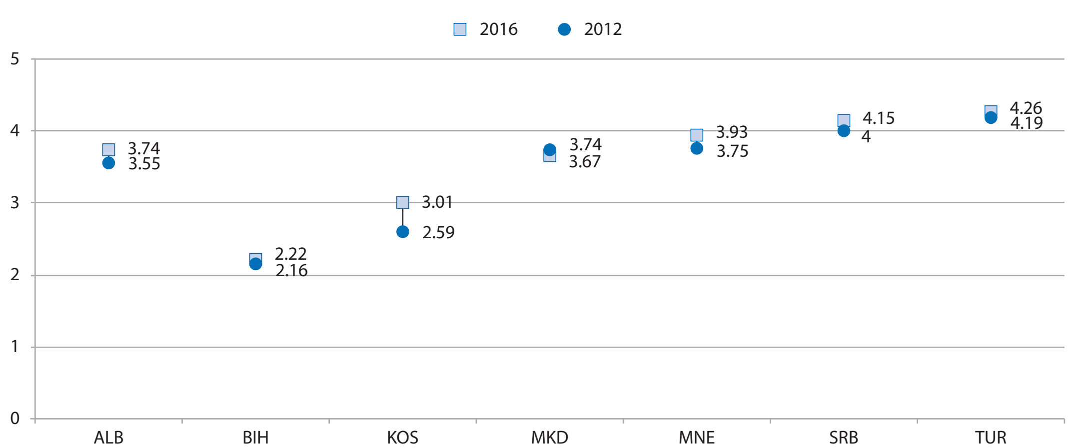
Public-private consultations

Finally, this sub-dimension analyses the frequency, transparency, formal influence and inclusiveness of consultations between the public and private sectors (public-private consultations, or PPCs). Given that small firms are less organised and their needs much more diverse, their views may not be fully considered in the development of policies or adoption of legislation (European Commission, 2005). Consultations with the private sector, including SMEs, 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. Governments also have an obligation to inform participants how they use the feedback received through consultations, to ensure that the policy-making process is open and transparent (OECD, 2009a).

Analysis

The economies of the Western Balkans and Turkey have made overall progress in their institutional and regulatory environment for SME policy since the 2012 assessment, with scores for Dimension 3 increasing overall across the region (Figure 3.2). This evolution reflects a growing tendency to move beyond institution building towards tracking policy implementation and monitoring, as evidenced by concrete action plans based on stakeholder consultations and completed with timelines and budgets. There is also a nascent trend towards developing monitoring and evaluation systems. Turkey and Serbia continue to be the strongest performers in the region in terms of establishing a sound institutional framework whereas Bosnia and Herzegovina has the most room

Figure 3.2. **Weighted scores for Dimension 3 compared to 2012**



Note: See Annex A for further information on the assessment methodology.

for improvement. Since 2012, larger-scale legislative simplification efforts have been undertaken in the Former Yugoslav Republic of Macedonia, Serbia and Montenegro, who all perform equally well on RIA. Public-private consultations have been formalised in Albania and Kosovo with the introduction of Economic and Social Councils. Progress in Bosnia and Herzegovina remains limited and confined to the level of its entities.

Despite reforms, important challenges remain in the WBT region:

- Although most economies have introduced solid institutional frameworks for SME development, they need to strengthen the monitoring of policy implementation and the evaluation of policies and programmes and their impact on small firms.
- The SME and entrepreneurship statistics are still rather limited and poor quality, acting as a major obstacle to evidence-based policy making and also limiting governments' monitoring and evaluation of SME policies and programmes.
- Governments need to take more explicit measures to tackle the informal economy and the transition of SMEs towards the formal sector. Until now, SME strategies in the region have only addressed the informal economy to a limited extent.
- All economies except Bosnia and Herzegovina have established a legal framework for the application of RIA, but in practice RIA is mostly undertaken on an ad hoc basis (as in Kosovo and Turkey) or else without fully considering SME aspects (e.g. Albania and Montenegro).
- Finally, public-private consultations continue to take place on an ad hoc basis across the region with some economies still lacking a centralised institutional architecture for PPCs, and with practically no clarity over the allocation of responsibility for conducting PPCs.

Although SME policy frameworks are becoming progressively more sophisticated, they still lack sufficient monitoring and evaluation to ensure successful implementation

Most economies have a policy framework in place

Most economies in the region have developed solid strategic frameworks for their SME policies and these are becoming progressively more sophisticated and aligned with the Small Business Act. Albania, Serbia and Turkey recently adopted new medium-term development SME strategies, covering a timeframe of 2014-20 (2015-18 in the case of Turkey). In comparison with the last assessment, monitoring mechanisms have become more sophisticated in the new strategies. One good performer is Montenegro, with implementation of its Strategy for the Development of Small and Medium Enterprises 2011-2015 proceeding on track. It has a co-ordination team consisting of a wide range of representatives of different ministries and private-sector representatives monitoring progress. Kosovo has also taken significant steps forward, anchoring SME policy in its Private Sector Development Strategy 2013-2017. The Former Yugoslav Republic of Macedonia currently lags behind its neighbours as its National Development Strategy for SMEs expired in 2013 without a new one being drafted. Bosnia and Herzegovina has not yet developed any nationwide SME strategy, but there are however entity-level SME strategies.

Policy implementation agencies are mostly in place but not always fully resourced

Inter-governmental co-ordination in policy elaboration remains well established throughout the region. Except for Bosnia and Herzegovina (at the national level) and

Montenegro, all Western Balkan economies and Turkey have created a specific policy implementation body but their operational autonomy and strength vary across the region. Turkey's and Serbia's implementation agencies remain at the forefront, while the agencies in Albania, Kosovo and the Former Yugoslav Republic of Macedonian are not yet sufficiently staffed or funded. Kosovo has strengthened its inter-ministerial co-operation by establishing the National Council for Economic Development in 2012 to serve as the main body responsible for SME and business environment policy co-ordination. Serbia also recently introduced a Council for Entrepreneurship and Competitiveness as a governmental body responsible for monitoring and co-ordinating the implementation of the SME development strategy.

Consistent SME definitions are in use

All economies have SME definitions in place which are used consistently throughout legislation except for Bosnia and Herzegovina, which has three SME definitions: one for each of the two entities and one for Brčko District. All economies have aligned with the EU definitions for numbers of employees, but have a lower range when it comes to turnover and total assets (Table 3.1). In general terms it is important to 1) ensure that a single definition is used across all policies in order to better ascertain the impact of different initiatives on the entire SME universe, in as far as this can be combined with other policies; and 2) expand the criteria beyond employment to at least turnover in order to provide an accurate picture of the SME population across all sectors, regardless of whether they are labour- or capital-intensive.

Box 3.1. **Estonia's SME strategy**

Estonia improved its SME policy framework through its current SME development strategy for 2014-20, which provides a good practice example of how to maximise the implementation of policies through successful monitoring and evaluation. The strategy's monitoring cycle is divided into a preparation phase including the development of selected indicators; an implementation phase, where the output indicators are monitored and a midterm evaluation is conducted; and the end of the strategy phase, including an ex-post analysis and overall evaluation.

The strategy in general foresees an implementation plan for each year and contains 12 different indicators. Various authorities are involved in the process through a Steering Committee composed of the Ministry of Economic Affairs and Communication, the Ministry of Finance, the Innovation and Enterprise Policy Committee, as well as the private sector and the development fund.

Policy targets

The SME policy targets include:

- business models (number of enterprises established 3 years ago with turnover exceeding EUR 125 000 and number of enterprises with at least 20 employees)
- development and production (private-sector expenditure on research and development as a share of GDP, sales of new-to-market and new-to-firm products or services as well as ratio of labour productivity per hour worked to the euro area average in current prices)
- sales and marketing (Estonia's share of world trade, number of exporters and Unit Value Index)
- competitive position (Estonia's ranking in the World Economic Forum Global Competitiveness Report and the World Bank Doing Business report).

Box 3.1. Estonia's SME strategy *(continued)*

All these policy targets are carefully analysed through a monitoring report which is fully evaluated every two years with an additional quantitative evaluation every year. The Ministry of Economic Affairs and Communication is responsible for the monitoring report, but complements its own analysis with foreign experts and consulting companies. The whole evaluation contains quantitative research, surveys, interviews and econometric analysis. Estonia specifically tries to guarantee objectivity through peer-review groups, independent service providers, co-operation with scientists and an open database for replication.

Source: Government of Estonia (2013), *Estonian Entrepreneurship Growth Strategy 2014-2020*, Government of Estonia, http://kasvustrateegia.mkm.ee/index_eng.html.

Table 3.1. **SME definitions in the SEE economies**

	Micro	Small	Medium-sized	Source
Albania	< 10 employees ≤ ALL 10 million (Albanian lek, equivalent to EUR 70 000) turnover and/or balance sheet		< 250 employees ≤ ALL 250 million (EUR 1.8 million) turnover and/or balance sheet	Art 4 of the Law No. 8957 on SMEs
Bosnia and Herzegovina				
1. Republika Srpska	< 10 employees	< 50 employees ≤ BAM 10 million (~EUR 5 million) turnover or balance sheet	≤ BAM 50 million (~EUR 25 million) turnover and/or ≤ BAM 43 million (~EUR 15 million) balance sheet	Law on Incentives for Small Business Development, 30 March 2009
2. Federation of Bosnia and Herzegovina	< 10 employees ≤ BAM 400 000 (Bosnian convertible mark, equivalent to EUR 200 000) turnover or balance sheet or balance sheet	< 50 employees ≤ BAM 4 million (~EUR 2 million) turnover or balance sheet	< 250 employees ≤ BAM 40 million (~EUR 20 million) turnover and/or ≤ BAM 30 million (~EUR 15 million) balance sheet	Law on Incentives for Small Business Development 568/09 30 December 2009
Kosovo	< 10 employees	< 50 employees	< 250 employees	Law on Foreign Investment 9 January 2014
Former Yugoslav Republic of Macedonia	< 10 employees ≤ EUR 50 000 gross annual revenue ≤ 80% of gross income is acquired from a single client/consumer and/or from an individual who is related to this client/consumer ≤ 2 natural persons who own all rights to participate in the micro-company	< 50 employees < EUR 2 million annual income < EUR 2 million total assets < EUR 2 million total turnover	< 250 employees < EUR 10 million annual income < EUR 11 million total assets	Company Law, May 2004

Table 3.2. **SME definitions in the SEE economies** *(continued)*

	Micro	Small	Medium-sized	Source
Montenegro	< 10 employees ≤ EUR 700 000 turnover ≤ EUR 350 000 balance sheet	< 50 employees ≤ EUR 8 million turnover ≤ EUR 4 million balance sheet	< 250 employees ≤ EUR 40 million turnover ≤ EUR 20 million balance sheet	Law on Accounting and Auditing from November 2014
Serbia	< 10 employees < EUR 0.7 million operating revenues < EUR 0.35 million circulating assets	< 50 employees < EUR 8.8 million operating revenues < EUR 4.4 million circulating assets	< 250 employees < EUR 35 million operating revenues < EUR 17.5 million circulating assets	Law on Accounting and Auditing 99/2011
Turkey	≤ TRY 1 million (Turkish lira; equivalent to EUR 313 000) turnover or balance sheet	EUR 2.5 million turnover or balance sheet		Law on the SME Definition 4 November 2012

Data gathering is improving but major gaps remain

All six Western Balkan economies and Turkey made progress in improving the quality and availability of SME-specific data, but some major gaps in the data remain (Table 3.2). Although all economies collect structural business statistics by size class, in some cases

Table 3.2. **Statistics collected in the SEE economies**

	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 • enterprise birth rate
Bosnia and Herzegovina	• number of active enterprises by size class and sector • employment by size class of enterprises and sector • value added by size class of enterprises and sector
Kosovo	• enterprise births by size class and sector (new registered enterprises) • enterprise deaths by size class and sector (terminated enterprises)
Former Yugoslav Republic of Macedonia	• number of active enterprises by size class and sector • employment by size class of enterprises and sector • value added by size class of enterprises and sector
Montenegro	• number of 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 • enterprise birth and death rate
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 • enterprise birth and survival rate

important variables such as contribution to GDP, value added and exports are missing. In Montenegro, micro enterprises are not taken into consideration. Differences in SME definitions and data-collection methodologies prevent valid comparison of data across the region and with the EU. The limited availability and quality of SME statistics contributes to weak monitoring and evaluation of SME policy across the Western Balkan region, and is a challenge to the development of effective policy measures. In general terms, governments must intensify their efforts to increase the level of detail and quality of SME statistics, improve the accessibility of the data (e.g. by publishing regular updates on the websites of the national statistical offices), improve international comparability and use firm-level surveys on active companies to expand the information available on certain topics (e.g. SME internationalisation, innovation and access to finance). Governments are in particular invited to use as a reference the OECD-Eurostat methodology for measuring entrepreneurship, which is reflected in the indicators used in the yearly *Entrepreneurship at a Glance* publication (OECD, 2014a) as well as the OECD *Scoreboard on Financing SMEs and Entrepreneurs* (OECD, 2014b) to measure trends in SME use of different financial instruments.

The informal economy remains an obstacle to firms across the region

Finally, measures to tackle the informal economy in the Western Balkan region remain largely limited to horizontal reforms of the business-enabling environment aimed at lowering the costs associated with formalisation, such as streamlining business registration procedures and the introduction of favourable taxation regimes. Montenegro and Serbia introduced some measures to tackle the informal economy within their respective SME strategies. Others, like Turkey, have put a specific programme in place which is related to the national development plan and aims to reduce the informal economy across all sectors. However, the informal economy in most Western Balkan economies and Turkey continues to account for a sizeable portion of GDP. In Albania, for example, discrepancies in the national accounts suggest that the informal sector accounted on average for 36.2% of GDP over the period 1996-2012, which leads to tax revenue losses, a lack of labour protection and unfair competition among firms (EBRD, 2013). Furthermore, the Business Environment and Enterprise Performance Survey (BEEPS V) found that across the SEE region and Turkey, the firms surveyed reported that one of the top obstacles they faced was competing against firms in the informal sector, with the competition being highest among SMEs (EBRD, 2014). Existing measures against these problems could be complemented with the development of specific strategies to better understand and tackle informality. Surveys of informal businesses could be used to identify the main constraints and drivers behind firm-level decisions on whether to stay in the shadow economy. These could be combined with proactive measures to further reduce the costs of formalisation and, crucially, increase awareness about the benefits, such as securing access to collateral and finance, and participation in government support programmes.

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

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Planning & design	4.41	2.74	3.99	3.68	4.56	4.36	4.83
Implementation	3.56	2.44	3.56	3.22	4.33	4.56	4.67
M&E	3.33	1.41	2.19	2.83	3.81	4.33	4.83
Weighted average	**3.81**	**2.34**	**3.43**	**3.30**	**4.31**	**4.44**	**4.76**

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

Legislative simplification efforts should be complemented by more systematic use of regulatory impact assessments and an SME test

Larger-scale reviews of legislation to eliminate unnecessary and burdensome business regulations have been carried out in the Former Yugoslav Republic of Macedonia, Montenegro and Serbia. All economies have undertaken more general regulatory reform efforts to review, simplify and eliminate legislation, albeit with differences in scope and intensity. Compared to the progress seen between the 2009 and 2012 assessment, however, progress since 2012 has been rather incremental and mostly a continuation of activities introduced in the previous assessment period.

A regulatory guillotine has been applied in the Former Yugoslav Republic of Macedonia since 2006 and has reached its fourth phase of development, concentrating on SMEs, called Advantage to the Small Ones. In 2014, it led to 64 laws and 681 subordinated regulations being reviewed. In Serbia, the Republic Secretariat for Public Policies remains the main authority in charge of legislative simplification. It received 134 laws for review, which represents 77.4% of all the proposals that have been adopted by the government. In May 2012, Montenegro adopted the Regulatory Guillotine Action Plan with 1 344 recommendations to be implemented to improve the regulatory framework, although only half of them have been adopted so far. As in 2012, the Albanian review process has concentrated mainly on permits and licences and no data could be provided on the number of laws reviewed. Kosovo made some progress since 2012 in introducing a strategic approach to legislative review but it still only takes place sporadically. Similarly, Bosnia and Herzegovina has carried out sporadic reviews at entity level but at a lower intensity than in the 2012 assessment.

Regulatory impact assessments (RIAs) are applied in the Former Yugoslav Republic of Macedonia, Serbia and Montenegro, including a mechanism for consulting the private sector. In 2014, the Former Yugoslav Republic of Macedonia introduced its first attempts at ex-post evaluations of the effects of RIA. Albania introduced a lightweight approach to RIA in 2011 and has applied it for major regulations, but the fully fledged RIA envisaged then has not yet been formally introduced and implemented. In Kosovo, the Better Regulation Strategy 2014-2020 envisages the introduction of RIA, which is currently in a preparatory phase. Although Turkey has had a requirement to conduct RIA for some business-related legislation since 2006, in practice it is not conducted to inform the development of regulations. In Bosnia and Herzegovina, RIA is only in place for major regulations in the Republika Srpska, with no legal requirement at state and entity level.

Countries are advised to embed an SME test in their RIA methodologies, based on the EU framework, to ensure that regulatory impact is assessed from an SME angle. The Former Yugoslav Republic of Macedonia, Serbia and Montenegro have introduced an SME test.

Table 3.4. **Scores for Sub-dimension 3.2: Legislative simplification and regulatory impact analysis**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Planning & design	3.51	2.25	2.73	4.73	3.80	4.60	3.93
Implementation	3.53	2.52	2.27	4.00	3.40	4.32	3.18
M&E	3.13	1.00	1.67	4.33	2.44	4.07	2.33
Weighted average	**3.44**	**2.12**	**2.31**	**4.32**	**3.35**	**4.37**	**3.28**

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

Public-private consultations should become more frequent and transparent

Progress has been made since the 2012 assessment in introducing formal institutional frameworks and requirements in consulting with the SME sector. Albania, Kosovo and the Former Yugoslav Republic of Macedonia have established institutional forums for consultations. While the Macedonian National Entrepreneurship and Competiveness Council (NECC) had already proven functional during the last assessment, Kosovo introduced its National Council for Economic Development (NCED), and Albania its National Economic Council (NEC) in 2013. It is however unclear how often these forums meet. All the economies except Turkey have introduced a formal requirement to conduct PPCs. Montenegro has no central body for consultations but provides information on all ongoing consultations on a single website. Montenegro held several consultations with the SME community prior to adopting its current SME strategy. Albania, Serbia and Turkey have similarly held PPCs prior to adapting their recently updated SME strategies. However, throughout the region, consultations take place on a rather sporadic, ad hoc basis and SME participation is mostly limited to representation via chambers of commerce.

Table 3.5. **Scores for Sub-dimension 3.3: Public-private consultations**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Planning & design	4.10	2.31	3.33	3.50	4.62	3.12	4.50
Implementation	4.60	2.33	3.40	4.40	4.27	4.53	4.80
M&E	2.33	1.44	2.33	1.67	2.33	2.33	4.33
Weighted average	**3.94**	**2.15**	**3.16**	**3.49**	**4.02**	**3.53**	**4.59**

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

The way forward

In order to strengthen the effectiveness of SME policy making, the Western Balkan economies and Turkey may want to continue developing the main building blocks of a robust institutional framework:

- **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. Those economies with sound institutional frameworks should place more emphasis on the implementation and monitoring of their strategic programmes and on evaluating their effect on the small business sector. Dedicated monitoring units should be established within the ministry responsible for SME policy co-ordination, and institutional mechanisms established. The Former Yugoslav Republic of Macedonia, and Bosnia and Herzegovina should initiate participatory processes to develop medium-term strategies following the examples of other Western Balkan economies.
- **Develop specific measures to address the informal economy in order to ease the transition of SMEs to the formal sector.** Governments should aim to understand the key drivers of the informal economy and address them by lowering the costs and increasing the benefits associated with formalisation. They should consider both business environment reforms and targeted measures to encourage informal small businesses to become formal.

- **Address existing gaps in the availability and quality of SME statistical data and deepen the collection of business demographic data**. To this end, the adoption of a consistent SME definition (ideally in line with the EU definition to allow for international comparison) is a prerequisite for good data collection. Capacity-building efforts with economies' statistical agencies are likely to be required to increase the availability of business demographics and structural statistics. Adopting the OECD-Eurostat methodology for measuring entrepreneurship would allow for evidence-based policy making and benchmarking of policy outputs in line with international standards.
- **Improve the actual implementation of RIA and make sure that SME aspects are considered throughout the regulatory guillotine process.** Although all economies except Bosnia and Herzegovina have introduced a formal requirement to conduct RIA, it is still not used on a regular basis and it is not clear how many laws the RIA processes have actually reviewed. The WBT economies should in particular further cut the time and cost involved in setting up a company and ensure that the SME test becomes a mandatory part of impact assessments. They could also further strengthen the practical implementation of RIA in line with international good practices, and introduce ex-post impact analysis.
- **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. Consultations should be held on a regular basis, providing SMEs with a platform to consistently voice their concerns. Both the objectives and outcomes of PPCs should be made public to ensure transparency and wide participation.

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Chapter 4

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

Make public administrations responsive to SMEs' needs (Small Business Act Principle 4)

Lengthy and costly administrative procedures can be a major constraint on doing business and their impact is most heavily felt by micro and small-sized enterprises. Dimension 4 assesses progress towards simplifying regulations and reducing compliance costs and procedures for SMEs, with a focus on business registration and e-government systems.

The economies of the Western Balkans and Turkey have continued to streamline business regulation to lower market entry barriers and reduce transaction costs for businesses in their interaction with government agencies. However, progress has slowed down since the assessment in 2012. E-government portals and services have been expanded in most WBT economies, one-stop shops for starting a business are currently operative throughout the region and business registration has been simplified. Despite this, starting a business in the WBT region remains on average more costly and involves more procedures than in OECD countries. WBT economies should keep up their momentum by streamlining company registration procedures, increasing awareness about e-services amongst SMEs, and improving the integration of government databases to further reduce transaction costs. Governments might also consider reducing other administrative barriers to business, such as licences and permits, which continue to be a major constraint in certain economic sectors.

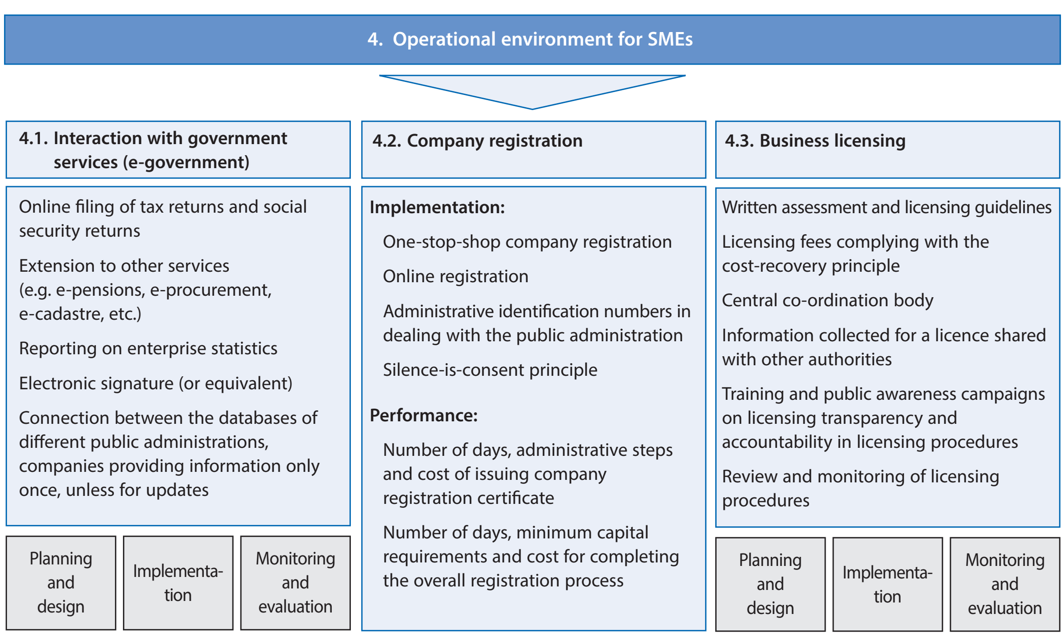
Introduction

Before an entrepreneur or a company can start operating they normally need to register with the public authorities. Lengthy and costly company registration procedures are known to be a major business constraint and their impact is most heavily felt by micro and small-sized enterprises (Van Stel and Stunnenberg, 2006; European Commission, 2007). They can discourage entrepreneurial activity and act as a significant barrier for new start-ups (Dickinson, 2008; Smallbone and Welter 2012). For instance, a study has found a negative correlation between barriers to starting a business and the total number of businesses registered as a percentage of the economically active population aged 15-64. The number of registered firms increases as the cost and the number of procedures needed to start a business fall: for every 10 percentage point decrease in entry costs, the total number of businesses registered as a percentage of the economically active population increases by about 1 percentage point (Klapper et al., 2010).

Efforts to simplifying the operational environment and reducing the administrative burden on SMEs involves more than reforms to the company registration process. More and more governments are introducing e-government systems to deliver a variety of services online. By adopting information and communications technology (ICT) solutions, governments can cut transaction costs for entrepreneurs and improve the efficiency of public administration, generating savings on data collection and transmission, provision of information and communication with businesses, and enhanced government information. Furthermore, ICT can help reduce corruption, and increase openness and trust in government, and thus contribute to wider economic policy objectives (OECD, 2005).

This chapter examines the steps being taken by governments in the region to improve the operational environment for SMEs and progress since the 2012 assessment.

Figure 4.1. **Assessment framework for Dimension 4**



Assessment framework

Dimension 4 has three sub-dimensions, covering company registration procedures, the development of e-government services and business licensing, which was added since the 2012 assessment.

Company registration

This sub-dimension analyses the reforms undertaken by governments to reduce the complexity of starting a business. Simplifying company registration procedures encourages companies to formally register, reducing the number of SMEs operating in the shadow economy. Studies show that a simple business start-up process facilitates formal entrepreneurship while complex administrative procedures for starting a business are associated with a smaller number of legally registered firms, greater informality, a smaller tax base and greater corruption (Audretsch et al., 2006; Klapper et al., 2009; OECD, 2014). Box 4.1 provides an example of good practice from Denmark offering a single efficient business registration process.

Box 4.1. **The Danish Commerce and Companies Agency**

In 2004, the Danish Commerce and Companies Agency (DCCA) was set up as registration authority for a variety of basic business information and is now a part of the Danish Business Authority, working to enhance growth and to create a favourable environment for businesses. The Danish Business Authority aims to provide effective regulation, a qualitative ICT infrastructure, access to business data and enhanced international co-operation.

Since the establishment of the DCCA, businesses of any legal form have to contact only one authority for basic registration. The DCCA is responsible for certifying and confirming the status of enterprises and serves as registration authority for a variety of business information. Along with other basic information, sole traders have to report their value-added tax-related data to the DCCA instead of to the tax authority. The DCCA also provides information and communication tools for limited liability companies to register themselves on the Internet. The introduction of the DCCA has contributed towards making registration more efficient and providing a high-quality service.

Sources: OECD (2005), *E-Government for Better Government*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264018341-en; Danish Business Authority, 2015.

The assessment framework for this sub-dimension is broken down into two parts, implementation and performance:

- Implementation examines the implementation of government measures to simplify the process of starting a business by 1) reducing the number of company identification numbers used in dealing with the public administration (ideally limited to a single number used for tax, statistical collection and other purposes); 2) establishing one-stop shops for company registration allowing entrepreneurs to complete all formalities in a single location or with a single interface; 3) enabling online registration; and 4) adopting the "silence-is-consent" principle (i.e. creating a time limits following a request for business registration after which the request is considered accepted even if no formal decision has been made by the relevant government body). These reforms affect the three phases in which the broader business registration process can be divided, namely, 1) company registration itself, involving all the procedures needed to obtain a company registration certificate; 2) the notification of the establishment of the new company to different government bodies such as tax authorities, statistics offices, employment agencies and customs administrations; and 3) a final compliance phase comprising all procedures necessary to ensure compliance with applicable laws and regulations.

- Performance measures the performance of the economy in reducing the barriers to starting a business as measured by the World Bank's *Doing Business* indicators. In particular, it assesses the ease of obtaining the company registration certificate (number of days, number of administrative procedures and cost) and the overall ease of starting a business (total number of days and costs associated with all phases and administrative procedures necessary to commence operations, as well as any minimum capital requirements to register) (World Bank, 2014).

Interaction with government services (e-government)

This sub-dimension measures the development of online support services to encourage increased and efficient interaction between SMEs and the public administration. Online access to government services is of particular importance to the small businesses sector, as entrepreneurs are typically unable to spend extensive time and resources interacting directly with the public administration. Within the EU, there has been an increasing trend towards the adoption of sophisticated online support services such as online filing of tax returns, social security returns and reporting on enterprise statistics (European Commission, 2015). By adopting ICT solutions, governments can reduce costs for SMEs, and simultaneously improve the quality and efficiency of their services. Furthermore, these solutions play an important role in reducing corruption and informal sector activities by improving enforcement mechanisms, increasing transparency and reducing subjective decision making from government officials (Asian Development Bank, 2001).

This sub-dimension assesses the development of government systems for online filing of tax returns, social security returns, pensions and other services, as well as the existence of online cadastre, online reporting of enterprise statistics, the integration of different public institutions' databases to avoid duplication of data collection and the use of electronic signatures.

Business licensing

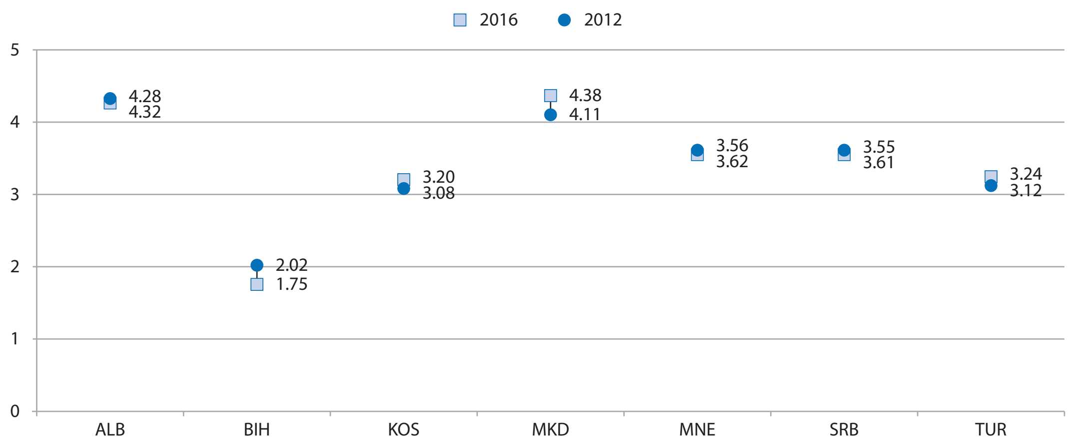
This sub-dimension looks at business licence systems. A large proportion of business regulation at the national and subnational level involves licences, permits and other authorisations. Licensing regulates entry into markets and conduct within markets. Licences typically impose certain conditions on businesses, which are sanctioned if they do not comply. Business should be able to obtain licences in an easy and timely manner. Compliance conditions should be clearly communicated to individuals and businesses and remain at the minimum level necessary to adhere to the compliance requirements.

The assessment framework for business licensing is broken down into two thematic blocs. The first one assesses the application and approval of licenses by looking at the provision of clear guidance material, modes of communication with regulating authorities and time and steps involved in the licensing process. The second bloc looks at the streamlining of license systems. Licensing systems should thus be regularly reviewed and streamlined. It should be taken care that SMEs have the possibility to complain and that a formal mechanism to hear their complaints is in place.

Analysis

All economies with the exception of Bosnia and Herzegovina have made progress in this dimension but it remains incremental compared with the improvements between 2009 and 2012 (Figure 4.2). The Former Yugoslav Republic of Macedonia remains the strongest performer in the region as well as one of the strongest worldwide, currently ranking 3rd out of 189 economies on the World Bank *Doing Business* ease of starting a business indicator (World Bank, 2015). Albania follows with a noteworthy performance in decreasing the costs of doing business and improving its e-government infrastructure and services.

Figure 4.2. **Weighted scores for Dimension 4 compared to 2012**



Note: See Annex A for further information on the assessment methodology.

With regards to company registration, one-stop shops to start a business are currently operating everywhere in the region. Online company registration is available in the Former Yugoslav Republic of Macedonia and Turkey and also in Albania and Montenegro, albeit not for all phases of the registration procedure. Since the 2012 assessment, economies have further simplified their business registration procedures but progress remains unequal across the region. Data from the World Bank's *Doing Business Report* (World Bank, 2015) confirm the impact of these developments: it currently takes an average of 11.9 days to start a business in the WBT region, down from 19.4 days in 2012, but still above the OECD average of 9.2 days (Table 4.1). The costs involved vary, with entrepreneurs in Turkey bearing the highest cost at 16.4% of income per capita, an increase on 2012. All other economies cut the cost of business registration, particularly Albania and Kosovo. E-government portals and services have also been enhanced and expanded in most WBT economies.

With incremental improvements since the 2012 assessment, governments are still confronted with a series of challenges:

- While one-stop shops for business registration have been established in nearly all economies in the region, only the Former Yugoslav Republic of Macedonia has fully introduced online company registration. Albania, Montenegro and Turkey have partial online registration. Other bureaucratic procedures related to starting a business, such as issuing licences and permits could be further simplified and streamlined.

- Data collection on the use of e-services and awareness of those services among the SME community is generally low in the region. Most governments have portals informing users about e-services but there have been few surveys to find out SMEs' needs and usage, which would help to better target the services offered.
- Data exchange between government agencies is yet to be established in Bosnia and Herzegovina, Kosovo, and Turkey and could be broadened in Albania, Montenegro and Serbia to avoid SMEs having to supply the same information to multiple government agencies.
- The "silence-is-consent" principle has not yet been adopted for business registration in Bosnia and Herzegovina, and Kosovo. It is not promptly used in other economies such as the Former Yugoslav Republic of Macedonia and Serbia.

Table 4.1. **Ease of obtaining a registration certificate in the Western Balkans and Turkey**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Number of procedures	6.00	12.00	5.00	2.00	6.00	6.00	8.00
Time (days)	5.50	67.00	11.00	2.00	10.00	12.00	7.50
Cost (% of income per capita)	10.40	14.80	1.20	0.60	1.40	6.60	16.60
Paid-in minimum capital (% of income per capita)	0.00	28.00	0.00	0.00	0.00	0.00	11.00

Source: World Bank (2015), *Doing Business 2016: Measuring Regulatory Quality and Efficiency*, World Bank, Washington, DC, www.doingbusiness.org/reports/global-reports/doing-business-2016.

The region has continued to make progress in reducing the time, cost and procedures required to register a company

One-stop shops are operating in all economies in the region except Bosnia and Herzegovina, where company registration procedures are different in the two entities, creating an artificial barrier to trade in the country. In the Republika Srpska, 11 branches of the Agency for Intermediary, IT and Financial Services (APIF) function as a one-stop shop. In the Federation of Bosnia and Herzegovina, there is no one-stop shop and the procedure for company registration is lengthy and costly. Turkey has expanded the pilot Central Registry Recording System (MERSIS) which it introduced in 2012. It operates now as a one-stop shop, covering the whole of the country. However, companies have to contact trade registers and chambers of commerce to complete the registration process started with MERSIS, as company identification numbers have not yet been entirely unified.

The development of online company registration varies throughout the region. It is very advanced in the Former Yugoslav Republic of Macedonia with online registration available from around the world with the assistance of authorised registration agents and no registration fee. The Turkish MERSIS system operates as a one-stop shop for online company registration. In Bosnia and Herzegovina the Republika Srpska has partially established an electronic system for company registration with APIF providing relevant information as well as registration forms and manuals for download. Albania and Montenegro have established a system for online registration but it does not apply to all phases of the procedure. Kosovo and Serbia do not offer online company registration yet since no operational electronic signature has been established.

Businesses need only a single identification number to obtain a company registration certificate and deal with public administration functions in Albania, the Former Yugoslav Republic of Macedonia, Montenegro and Serbia. In Bosnia and Herzegovina, companies need three administrative identification numbers to deal with public authorities: a registration number, an ID number and a number for value-added tax (VAT). Moreover, companies operating in both entities need to register in each one. Turkey also requires businesses to have three different identification numbers: a tax identification number, a social security number and a trade register number. However, the newly introduced MERSIS system is making efforts to unify the company identification numbers. In Kosovo, companies need two identification numbers – a business registration number and a tax number – to interact with the public administration.

Currently, Albania and Montenegro have legal provisions for the principle of silence-is-consent. Although no specific law establishes the silence-is-consent principle in Serbia and the Former Yugoslav Republic of Macedonia, legislation in both economies provides legal procedures to be followed if a decision is not taken within a specific deadline. Turkey has no specific law on the principle of silence-is-consent either, but it is used in most areas of administration and mentioned in the Enforcement and Bankruptcy Law. However, application of the principle varies according to the area of implementation. Table 4.2 summarises the scores for the company registration sub-dimension.

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

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Implementation	5.00	2.00	2.75	5.00	4.25	3.50	4.50
Performance	3.97	1.44	3.17	5.00	3.67	3.33	2.33
Weighted average	**4.38**	**1.67**	**3.00**	**5.00**	**3.90**	**3.40**	**3.20**

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

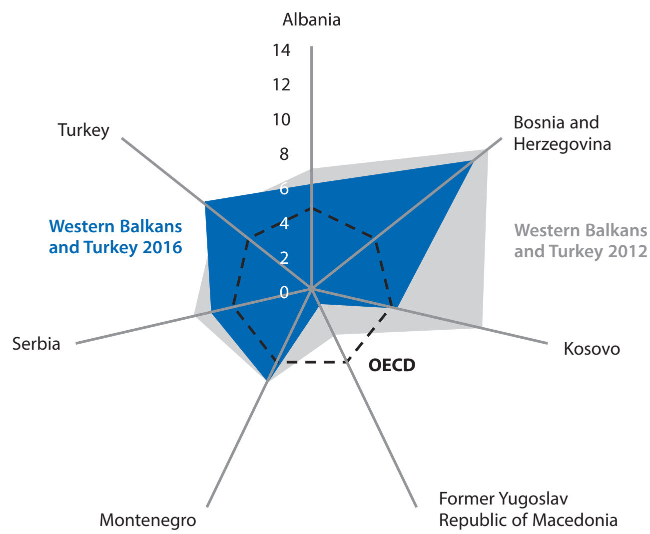
Starting a business in the Western Balkans and Turkey: World Bank Doing Business

The World Bank *Doing Business* ease of starting a business indicator records all procedures officially required, or commonly done in practice, for an entrepreneur to start up and formally operate an industrial or commercial business, as well as the time and cost to complete these procedures. Such procedures include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions for the company and employees with relevant authorities (World Bank, 2015).

All of the WBT economies have made some progress in facilitating starting a business since 2012 with the exception of Turkey, where the number of procedures, cost and time for starting a business has slightly increased; it now takes seven steps, up from six in 2012. The strongest reformer since 2012 has been Kosovo, which has reduced the number of steps needed by half and is now performing close to the OECD average. Montenegro has made no change in the number of procedures needed and the other economies have reduced the number by one step. Although the regional average has improved for all indicators, it remains below the average for OECD countries. (Figure 4.3).

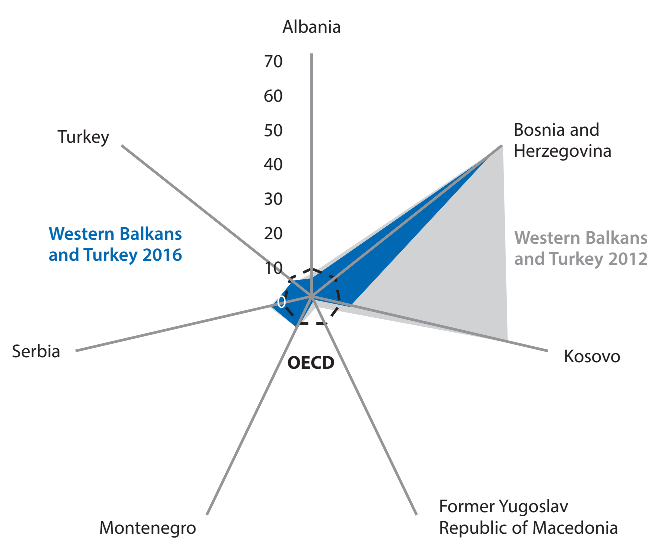
As with the number of procedures, most economies have cut the time needed to start a business, with the regional average declining from 19.4 to 11.9 between 2012 and 2015, which is still longer than the OECD average of 9.2. The number of days to complete all procedures varies significantly, from 2 in the Former Yugoslav Republic of Macedonia to 37 in Bosnia and Herzegovina. Figures differ however in Bosnia and Herzegovina depending on the entity. The exceptions to the improving trend were Montenegro, where the time needed did not change at all, and Turkey, where it increased marginally by half a day. Again, Kosovo made most progress, reducing the time needed from 53 to 11 days (Figure 4.4).

Figure 4.3. **Number of procedures to start a business in the Western Balkans and Turkey (2012-16)**



Source: World Bank (2015), *Doing Business 2016: Measuring Regulatory Quality and Efficiency*, World Bank, Washington, DC, www.doingbusiness.org/reports/global-reports/doing-business-2016.

Figure 4.4. **Number of days to start a business in the Western Balkans and Turkey (2012-16)**

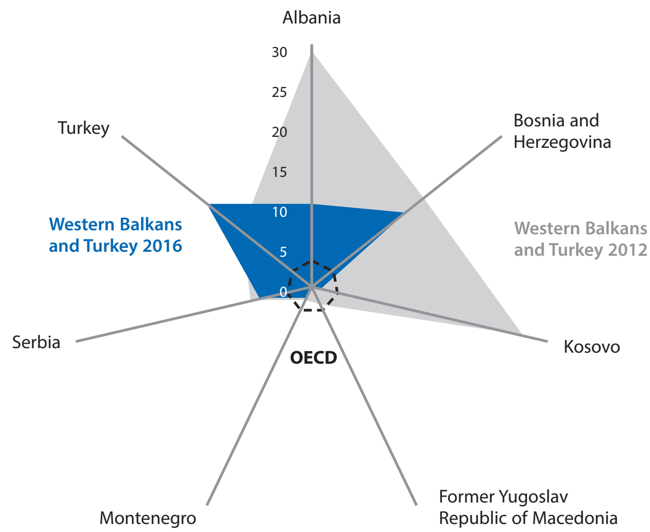


Source: World Bank (2015), *Doing Business 2016: Measuring Regulatory Quality and Efficiency*, World Bank, Washington, DC, www.doingbusiness.org/reports/global-reports/doing-business-2016.

The cost of starting a business also varies significantly relative to average incomes. The highest cost is in Turkey, at 16.4% of income per capita, which is 5.2 percentage points higher than in 2012. Albania had the highest cost in the region in 2012 at 29.2% of per capita income, but has reduced it to 10%. The greatest reduction since 2012 has taken place in Kosovo, from 26.7% to 1.2%. The Former Yugoslav Republic of Macedonia currently offers the lowest cost in the region, having reduced it from 2.4% of income per capita in 2012 to 0.6% in 2015. Montenegro has made the least change, with a slight reduction from 1.8% in 2012 to 1.6% in 2015 (Figure 4.5).

Figure 4.5. **Cost of starting a business in the Western Balkans and Turkey (2012-16)**

% of income per capita



Source: World Bank (2015), *Doing Business 2016: Measuring Regulatory Quality and Efficiency*, World Bank, Washington, DC, www.doingbusiness.org/reports/global-reports/doing-business-2016.

E-government infrastructure and services have been developed significantly since the previous assessment

Nearly all WBT economies have made progress in expanding e-government services. As in the 2012 assessment, the Former Yugoslav Republic of Macedonia offers the broadest range of e-government services in the region with all businesses required to file and pay their taxes online. In Albania, key developments include the launch of an e-government portal in 2013 and the introduction of an online tax filing system in 2015. Turkey also introduced an online system for filing tax and VAT returns and allows the online filing of pension contributions.

Kosovo has made progress following its Strategy for Electronic Governance 2009-2015 and has successfully introduced various electronic systems for online tax filing as well as for accessing pension accounts and the electronic cadastre. Since the previous assessment, Montenegro has expanded e-government services in line with its action plan of the Strategy for the Development of Information Society and Telecommunications 2012-2016. As of 2015, 77 services are being offered by 24 institutions and online filing of taxes is available for natural persons. Serbia has an e-tax portal for the online filing of tax returns and electronic submissions of VAT reports and annual income taxes, and excise duty declarations became fully operational in the last year.

The range of further services offered varies across the region. A fully operational e-cadastre is available in Albania, Kosovo, the Former Yugoslav Republic of Macedonia, Serbia and Turkey and is currently being introduced in Montenegro. Online services for filing social security returns are operational in Albania, the Former Yugoslav Republic of Macedonia and Turkey.

E-signature is in place in Albania, the Former Yugoslav Republic of Macedonia, Serbia and Turkey. Montenegro has established facilities for the use of e-signatures, but they are limited to key areas and remain costly. In Bosnia and Herzegovina and Kosovo, legal provisions have been made to introduce e-signatures, but it has not been implemented yet. Data sharing between government agencies remains at an early stage of development throughout the region. Albania has introduced a Government Gateway Platform, which currently connects 16 institutions' systems and envisages connecting a further 11 institutions by the end of 2015. On the other hand, less than 50% of all public institutions are able to view each other's data and SMEs still mostly need to share the same information with several institutions. Turkey has also established a fully functional e-government portal and Serbia introduced an interoperability framework in 2014, but it is not yet fully functional.

The e-reporting of business statistics is not yet well established within the region. Only the Former Yugoslav Republic of Macedonia and Turkey have fully operational reporting of online statistics. Awareness among SMEs of e-government services remains generally low throughout the region. While most government have established central portals for the services offered, there have been few surveys about how they are used or about satisfaction levels.

Table 4.3. **Scores for Sub-dimension 4.1: Interaction with government services (e-government)**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Planning & design	4.50	2.43	3.42	4.50	3.67	4.00	3.67
Implementation	3.13	1.83	2.25	3.07	2.20	3.30	4.07
M&E	4.00	1.00	2.00	5.00	5.00	4.50	1.00
Weighted average	**4.16**	**1.88**	**3.42**	**3.96**	**3.27**	**3.79**	**3.31**

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

The procedures for issuing licences are clear but could be better streamlined

Clear procedures for issuing different types of licences have been established throughout the region. In most economies, different public authorities deal with the different forms of licences. Only Albania has established a national one-stop shop for licences and permits, the National Licensing Centre (NLC). The NLC provides written guidance and assistance and also allows people to give feedback on procedures and costs. Montenegro established a central e-register of licences in 2011, providing detailed information on the requirements and procedures needed to obtain any business-related licence or permit issued by 35 different authorities, as well as a set of template forms that can be used in this process. The e-register is maintained by the Chamber of Commerce. In Kosovo, the Former Yugoslav Republic of Macedonia and Serbia, various authorities issue licences. The licensing process remains most complex in Bosnia and Herzegovina, as licences and permits are granted at entity level under the jurisdiction of different public authorities. The Republika Srpska is considering streamlining its procedures and introduced a register of approval. In Turkey, the Regulation on Business Licensing provides guidance for obtaining licences, which are granted by multiple levels of government. The Union of Municipalities of Turkey oversees all licences granted at local level and operates a TV channel with the purpose of informing citizens about municipality services, with a special channel on procedures related to business registration and operating licences.

Concrete efforts to streamline licence procedures remain rare throughout the region. Albania has made some efforts led by the NLC to streamline procedures. Montenegro placed a special emphasis on licences and permits during its regulatory review. Economies need to make more concrete efforts to assess the licence systems and streamline procedures.

Table 4.4. **Scores for Sub-dimension 4.3: Business licensing**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Licence procedures	4.19	2.30	3.67	3.37	3.96	4.04	4.00
Monitoring and streamlining	4.25	1.10	3.00	2.50	2.00	2.63	2.25
Weighted average	**4.22**	**1.70**	**3.33**	**2.94**	**2.98**	**3.33**	**3.13**

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

The way forward

Despite a general improvement in the operational environment for SMEs in all WBT economies, areas for improvement remain:

- **Continue to streamline the company registration process** in those economies where the time and number of procedures needed (e.g. Bosnia and Herzegovina, Montenegro) or the cost of registering (e.g. Turkey) remain high and haven't been significantly reduced since the 2012 assessment. Simplification of regulatory requirements should be undertaken in tandem with improved capacity in the delivery of registration systems. Generalising the "silence-is-consent" principle in those economies where it does not yet apply to business registration may push public authorities to further improve their efficiency in the processing of applications.
- **Expand e-government beyond basic services** such as filing of taxes to include pensions, procurement, cadastre, customs and other administrative procedures.
- **Deepen efforts to review and streamline licence procedures and systems**. The decision on where it is necessary to obtain a licence should balance between the need for regulation in the interest of the public and the burden on individuals and governments (OECD, 2010). Efforts to review and streamline existing licence systems should be increased in order to avoid unnecessary regulatory burdens.
- **Introduce or extend online reporting of enterprise statistics**, as well as establishing connections between the databases of public administrations to avoid SMEs being requested information which is already in the database of another public administration (e.g. company registration office, tax administration, social security administration, labour authorities).
- **Promote e-government services to SMEs**, providing training and workshops where necessary to increase awareness and usage.

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Chapter 5

Support services for SMEs and start-ups, and public procurement (Dimensions 5a and 5b) in the Western Balkans and Turkey

Adapt public policy tools to SME needs (Small Business Act Principle 5)

The idiosyncrasies of SMEs mean they need specific support from public policy tools and government interventions to overcome market imperfections which prevent them from accessing particular markets and developing their skills. Dimension 5 is divided into two parts: Dimension 5a assesses government efforts to encourage the development of business support services for SMEs as an instrument to improve SME competitiveness, while Dimension 5B assesses efforts to adapt public procurement frameworks to make it easier for SMEs to participate on an equal footing, giving them access to the significant opportunities offered by public contracts.

Overall, the economies of the Western Balkans and Turkey have become marginally more proactive in both of these areas. A combination of public and donor-funded programmes offer support services for SMEs and start-ups across the region. Nonetheless, more efforts are required to address the needs of specific SME segments, such as start-ups, growth-oriented medium-sized firms or exporters. Services do not gather sufficient feedback from SMEs, and more could be done to develop comprehensive and stringent monitoring and evaluation frameworks. In public procurement, governments have made progress in improving the legislative framework and have started to develop e-procurement systems, making it easier for SMEs to participate in public tenders. However, price is still commonly used as the contract criterion to the detriment of quality considerations. Policy makers should now concentrate on ensuring qualification criteria and financial requirements are proportionate for SMEs and take the next steps towards developing e-procurement so as to take full advantage of the efficiency benefits it offers.

Dimension 5A: Support services for SMEs and start-ups

Introduction

Business support services are generally 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, 1995). Business support services allow SMEs to compete on a more equal footing with large enterprises, access new markets, and increase profits and efficiency. Evidence suggests that businesses which do not harness the opportunities offered by professional business support are more likely to fail than firms seeking professional consulting and guidance (Lussier and Halabi, 2010).

SMEs are often not able to develop their own internal services due to the high costs and complexity associated with such activities (Auguste et al., 2006; Gebauer et al., 2010). External business development services (BDSs) can thus serve as an alternative for SMEs that need professional advice and training to build up their capacity and enhance their performance. However, BDS markets generally suffer from gaps and information-related failures in both the demand and supply of BDS provision, with SMEs disproportionately affected.

SMEs often have limited knowledge about the availability, effectiveness and potential benefits of BDSs for their competitiveness and productivity. SMEs rarely have the financial resources to invest in external support services to the same extent as large companies. The support services required by SMEs vary depending on the specific type of activity of the business and its stage of development (e.g. seed stage, start-up, exporter). This causes small firms to underinvest in such services (Carter and Jones-Evans, 2006). On the supply side, BDS providers tend to lack satisfactory and up-to-date information on SME training needs, preventing them from providing the right services. Private BDS suppliers might also see SMEs as risky customers as the financial resources of small enterprises are limited.

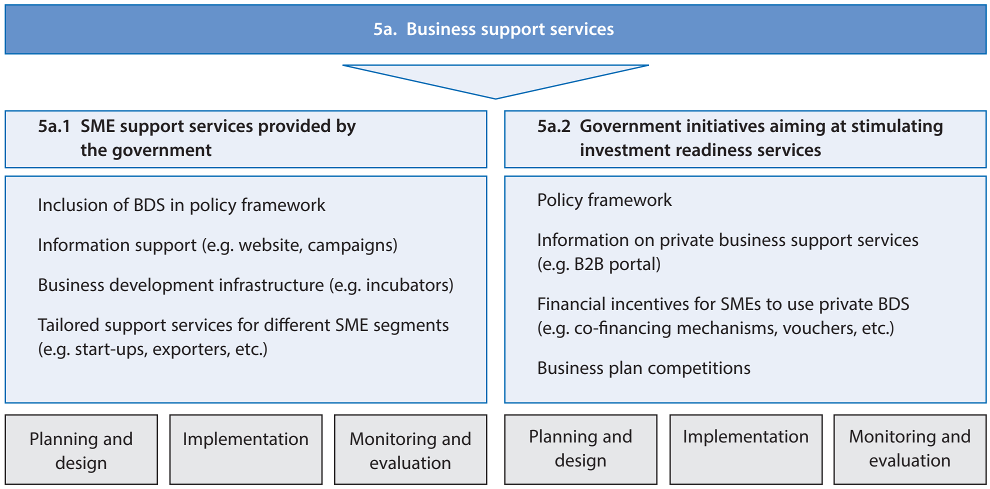
The diagnosis of these market failures should serve as the foundation of policy frameworks for the provision of BDSs to SMEs. Governments should only intervene to address actual market failures, or they risk crowding out private investment. Policy interventions should also aim to provide SMEs with good-quality information about the benefits and availability of support services (e.g. information campaigns, awareness raising) and, if required, encourage them to make use of them (e.g. through co-financing mechanisms). This approach will also help to build a sustainable market for BDS providers and ensure that their services meet SMEs’ needs and quality expectations.

Assessment framework

Dimension 5a is divided into two sub-dimensions: 1) the availability, accessibility and effective implementation of targeted institutional support services for SMEs; and 2) government initiatives to promote the development of private markets for business development services (Figure 5.1).

The composition of Dimension 5a has changed since the 2012 assessment framework. The three 2012 sub-dimensions (SME support services, business information for SMEs and support services for start-ups) have been merged into Sub-dimension 5a.1 in the 2016 assessment, along with a new element considering investment readiness programmes. Sub-dimension 5a.2 is new for 2016.

Figure 5.1. **Assessment framework for Dimension 5a**



SME support services provided by the government

The first sub-dimension assesses whether business support services are included in the overall SME policy framework (such as the national SME strategy or equivalent document). This is the first step towards ensuring a co-ordinated and strategic approach to their provision. Government (and donor) interventions also need to be carefully designed in order to avoid "crowding-out" private investment and to ensure that support programmes are sustainable in the long term (UNIDO and OECD, 2004).

Following on from the strategy, the next step is the selective provision of government-sponsored business services to address market failures. Support services can generally be divided into information, training and consultancy, depending on the method of delivery (OECD, 2011). For instance, information on starting and operating a business might be provided through a web portal, as well as directly by a dedicated SME agency or an outsourced private provider. They may cover various areas, from market access and infrastructure, to access to financial resources or policy advocacy. Services should be tailored to the specific needs of each SME segment (e.g. start-ups, exporting firms, high-growth SMEs – see Box 5.1 for an example of the latter). Systematic monitoring and evaluation of the provided services (e.g. through feedback surveys) are essential for quality control and ensuring existing programmes are suitable for entrepreneurs' needs.

The assessment pays special attention to investment readiness programmes. Investment readiness can be a key element in determining whether an SME succeeds, and its chances of securing access to finance in the region. Such programmes could provide SMEs information on equity finance and overcome their aversion to using it, as well as improving their "investability" by helping them develop a good-quality business plan, understand what investors are looking for and improve their presentation skills.

Government initiatives to stimulate the development of private business support services

The second sub-dimension assesses government mechanisms to promote the development of private markets for business development services and stimulate the use of private BDSs by SMEs. These include both financial and non-financial incentives and instruments.

SMEs are often unaware of what BDS providers are available and what services they offer. Governments can play an intermediary role by providing relevant information on a dedicated website (e.g. a list of private BDS providers) or through information campaigns. Governments may also want to enhance the capacity of private BDS providers to respond to the evolving needs of SMEs (OECD, 2011). Finally, governments also operate as regulators of BDS markets and may encourage their development by removing regulatory barriers. They can also introduce quality standards and clear frameworks in key BDS areas such as accounting and legal services.

Box 5.1. **Business Development programme of the United Kingdom's GrowthAccelerator**

GrowthAccelerator is a part of the Business Growth Service, the UK government-backed service offering support to SMEs with the potential to expand and grow. Its Business Development programme targets functioning high-growth enterprises who want to enter their next growth phase. The programme aims to help businesses to identify barriers that are holding them back and identify the critical steps that need to be taken to achieve rapid and sustainable growth. In particular, it helps entrepreneurs to build a successful growth strategy, discover new routes to funding and investment, unlock their capacity for innovation, and harness the power of their staff

The programme is open to businesses based in England that have under 250 employees and generate less than GBP 40 million in annual turnover per year, meeting the EU definition of an SME. Support is primarily focused on three core areas: 1) access to finance (including support for the preparation of business plans and investment pitches); 2) business development (e.g. support with market research and process improvements); and 3) innovation (including assistance with intellectual property rights). In particular, the Business Development stream is structured around the following components:

1. Identifying the growth needs of SME with a dedicated growth expert:
   - reviewing business with a business growth manager and completing a diagnostic test
   - identifying barriers to growth and deciding how to overcome them and grow.
2. Applying growth strategy guided by an expert coach selected from a network of over 3 000 coaches:
   - defining the business's growth strategy
   - meeting with coaches for regular one-to-one coaching.
3. Reaching growth targets through:
   - Attending masterclasses and workshops
   - Accessing match funding for leadership training
   - Working with expert growth coach.

SMEs pay a one-off fee for the guidance and support, as well as access to masterclasses and workshops. The fee depends on the size of business, ranging between GBP 1 300 and 3 700 (approximately EUR 1 800 to 5 200). Senior managers of participating enterprises also have access of up to GBP 2 000 (EUR 2 800) match funding to hone their leadership and management skills.

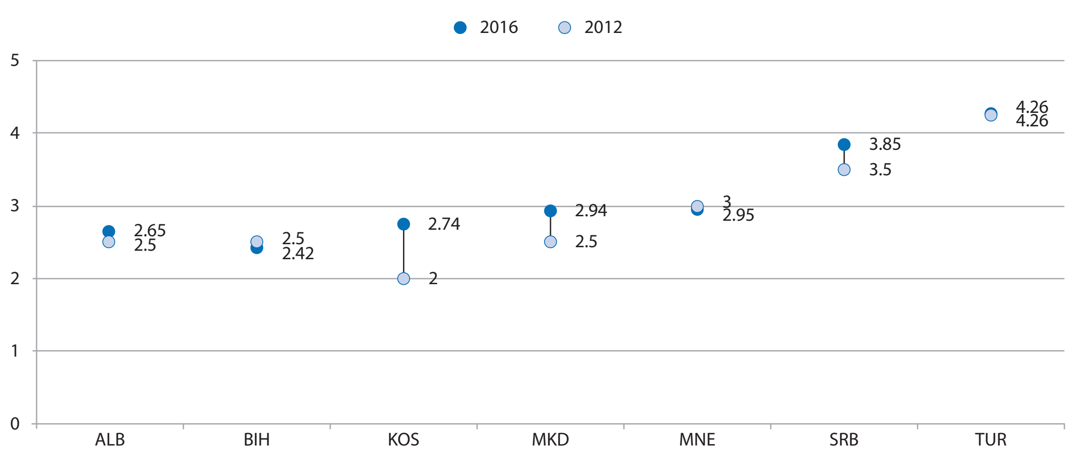
Source: Business Growth Service (2015), Business Growth Service website, www.ga.businessgrowthservice.greatbusiness.gov.uk/.

Analysis

Apart from Kosovo, the WBT economies have made only marginal progress in business support services since the 2012 assessment (Figure 5.2). Although basic SME support services (e.g. information, consultation and training) are available in the region and are usually covered in national strategic documents, they need to be wider in scope and more sophisticated. Programmes to improve the investment readiness of entrepreneurs are only at an early stage. The implementation of services is hampered by funding constraints or over-reliance on donor support. Turkey is relatively the strongest performer in the SEE region, with a wide range of SME support services embedded in its national strategies and available to businesses. Turkey also has online portals offering ample information on starting and conducting a business. Across the SEE region, there are few formal feedback mechanisms for SMEs and start-ups, which restricts the responsiveness of service providers and the quality of the services offered.

Across the region, access to information about business support services needs to be broadened, as sources of information about starting and conducting a business are often fragmented and incomplete. Supply and demand should be better matched by adapting business support services to the specific needs of each SME segment (e.g. high-growth start-ups, export-oriented SMEs). Governments should support SMEs to increase their investment readiness by providing information about equity finance and improving business plans and presentation skills. They should also introduce quality control mechanisms for the various SME support programmes and focus their efforts on stimulating the development of the private BDS market through business to business (B2B) portals and co-financing schemes.

Figure 5.2. **Weighted scores for Dimension 5a compared to 2012**



Note: See Annex A for further information on the assessment methodology.

Governments recognise the importance of SME support services but provision is limited in scope and geographical reach

Most SEE economies increasingly recognise the importance of effective provision of business support services and have integrated them into their various strategic documents and policy frameworks, limiting the risk of gaps and overlaps in the range of services offered. Nevertheless, actual implementation of policy priorities remains uneven across the region. The scope of government-initiated services is often very limited. They may be launched without any proper identification of market failures or assessment of the needs of

SMEs and start-ups. Most economies lack monitoring and evaluation mechanism to ensure quality control, which decreases the capacity of the services to respond to actual market demand.

Serbia and Turkey have the most developed government-provided SME support services (Table 5.1). Their national strategies include the provision of services and investment-readiness programmes. These are partially based on market research and analysis of service demand and supply, and come with an associated action plan, targets, timeframe and expected impacts. They have expanded both the geographic scope of service provision and the range of services provided. In Turkey, the Small and Medium Enterprises Development Organisation (KOSGEB) and the Scientific and Technological Research Council of Turkey (TÜBİTAK) are the main institutions providing services to SMEs. They are supported by 15 business development centres and 29 technology development centres. Turkey should now concentrate on enhancing co-ordination between agencies to ensure the complementarity and quality of the services available. In Serbia, 14 Regional Development Agencies (RDAs) have been certified and provide SME services, a significant increase from 2 in 2012. Information about how to launch and operate a business, as well as about the support services available are provided through online portals. Start-ups can benefit from a number of tailored training courses and services. However, although the investment readiness programmes are monitored and formal mechanisms for SME feedback are available, the evaluation mechanisms still lack sophistication and are not conducted by independent bodies.

Most of the other economies of the region include business support services in their national strategies related to SME development but the range is still limited. There is often no special focus on programmes to enhance investment readiness although some financial and advisory services are offered, particularly to innovative SMEs and start-ups. Kosovo has caught up with the other economies in this group by expanding the palette of services available to include consultancy, training, mentoring programmes and promotion. Online portals offering ample information on starting and conducting a business are available but governments need to further tailor services to meet the needs of the different SME segments. Monitoring and evaluation activities are still underdeveloped and would repay further efforts to facilitate the quality of service provision.

Table 5.1. **Scores for Sub-dimension 5a.1: SME support services**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Planning & design	3.80	3.13	4.00	4.40	3.80	4.40	4.40
Implementation	3.09	2.82	3.50	3.63	3.63	4.15	4.50
M&E	2.00	1.83	1.17	2.00	2.83	3.67	3.50
Overall score for 5a.1 (weighted average)	**2.99**	**2.65**	**3.04**	**3.41**	**3.48**	**4.09**	**4.23**

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

Despite progress, the market for private business support services remains underdeveloped

In many SEE economies, the government often provides support services free of charge, largely funding them from the state budget and/or donor support. Although such government-sponsored services can bring crucial aid to SMEs and start-ups, their inefficient design and application may potentially lead to market failures by distorting competition and incentive structures and inhibiting the development of private BDS markets.

In order to address this challenge and stimulate the development of private BDSs, governments should adopt a strategic approach to awareness raising and offering incentives SMEs to use external support. The SEE region has made moderate progress in this area (Table 5.2). While some economies, such as Serbia and Turkey, have made noticeable advances in stimulating their BDS sector, others, especially Bosnia and Herzegovina, and Albania, need to do more to implement their strategies.

Table 5.2. **Scores for Sub-dimension 5a.2: Development of private business support services**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Planning and design	2.00	3.33	3.00	2.00	3.00	4.00	4.00
Implementation	2.60	1.98	2.40	2.80	2.60	4.20	4.60
M&E	2.00	1.50	2.00	2.25	1.50	2.00	4.00
Overall score for 5.a.2 weighted average	**2.30**	**2.20**	**2.45**	**2.46**	**2.43**	**3.60**	**4.30**

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

Albania included a strategy for investment initiatives aiming to develop private business support services in its Business and Investment Development Strategy 2014-2020, but relies heavily on donor support to fund it. The strategy makes a specific reference to incubators, technology parks and innovation centres but as it was approved only recently, no progress report on implementation efforts and results is available.

Bosnia and Herzegovina and Montenegro also adopted strategies to stimulate private business support services, funded from both budgetary and donor contributions. Government websites provide information about private business support, but they are not comprehensive or regularly updated. Monitoring mechanisms are in place for implementation activities, coupled with surveys to collect information on demand and satisfaction with services provided. However, despite this progress, both rely considerably on donor funding and many initiatives remain regional. Uptake of services is severely constrained and significant challenges remain in implementation and monitoring and evaluation.

The Former Yugoslav Republic of Macedonia and Kosovo both have national strategies covering investment initiatives to develop private business support services. Since the last assessment, both governments have expanded services to the private sector, including co-financing (voucher schemes, training, networking, promotion) and business plan competitions. Information about the private business support services available is provided online and monitoring mechanisms are in place, but collection of evaluation and feedback is ineffective and limited in scope.

Serbia and Turkey are again the most advanced economies in this sub-dimension. Both have adopted strategies with defined action plans and targets, based on market analysis and formal consultations with SMEs. Online portals provide comprehensive information about the private business support services available. Business plan competitions and awareness-raising events are organised. Monitoring mechanisms are in place, the beneficiaries of co-financing are made public and feedback from SMEs on private business support services is collected regularly. However, more efforts to facilitate the evaluation instruments should be encouraged.

Despite this progress, the market for private support services remains underdeveloped in the SEE region. The challenges faced are considerable dependence on donor funding and the lack of any thorough evaluation of market demand. Governments have not taken a strategic approach to raising awareness among SMEs of the benefits of external support, nor provided sufficient incentives to use it.

The way forward

To move forward, governments will have to focus their efforts on developing a more systematic approach to the provision of support services to SMEs and start-ups, determining market needs, tailoring support measures to relevant business entities and addressing market failures which discourage the development of private BDS providers:

- **Better match the supply and demand of services.** Most economies in the SEE region have adopted relevant policy frameworks, but they should pay more attention to matching the supply and demand of SME support services. Policy makers should use market research to identify the measures needed, taking into account the needs of different types of businesses (e.g. start-ups, growth-oriented medium-sized firms, exporters) and also sector-specific needs. Special focus should be given to programmes that enhance the investment readiness of entrepreneurs.
- **Monitor and evaluate the effectiveness of support schemes and mechanism.** Regular and comprehensive monitoring and evaluation mechanisms are in need of development to ensure the effectiveness of support schemes and mechanisms. Quality control should be emphasised, where appropriate, capacity-building programmes for BDS providers should be considered.
- **Encourage the development of a sustainable and diversified market of private BDS providers.** Policies and activities to enhance the availability of information about private BDS providers should bridge the information gap among SMEs regarding the value and potential benefits of relevant services. SEE governments should start to make the transition from directly providing BDSs, whether through SME agencies, state-funded incubators, or subsidised training, to regulating and promoting private services. Promotion could involve information campaigns, including B2B web portals, as well as financial incentives such as voucher schemes or match funding.

Dimension 5B: Public procurement

Introduction

Public procurement is an area where SMEs face particular difficulties. Rules are often complex and procedures lengthy, and the effort needed to participate in a tendering procedure seems high in view of 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 a call 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 increase competition and could lower prices. SMEs are often particularly innovative and may offer solutions larger companies cannot provide. The obstacles to participation are not insuperable; in fact, a few relatively simple legislative changes can greatly improve the situation for SMEs if they are supported by a mindset which is favourable to SMEs.

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 encouraging subcontracting instead (see Box 5.2 for a good practice example of making subcontracting more visible). 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 will 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 lower costs and facilitate the submission of bids. Laws setting strict deadlines and penalties for late payment by the public sector are a first step towards avoiding late payments to contractors, albeit not sufficient on its own.

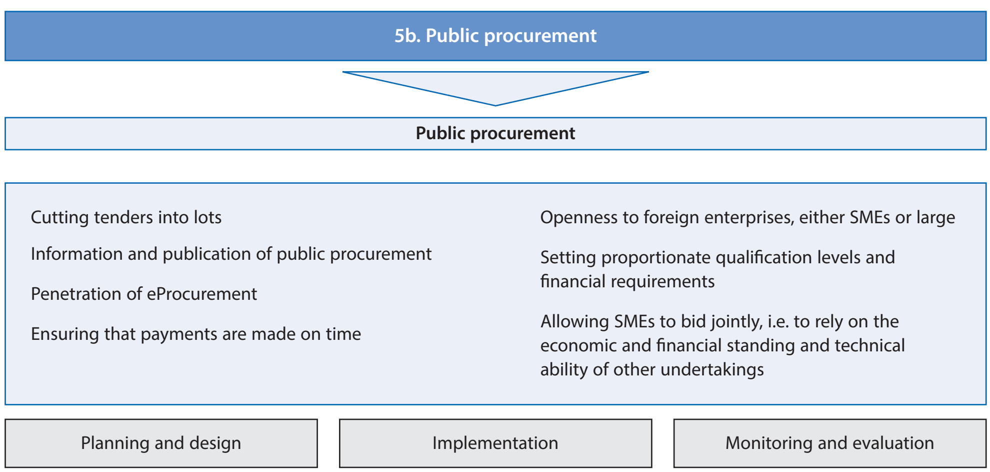
Assessment framework

Dimension 5b analyses the policies and tools in place to allow SMEs better access to the public procurement market across South East Europe (SEE). The indicators “Cutting tenders into lots”, “Allowing SMEs to bid jointly”, and “Setting proportionate qualification levels and financial requirements” assess the extent to which public authorities make allowance for smaller firms bidding in tenders and to provide them with equal opportunities. Other measures cover:

- whether information on public procurement is available centrally and free of charge for all participants, and whether there is training and a helpdesk available to help interested firms
- the use of electronic procurement, starting with the provision of information on procurement online, right through to the electronic submission of tenders
- whether there is legislation in place imposing strict deadlines for payments from public authorities, and penalties for non-compliance
- whether public procurement is open to foreign enterprises (SMEs or large enterprises) to ensure a fair level of competition.

The dimension focuses on seven indicators (Figure 5.3) divided into three thematic blocks: policy design, implementation, and monitoring and evaluation.

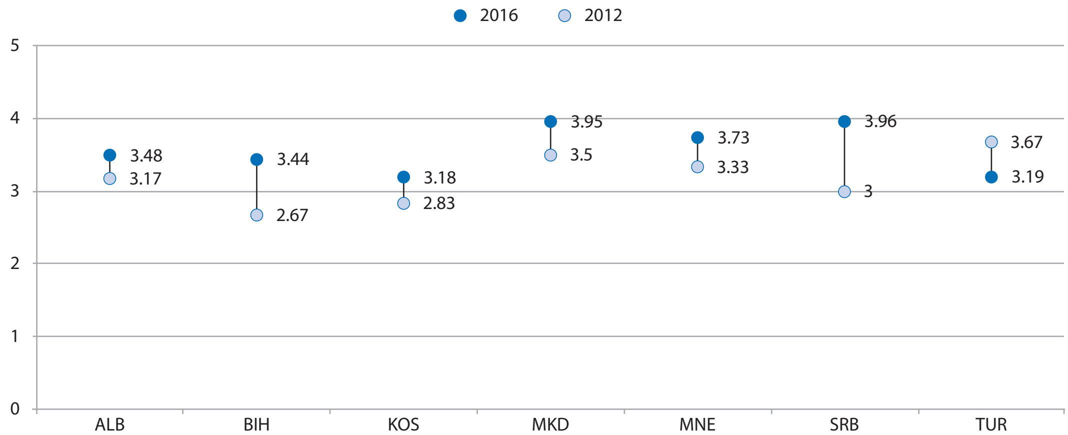
Figure 5.3. **Assessment framework for Dimension 5b**



Analysis

Across the region, the regulatory framework is largely in place. All SEE economies allow tenders to be cut into lots and this happens in practice, albeit to varying extents. Contracting authorities are allowed to let companies bid jointly. Information on public procurement opportunities is openly available and, with the exception of the Former Yugoslav Republic of Macedonia, free of charge. All economies have established review bodies for public procurement, although in Kosovo not all the body's members have been appointed and Bosnia and Herzegovina still needs to establish the branch offices foreseen in its legislation to effectively cope with all complaints. However, in Albania, the review body is subordinate to the Council of Ministers, putting its independence into question. In Turkey, the review body has been set up within the body responsible for policy making, which may potentially lead to a conflict of interest. In principle, public procurement markets are open to international competition, but only Albania, the Former Yugoslav Republic of Macedonia and Montenegro grant fully unrestricted access. Bosnia and Herzegovina, Kosovo, Serbia, and Turkey all maintain national preferences which prevent foreign companies from participating in tendering procedures on an equal footing.

Figure 5.4. **Weighted scores for Dimension 5b compared to 2012**



Note: See Annex A for further information on the assessment methodology.

Most economies have further developed their e-procurement systems and procurement notices are now largely available online. The Former Yugoslav Republic of Macedonia seems particularly advanced in this respect, as its legislation allows for the electronic submission of tenders and electronic auctions. The share of non-competitive negotiated procedures in Serbia fell significantly due to the adoption of new legislation. The Former Yugoslav Republic of Macedonia and Montenegro have eased the administrative burden on companies by not requiring supporting documents during tendering under certain conditions. Two economies have further opened up their public procurement market: Bosnia and Herzegovina by concluding a Stabilisation and Association Agreement with the EU, and Montenegro by adhering to the WTO Government Procurement Agreement. Serbia increased competition by lowering its existing price preferences, thereby allowing an increase in international participation.

Box 5.2. **Division into lots in Serbia and subcontracting in the United Kingdom**

Large contracts act as an important obstacle to SME participation. Cutting them into lots enables smaller companies to participate. Where this is not possible, subcontracting offers an alternative way to entrust parts of the contract implementation to SMES.

In Serbia, the Administration for Joint Services, as a body responsible for centralised public procurement, is obliged to cut tenders into lots whenever possible. What is more, the legislation also enables contracting authorities to require those tendering for contracts above certain thresholds to subcontract part of the contract to SMEs.

The UK advises contracting authorities to make subcontracting opportunities more visible to SMEs. They are encouraged to ensure that the supply chain is visible by taking a number of measures, such as:

- publishing the names of companies acting as prime contractors in a procurement, and details of awarded and upcoming contracts on their websites
- where appropriate, asking their main suppliers to demonstrate their track record in achieving value for money through the effective use of their supply chain, including how SMEs can gain access to their subcontracting opportunities.

There are still outstanding challenges which should be tackled to further improve SMEs' ability to take part in public procurement. Most of the economies in the region do not have adequate provisions to ensure qualification levels and financial requirements for SMEs are proportionate. Considerably more needs to be done to take full advantage of the opportunities offered by e-procurement, while the use of digital communication should be further increased. Using the lowest price as the criterion for awarding a contract is prevalent across the region. The Former Yugoslav Republic of Macedonia has even recently introduced a requirement for a contracting authority to gain prior approval if it wishes to use the most economically advantageous tender criterion instead. This concentration on the lowest price contradicts European and international standards and will prevent public purchasers from procuring the best quality solutions and best value for money. Finally, as public procurement is so vulnerable to corruption, economies need to make greater efforts to prevent it from occurring during the procurement cycle.

Table 5.3 summarises the scores for Dimension 5b in the region.

Table 5.3. **Scores for Dimension 5b: Public procurement**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Planning & design	3.48	3.86	3.38	4.38	4.14	3.95	2.81
Implementation	4.00	3.60	2.81	3.75	3.44	4.10	3.88
Monitoring & evaluation	2.33	2.33	3.67	3.67	3.67	3.67	2.33
Weighted average	**3.48**	**3.44**	**3.18**	**3.95**	**3.73**	**3.96**	**3.19**

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

The way forward

Reduced bureaucracy, easier access to public tenders, more quality-oriented public purchasers and an impartial oversight all particularly benefit SMEs. In order to make it easier for the SME community to participate in public procurement processes, economies in the region should:

- **Further align their national legislation with EU rules and international best practice**. In particular, they should encourage joint bidding and limit any minimum yearly turnover requirement to twice the contract value, except for duly justified cases.
- **Encourage the division of contracts into lots wherever possible**. Where contracting authorities deviate from this principle, they should be required to give reasons for doing so.
- **Reduce the administrative burden of participating in public procurements**. Supporting documents should only be required once the tender has been won, with self declarations sufficient during the bidding process. The mandatory introduction of e-procurement would also reduce bidding costs, facilitating SMEs' access to public contracts.
- **Where this is not yet the case, establish an impartial and independent review body**.

- **Increase the use of non-price criteria for awarding contracts** to enable public buyers to receive best value for money.
- **Tackle the problem of late payments to contractors** by adopting provisions containing strict deadlines and penalties in the case of late payments. Where such rules are already in place, they should be strictly enforced.

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Chapter 6

Access to finance for SMEs (Dimension 6) in the Western Balkans and Turkey

Facilitate SMEs' access to finance and develop a legal and business environment supportive to timely payments in commercial transactions (Small Business Act Principle 6)

Access to finance is an important challenge for many SMEs in the Western Balkans and Turkey. According to the latest Business Environment and Enterprise Performance Survey (BEEPS V), obtaining credit is one of the top five challenges to doing business. This chapter focuses on government policies that can help SMEs access financing of different types, in line with Principle 6 of the Small Business Act for Europe.

Bank lending remains the main source of financing for SMEs even though access to bank loans has been tightened as banks reduce their leverage and lending is held back by high levels of non-performing loans. Some governments provide support programmes but they tend to be based on interest rate subsidies rather than more commercially viable tools such as credit guarantees. Alternative non-bank sources of finance such as leasing and microcredit are generally available but not used to their full potential. Adequate legal frameworks might support their wider use. Generally the legal frameworks for secured transactions are reasonably well developed across the region, but enforcement can still be an issue and some economies lack out-of-court mechanisms. Financial literacy levels are relatively low and programmes to raise them could benefit from further co-ordination and focus.

Introduction

External financing is an important resource for companies, allowing them to run their business, modernise their equipment or expand their operations. Overall, these investments help enterprises to improve their competitiveness and grow. However, SMEs in particular tend to be more credit constrained than larger companies, often due to their higher risk profile.

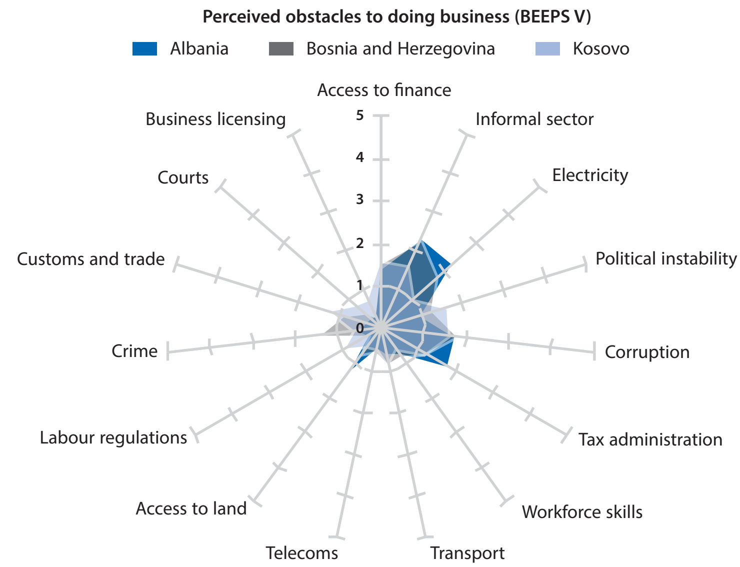
Since the onset of the 2008-09 crisis, all economies in the Western Balkans and Turkey have experienced a slowing down in credit growth to the private sector. This trend was particularly pronounced in the Western Balkans where banks have continued to deleverage while facing higher levels of non-performing loans (NPLs), constituting a drag on lending activity. Findings from the Business Environment and Enterprise Performance Survey (BEEPS V), implemented by the European Bank for Reconstruction and Development (EBRD) together with the World Bank underline the challenges SMEs in particular face in accessing finance (Figure 6.1). High interest rates, excessive collateral requirements and complex loan application procedures also all deter SMEs from accessing bank loans. Less favourable loan terms for SMEs often reflect perceived risks by lenders about SMEs' ability to repay. In many economies, they are further exacerbated by a lack of transparency and difficulty enforcing collateral in case of default, which further increase the cost of lending.

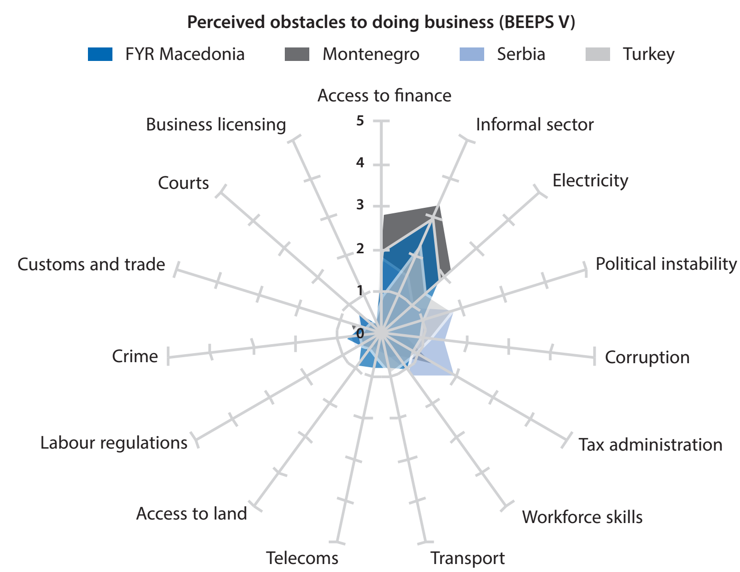
Governments can play an important role by creating a legal environment that reduces uncertainty and by establishing schemes to support SME access to finance. A well-functioning cadastre and a system to register security interests over movable assets facilitates taking collateral, while an efficient legal framework that supports the enforcement of creditor rights helps to stimulate bank lending. Government policies can also help mitigate lending risks through means such as credit guarantees which can help increase banks' appetite for risk and alleviate collateral constraints for SMEs. Comprehensive and reliable credit information systems reduce the asymmetry of information between creditors and borrowers. Helping SMEs to develop their business planning and financial management skills makes them more attractive clients to financial service providers. Governments can also facilitate the development of alternative sources of finance – such as microfinance, leasing and factoring – by creating adequate legal frameworks and supervisory mechanisms, and by raising awareness among SMEs of the range of financing options available to them.

Such support schemes should support the private sector in the provision of financial services without distorting the market. Otherwise, they risk crowding out the private sector and making businesses dependent on continued state support, which puts most of the burden on the public budget instead of leveraging private funding sources. Any support programme should be monitored and evaluated to make sure that it reaches those parts of the business population that are in need of support. Such evaluations are needed to ensure the right groups, instruments or delivery processes are being targeted.

Since the 2012 assessment, many economies in the region have made some progress in facilitating access to finance for SMEs. In particular, they have improved the legal and regulatory framework for secured transactions and for non-bank financing instruments. Some governments have also increased their efforts to enhance financial literacy.

Figure 6.1. **Key findings of BEEPS V**





Assessment framework

Given the pivotal role of legal and regulatory frameworks in facilitating access to finance for SMEs, the assessment framework for Dimension 6 focuses first and foremost on these aspects, including the protection of creditor rights and facilitating the use of collateral (Sub-dimension 6.1). Sub-dimensions 6.2, 6.3 and 6.4 assess existing regulations and the availability of various forms of financing for SMEs from bank lending to non-bank financing such as microfinance or venture capital funds. Sub-dimension 6.5 measures governments' efforts to evaluate and promote financial literacy among businesses and the wider population (Figure 6.2).

Figure 6.2. **Assessment framework for Dimension 6**

6. Access to finance for SMEs

6.1 Legal and regulatory framework	• Creditor rights • Register • Credit information bureau	• Banking regulations • Stock market
6.2 Bank financing	• Lending practices • Credit guarantee scheme	
6.3 Non-bank financing	• Microfinance • SLAs	• Leasing • Factoring
6.4 Venture capital	• Legal framework	• Implementation • Monitoring and evaluation
6.5 Financial literacy	• Planning, design and implementation	• Monitoring and evaluation

However, it should be noted that access to finance, as illustrated by BEEPS V, is the result of a complex interaction of different determinants linked to areas such as the general macroeconomic environment, the health of the banking sector, or levels of competition among banks. These cannot all be captured by the assessment framework for Dimension 6 which focuses on a specific set of themes and indicators which are deemed to be disproportionately important for SMEs compared to larger businesses.

Since 2012, the framework for Dimension 6 has changed slightly:

- bank financing has been added as a sub-dimension, as it represents the most common form of financing for SMEs and is an important source of external funding
- venture capital financing is now assessed as a separate sub-dimension
- factoring and savings and loan associations (SLAs) have been added as external financing sources
- the weighting has been adapted to reflect the addition of new sub-dimensions and thematic blocs, but continues to reflect the importance of the legal framework in supporting lending activities.

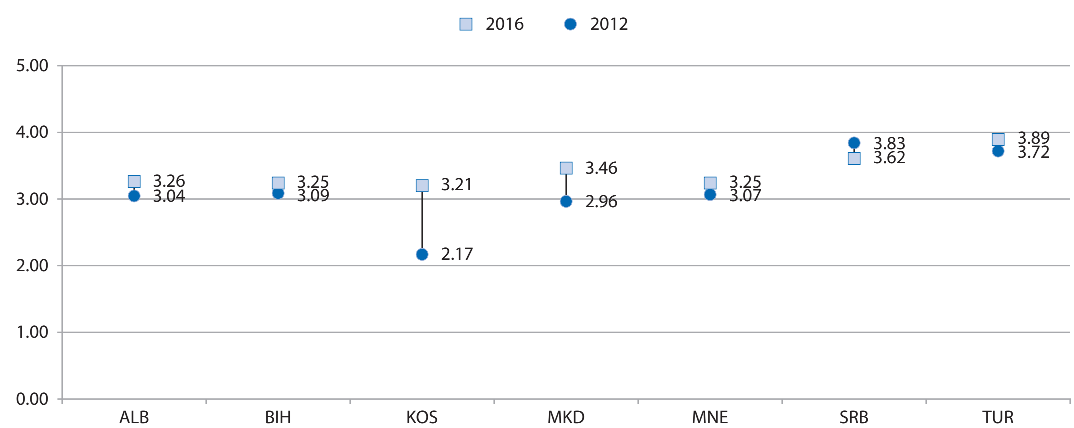
Analysis

Even though the methodological changes described above means that the scores from 2012 are not directly comparable with the 2016 one, most economies have made modest improvements in SME access to finance, to varying extents (Figure 6.3; Table 6.1). The main drivers were improvements in the secured creditor framework, such as enhanced credit information systems (Albania, the Former Yugoslav Republic of Macedonia and Montenegro) or greater ease in taking security over immovable and movable assets (Bosnia and Herzegovina, Kosovo). Developing legal frameworks for alternatives to bank financing such as leasing and factoring also played an important role in making such financing sources more accessible (e.g. in Montenegro). In addition, some countries have increased their efforts to improve financial literacy which should translate into better skills among SMEs to present bankable projects (Albania, Serbia).

However, there are still important issues to tackle:

- To support bank lending, many economies could further strengthen enforcement of collateral in case of default, in particular through out-of-court mechanisms.
- While many economies offer support schemes, they tend to focus on interest rate subsidies, whereas credit guarantee schemes could provide a more sustainable alternative.
- Given the challenges that the banking sector faces in some of the economies in the region, policy makers could concentrate on further supporting non-bank financing options by developing a robust legal framework for transactions such as leasing or factoring.
- Only a few economies in the region have assessed financial literacy levels, even though building the capacity to present bankable projects is as much part of enabling access to financing as alleviating constraints on the banks' side.

Figure 6.3. **Weighted scores for Dimension 6 compared to 2012**



Note: Due to changes in the methodology, 2012 and 2016 scores are not directly comparable.

Table 6.1. **Overall scores for Dimension 6: Access to finance for SMEs**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Legal and regulatory framework	3.59	3.79	3.60	3.98	4.12	4.40	4.28
Bank financing	2.60	2.79	2.69	2.69	1.64	2.27	3.55
Non-bank financing	3.83	2.78	2.96	3.40	2.83	2.81	2.73
Venture capital	1.49	1.41	2.11	2.31	1.47	2.21	4.19
Financial literacy	2.60	1.41	2.10	1.51	1.86	2.64	2.68
Weighted average	***3.26***	***3.25***	***3.21***	***3.46***	***3.25***	***3.62***	***3.89***

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

The legal and regulatory framework is largely in place but enforcement could be strengthened

The legal and regulatory framework surrounding secured transactions is an important part of encouraging bank lending to SMEs, especially as small businesses are perceived as being more risky borrowers. It is important to have a framework that reduces information asymmetries and gives lenders easy recourse and enforcement of securities in case of default. Credit information systems allow credit information on borrowers to be collected and distributed. Allowing a variety of types of assets to be used as collateral – as well as their effective realisation if a borrower is unable to pay – can encourage banks to lend to SMEs as these mechanisms decrease lending risks or costs. Therefore, creditors' rights, banking regulations, functioning credit information systems and systems to register security interests are important ingredients of a legal framework that supports, rather than impedes, lending to SMEs.

In most economies in the region, the legal framework for secured transactions is relatively well developed but enforcement remains an issue in many. Insolvency laws (in Albania and the Former Yugoslav Republic of Macedonia), and out-of-court proceedings (in Kosovo) are being developed or reformed which should help reduce uncertainty and make enforcement less cumbersome.

Within a secured transactions framework, it is important to have reliable and accessible registers to facilitate the use of immovable and movable assets as collateral. A cadastre registering land and real estate, recording the value, ownership and existing pledges over the asset, is important to allow the use of such assets as collateral. Online availability and a broad access (within the limits of privacy laws) are important to improve ease of use and reduce costs. In most economies of the region, cadastre information is available online. Some, such as Kosovo, are working on making a more comprehensive set of data available and increasing its ease of use.

Registers for security interests over movable assets can broaden the range of assets companies can use as collateral. This is particularly important for SMEs, which 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 economies in the region have an operational registration system for pledges over movable assets. However, in Albania, Serbia and Turkey, accessibility could be improved by making the information available online, while online availability and cost could be improved in Kosovo and the Former Yugoslav Republic of Macedonia.

Credit information systems can help reduce information asymmetries between lenders and borrowers by making borrowers' credit histories available to future lenders. While public registries are usually managed by the central bank, which collects 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. The collection of 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 economies in the region have either a public credit registry or a private bureau, but their coverage varies widely. Typically, countries with only a public credit registry tend to have credit information systems with a lower coverage of the adult population – Albania's covers only around 27% of the population, and Montenegro's 26% (World Bank, 2015). However, coverage has increased across most of the region's economies. In order to increase coverage, Kosovo is planning to expand the range of information collected in its system. The reliability of the information held in the system is equally important. This can be enhanced by increasing the frequency of information updates, and by improving transparency (which provides a control mechanism as false information can be easily detected and subsequently corrected). The positive effects of such measures can be observed in Bosnia and Herzegovina where default rates decreased after a reform of the credit information system tackled these two issues (Bos et al., 2015).

The banking regulatory framework affects banks' lending capacity and ensures that lending activities are sustainable. This can be important in the context of SME lending, in particular in terms of provisioning requirements as SMEs tend to be assessed as higher-risk borrowers. SMEs also tend to be more vulnerable in a downturn, being disproportionately affected when liquidity in the banking sector dries up. Across the region, Basel II standards have been largely implemented with most authorities envisaging implementing Basel III in the coming years. In light of generally high dollarisation levels [1] in the region, it is also important for central banks to take steps to reduce currency risks for SMEs who are often unhedged borrowers. While none of the WBT economies have outright bans on foreign exchange lending to unhedged borrowers, most have introduced special capital and disclosure requirements for such transactions. This is important to make sure that both lenders and borrowers are mindful of the risks involved.

The notion of financing SMEs through capital market instruments has gained traction in recent years, particularly in light of a banking crisis that shifted attention towards potential non-bank financing sources. If tailored to SME needs, capital markets can provide a viable alternative for some companies to access (long-term) financing. Interestingly, 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. For most economies of the Western Balkans, the priority at the moment would be to develop capital markets more generally. One of the most notable developments of the past years has been the establishment of SEE Link, a platform based in the Former Yugoslav Republic of Macedonia that tries to link up stock exchanges in the region to create the scale necessary for successful operation. Once the broader capital market structures are sufficiently developed, SME access to equity finance can be facilitated by establishing separate markets with less onerous listing requirements. These can be part of the main stock exchange or a separate exchange. In the region, only Borsa Istanbul in Turkey has such a separate market specifically targeted as SMEs, the Emerging Companies Market. Similarly, under Borsa Istanbul's lead, Turkey is currently looking into helping SMEs issue bonds with maturities longer than one year. Table 6.2 summarises the scores for this sub-dimension.

Table 6.2. **Scores for Sub-dimension 6.1: Legal and regulatory framework**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Creditor rights	4.18	4.07	3.97	4.27	5.00	4.15	3.53
Registers	4.15	4.44	4.45	4.80	4.75	4.70	4.40
Credit information bureaus	3.89	4.20	3.97	4.78	4.01	5.00	4.51
Banking regulations	3.50	2.50	3.50	1.50	1.50	4.50	5.00
Stock market	1.21	2.80	1.00	3.17	4.31	3.17	4.22
Weighted average	**3.59**	**3.79**	**3.60**	**3.98**	**4.12**	**4.40**	**4.28**

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

Banks remain the most important source of credit for SMEs which have been disproportionately affected by credit constraints

In recent years, banks in many economies have been deleveraging, a trend illustrated by the contraction of domestic credit to the private sector between 2009 and 2014, compared to an average annual growth of 15% in the four years preceding the crisis (EBRD, 2015). Domestic credit to the private sector as a share in GDP has decreased since the last assessment in Albania, Bosnia and Herzegovina, Montenegro and Serbia; in contrast Turkey has seen a pronounced increase, from 53% in 2011 to 75% in 2014. The banking sector in the Western Balkans is also struggling with higher shares of non-performing loans, ranging from 8% in Kosovo to around 23% in Albania and Serbia (Table 6.3). Even though actions are being taken to tackle this issue, most economies have not yet managed to decrease NPL levels significantly.

Table 6.3. **Key banking sector indicators (2008-14)**

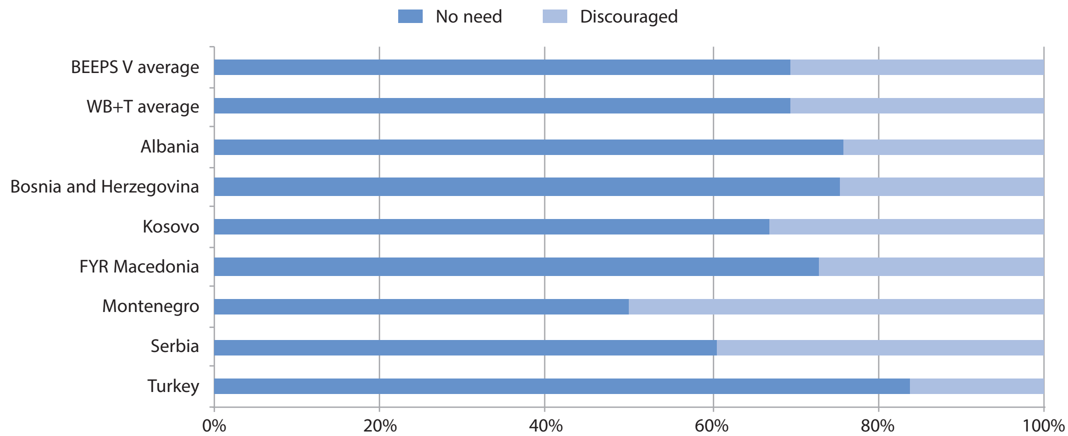
	Domestic credit to private sector, as % of GDP			Credit-constrained firms, as % of firms needing a loan[a]		Bank non-performing loans (NPLs), as % of total gross loans		
	2008	2011	2014	2008	2012	2008	2011	2014
Albania	35.4	39.5	37.1	35.6	60.4	6.6	18.8	22.8
Bosnia and Herzegovina	66.8	61.7	55.3	35.8	37.1	3.1	11.8	14.0
Former Yugoslav Republic of Macedonia	42.1	44.9	49.6	50.2	50.3	6.7	9.5	10.8
Kosovo	32.9	36.4	36.0	64.9	46.5	3.0	5.7	8.2
Montenegro	87.0	55.8	51.4	44.0	63.2	7.2	15.5	17.2
Serbia	39.0	47.6	43.8	36.3	39.1	11.3	20.0	23.0
Turkey	35.2	53.1	74.5	26.6	18.7	3.4	2.6	2.8

Note: a. Firms that have been rejected or discouraged from applying for a loan as a share of those firms indicating that they needed a loan.

Source: World Bank (2015), *Doing Business 2016: Measuring Regulatory Quality and Efficiency,* www.doingbusiness.org/reports/global-reports/doing-business-2016; EBRD (2014), BEEPS V 2012-2014, http://ebrd-beeps.com/.

As a result, SMEs are disproportionately suffering from credit constraints, as illustrated by findings from BEEPS V (EBRD, 2014). For SMEs in many economies in the region, access to finance constitutes an important issue for their business (Figure 6.1), even though the picture is very mixed across the region with firms in Montenegro experiencing the most difficulties while those in Turkey are able to access credit relatively easily. Moreover, according to the latest BEEPS survey, the share of credit-constrained firms has increased in Albania, Bosnia and Herzegovina, Montenegro and Serbia to shares between 37% and 63% of companies needing a loan (EBRD, 2014). Many of these credit-constrained firms complained about unfavourable interest rates in 2012. Since then, interest rates have decreased, but collateral requirements and complex application procedures are other important reasons that discourage companies from applying for a loan. Credit constraints often coincide with a firm being of smaller size, a non-exporter and not having financial statements (EBRD, 2015) – characteristics that predominantly apply to SMEs. Despite bank lending becoming more difficult, however, bank financing remains the main source of external finance for most SMEs.

Figure 6.4. **Reasons firms do not apply for a loan**



Source: EBRD (2014), "BEEPS V 2012-2014", *Business Environment and Enterprise Performance Survey Dataset,* European Bank for Reconstruction and Development, http://ebrd-beeps.com/.

In light of information asymmetries and the perceived risk of lending to SMEs, credit guarantees can provide more security for lenders and thus help alleviate financial constraints for SMEs. Credit guarantees also tend to be more aligned with commercial lending practices than measures such as interest rate subsidies. If well designed and monitored, credit guarantees are also less of a burden on public budgets. However, credit guarantee schemes are much more limited across the Western Balkans than in central European or Western European countries and tend to be led by international financial institutions – the European Investment Fund (EIF), for instance, provides guarantees under the COSME and Horizon 2020 programmes by the EU (EBCI, 2014). Only Turkey has an operational credit guarantee scheme that covers general SME needs and is run by a dedicated agency. Montenegro and Serbia had schemes, but they have been abolished. Table 6.4 summarises the score for this sub-dimension.

Table 6.4. **Scores for Sub-dimension 6.2: Bank financing**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Banking statistics	2.48	2.74	3.08	3.37	2.07	3.12	3.61
Credit guarantee schemes	2.78	2.85	2.11	1.67	1.00	1.00	3.44
Weighted average	**2.60**	**2.79**	**2.69**	**2.69**	**1.64**	**2.27**	**3.55**

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

COSME financial instruments are accessible to financial intermediaries in Montenegro (where the EIF and Crnogorska Komercijalna Banka have signed the first loan guarantee agreement), Turkey, the Former Yugoslav Republic of Macedonia, Albania and Serbia. Under the COSME Loan Guarantee Facility, financial intermediaries have access to a guarantee/counter-guarantee facility to finance SMEs predominantly for amounts of up to EUR 150 000. In addition, SMEs in these economies also have access to the guarantee facility established for innovation-driven SMEs and small midcaps under the Horizon 2020 programme.

Apart from microfinance, non-bank financing remains underdeveloped in the region

In light of the above mentioned difficulties the banking sector is experiencing, non-bank financing options have gained even more significance. Alternatives such as leasing or factoring can provide SMEs with access to finance even if they struggle to meet banks' collateral or credit history requirements. Leasing can help SMEs modernise equipment, using the leased asset itself as collateral. Factoring can alleviate liquidity constraints for SMEs for whom working capital lines from a bank are not easily accessible (see Box 6.1 for a good practice example from Croatia). In addition, microfinance institutions (MFIs), savings and loan associations (SLAs) and credit unions can serve smaller borrowers that are typically not covered by larger commercial banks. Apart from microfinance, these non-bank tools tend to be less developed across the region, even though some encouraging developments have taken place since the last assessment.

Microfinance can help the smallest businesses access financing and, if tied into the credit information system, can also help borrowers build a credit history. In Serbia and Turkey, levels of financing through MFIs are low, partly due to legal frameworks which do not enable MFI operations. Serbia is in the midst of establishing a legal framework for non-deposit taking institutions, however, which could enable microfinance activities. Microfinance is more widely available in most of the other economies, in particular in Kosovo where 14 MFIs operate. SLAs and credit unions have less importance in the region. SLAs, for example, only operate in Albania and the Former Yugoslav Republic of Macedonia.

Box 6.1. **Factoring reform in Croatia**

Factoring is a financial service based on the sale of accounts receivable, and is a useful financing tool as it allows for quick, off-balance sheet (in certain cases) access to working capital for SMEs. Since it is priced against the often better credit standing of an SME's customers than that of the SME itself, it is usually offered at a better rate than a short-term unsecured loan. In Croatia, research has shown that SMEs were commonly required to provide trade credit to their large buyers and to hold accounts receivable on their balance sheets, which increased their working capital funding problems as they typically lack available cash.

With the development of factoring in Croatia, certain legal issues became more prominent which required special legislative attention, such as the treatment of recourse factoring in case of insolvency of the assignor (sale or secured transaction), the effect of a ban on assignment clauses on factoring (usually inserted in sale agreements by large buyers), clear and unambiguous rules for assigning future receivables (almost a necessary component of long-term factoring relationships) and many others.

Therefore, in 2012, the Croatian Ministry of Finance took the decision to reform the factoring sector, including the development of a factoring law, aiming to unify market practices, improve the legal certainty of transactions, introduce regulatory oversight and provide legitimacy to the industry. In co-operation with key government and private sector organisations, the EBRD assisted in the drafting of the factoring law. Some of its essential features include clearer definitions of types and agreements for factoring services (including reverse factoring), better protection in cases of insolvency as well as provisions as to the regulatory requirements and oversight. The law has helped decrease legal uncertainty in an important field for SMEs while a conference, organised to present the law's key changes and introduce factoring providers, was extremely well received.

There is leasing activity in all WBT economies but levels are low: just 0.1-2.2% of GDP, down on historical levels (for example, leasing represented 5.7% of GDP in Montenegro in 2010). In contrast, in Central Europe leasing amounts to 5-10% of GDP. The legal framework for leasing activities tends to be relatively robust across all economies in the region, including relatively straightforward repossession processes, even though in some cases activities are not regulated (e.g. Montenegro) and repossession is not perceived to be simple or quick (e.g. Turkey). In light of higher levels of leasing in the past, the major driver of this fall seems to be the difficult economic environment rather than insufficient legal frameworks.

Factoring can help SMEs alleviate any working capital constraints they may face due to payment delays or trade credits. However, the availability and take-up of such services is limited in many economies, with Serbia and Turkey showing the strongest signs of development. Even though factoring is legally possible in all economies, the legal framework is often not specific enough to support the development of factoring services as legal uncertainties increase transaction risks. Serbia has passed a Law on Factoring in 2013 and is currently looking into facilitating reverse factoring. Montenegro is reforming its legal framework to support factoring activities more generally.[2] Table 6.5 summarises the scores for this sub-dimension.

Table 6.5. **Scores for Sub-dimension 6.3: Non-bank financing**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Microfinance	4.50	4.70	4.67	2.00	4.00	2.33	2.33
SLAs	4.00	1.00	1.00	4.33	1.00	1.00	1.00
Leasing	3.83	3.08	3.83	4.25	2.67	4.25	3.92
Factoring	3.00	2.33	2.33	3.00	3.67	3.67	3.67
Weighted average	**3.83**	**2.78**	**2.96**	**3.40**	**2.83**	**2.81**	**2.73**

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

Some economies have taken tangible steps to improve the environment for venture capital

For younger companies and start-ups, which generally lack credit histories and operate in a rapidly changing business environment, alternative forms of financing such as venture capital are of particular importance. While the legislation surrounding such types of risk financing is generally in its infancy in the region, some noteworthy developments have taken place. A number of economies have taken tangible steps to improve the environment for venture capital activity through a comprehensive review of existing legislation. Turkey has built on this analysis to eliminate obsolete regulations while the Former Yugoslav Republic of Macedonia has amended existing regulations and included venture capital as a priority in its innovation strategy 2012-2020. Kosovo and Serbia have carried out reviews of venture capital activity under the umbrella of the Western Balkans Enterprise Development and Innovation Facility (EDIF). In the other economies of the region – Albania, Bosnia and Herzegovina, and Montenegro – venture capital remains underdeveloped with little indication of any regulatory reforms being planned. Table 6.6 summarises the scores for this sub-dimension.

Table 6.6. **Scores for Sub-dimension 6.4: Venture capital**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Legal framework	1.67	1.74	2.45	2.45	1.67	2.33	4.33
Design and implementation	1.58	1.33	2.34	2.78	1.54	2.66	4.90
Monitoring & evaluation	1.00	1.00	1.00	1.00	1.00	1.00	2.33
Weighted average	**1.49**	**1.41**	**2.11**	**2.31**	**1.47**	**2.21**	**4.19**

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

Financial literacy programmes vary in scope and would benefit from formal monitoring and evaluation mechanisms

While financial literacy programmes exist in some form in all the WBT economies, their scope varies significantly. They range from individual and donor-funded initiatives to wide-reaching SME training programmes through designated SME agencies. Having a national strategy and framework can help improve co-ordination across different activities, and some economies, such as Serbia, have introduced such a strategy since the last assessment. The inclusion of financial topics in secondary school curricula or easily accessible training and information online can also improve awareness of financial products. For example, Albania has introduced financial training into the national school curriculum while Turkey has launched an online platform that provides explanations of different financial products. Such initiatives are very important to raise the understanding of financial concepts among the general population, which some surveys suggest is significantly lower in the Western Balkans and Turkey than in the EU (Mc Graw Hill Financial, 2014). A lack of formalised monitoring would impede efforts to improve the effectiveness of the programmes that do exist. Introducing an efficient evaluation system and expanding existing programmes to the broader population could provide a significant boost to their effectiveness. Table 6.7 summarises the scores for this sub-dimension.

Table 6.7. **Scores for Sub-dimension 6.5: Financial literacy**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Design and implementation	3.00	1.52	2.20	1.63	2.08	2.71	3.10
Monitoring & evaluation	1.00	1.00	1.67	1.00	1.00	2.33	1.00
Weighted average	**2.60**	**1.41**	**2.10**	**1.51**	**1.86**	**2.64**	**2.68**

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

The way forward

In order to support access to finance for SMEs in the region, governments should consider concentrating on the following priorities:

- **Tackle current issues in the banking sector**. This includes reducing the high levels of non-performing loans, in order to restore credit growth. In most economies, the situation has stabilised or even slightly improved, but authorities will need to keep up determined efforts to deal with this issue.

- Support the **broadening of the availability of credit information** by allowing information to be collected from utilities and other sources, particularly in those economies where the credit information systems cover less than 30% of the adult population. Governments should encourage the establishment of private information bureaus or consider hybrids between private bureaus and public credit registries to help boost the scope and depth of credit information.
- In light of credit constraints and banking sector difficulties, **promote policies that make funding more accessible for SMEs**. Such policies, however, should be designed with a view to minimising market distortions. Thus, non-targeted and heavily subsidised interest rates should be avoided. Rather, consider increasing the availability or reviving of credit guarantee schemes to support SMEs access bank loans and increase banks' appetite for this borrower group.
- **Develop non-bank financing instruments as viable alternatives to bank financing**. In particular leasing and factoring can provide viable alternatives in the short to medium term. Even though they are technically available in most economies, especially factoring services could benefit from clearer legal frameworks which provide more certainty to both providers and users of such services.

Notes

1. Here, "dollarisation" is used as a general term to describe all forms of exposure to foreign currency. In the economies of the Western Balkans, however, exposure tends to be predominantly to the euro.
2. For further details on this topic, please refer to Istuk and Labus (2015).

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Chapter 7

Standards and technical regulations (Dimension 7) in the Western Balkans and Turkey

Help SMEs to benefit more from the opportunities offered by the single market (Small Business Act Principle 7)

Technical barriers to trade can severely distort trade by preventing market access, protecting domestic producers and discriminating between domestic and foreign producers. They thus represent one of the most important obstacles to the liberalisation of trade between the European Union and the EU pre-accession countries. Dimension 7 analyses government efforts to eliminate technical barriers to trade in the area of industrial products. The implementation of standards and technical regulations in particular has the potential to ease access to the Single Market and liberalise trade between the EU and the Western Balkans and Turkey.

All the economies of the Western Balkans and Turkey have been working on aligning their technical regulations and standards with international and European rules. The Former Yugoslav Republic of Macedonia, Montenegro, Serbia and Turkey are candidates for accession to the EU, and have gone through the process of screening their legislation in the area of free movement of goods. Albania has also acquired candidate status, and Bosnia and Herzegovina and Kosovo have potential candidate status. Stabilisation and Association Agreements have entered into force between the EU and Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Montenegro, and Serbia, and the one with Kosovo was signed in 2015. The EU and Turkey have long been joined with a Customs Union agreement.

Introduction

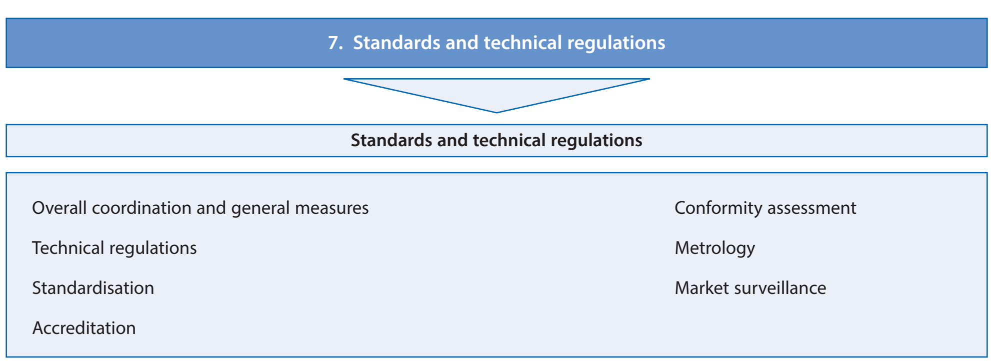
Technical regulations set out essential requirements for products before they are placed on the market. These measures usually serve legitimate public policy objectives such as health and safety or protecting the environment. Voluntary standards contain detailed technical solutions for meeting the essential requirements. These technical standards and regulations can have an impact on trade, especially if they vary from country to country, or are costly and burdensome. Bringing the legislation of the EU pre-accession economies into line with the international and European framework for technical regulations and standards brings substantial trade benefits (such as simpler conformity assessment procedures, shorter time to market and lower total costs of trading). This is especially important for SMEs who would find it difficult to comply with different sets of rules when exporting to the EU.

This chapter explores the steps being taken by the economies of the Western Balkans and Turkey (WBT) to improve their framework for technical regulations and standards. This includes efforts to enhance the overall quality infrastructure for product regulations (accreditation, standardisation, conformity assessment, legal metrology and market surveillance) and their alignment with EU and other international practice. Of particular importance is the need for special measures to enhance SMEs' participation in exports, such as providing information for companies interested in exporting. It is equally important to strengthen administrative capacity to fully implement legislation and ensure that only safe and compliant products reach final consumers. Finally, governments need to regularly monitor and evaluate policies and legislation to ensure that they continue to meet the needs of businesses and consumers.

Assessment framework

Dimension 7 analyses the policies and legislation in the Western Balkans and Turkey in the field of technical regulations and standards to allow SMEs to gain better access to the EU Single Market. It covers seven elements: 1) overall co-ordination and general measures; 2) technical regulations; 3) standardisation; 4) accreditation; 5) conformity assessment; 6) metrology and 7) market surveillance (Figure 7.1).

Figure 7.1. **Assessment framework for Dimension 7**



- The sub-dimension "Overall co-ordination and general measures" assesses the scope of the general policies and tools aimed at facilitating SME access to the EU Single Market, including a strategy or action plan for adopting of technical regulations and the provision of information on requirements for exporting to the EU tailored to the needs of SMEs, for example on a dedicated website.
- The sub-dimension "Technical regulations" assesses the degree of alignment with EU technical regulations, and the capacity of institutions to implement them, plus their transparency, monitoring and evaluation.

Further sub-dimensions focus on quality infrastructure, composed of:

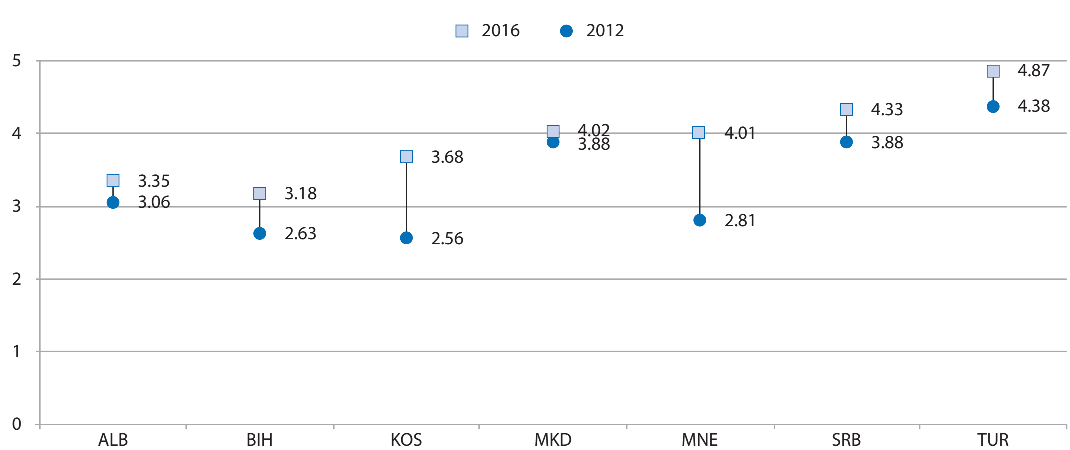
- Accreditation: the existence of accredited laboratories and certification/notified bodies.
- Conformity assessment: risk-based inspection systems, testing, and certification of products, personnel, and quality management.
- Standardisation: the existence of an independent standardisation body with active participation from SMEs.
- Metrology: includes the calibration of measurement systems and testing equipment.
- Market surveillance: the existence of measures and supervision practices which are compatible with those of the EU.

These represent the building blocks of a comprehensive system of technical regulations. Each sub-dimension also assesses the existence of regular monitoring and evaluation of the measures described. The aim of the monitoring and evaluation should be to determine to what extent measures achieve their public policy objectives, so that they can be adjusted if necessary, balancing the specific needs of industry and the legitimate public interest.

Analysis

WBT economies made some overall progress (Figure 7.2), with Serbia and Turkey having the highest cumulative scores. A customs union agreement has been in place between Turkey and the EU since 1995, explaining its high score. Serbia's results reflect the efforts it has made in the area of free movement of goods in the context of its EU membership negotiations.

Figure 7.2. **Weighted scores for Dimension 7 compared to 2012**



Note: See Annex A for further information on the assessment methodology.

Progress has been achieved in adopting European standards, with alignment of up to 97% for Turkey and Albania and 96% for Serbia. All economies continue to make progress in aligning legislation, although they sometimes lack underlying strategies and action plans. Administrative capacity and institution building also remain a concern in several economies, and the information targeting specifically SMEs is often provided in a rather fragmented, non-systematic way.

All economies have established the responsible bodies in the areas of standardisation, accreditation and metrology, and there is a high level of involvement in the relevant European and international organisations, with further efforts being made in this area. The overall scores and individual elements for Dimension 7 are summarised in Table 7.1.

Table 7.1. **Scores for Dimension 7: Standards and technical regulations**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Overall co-ordination and general measures	3.00	1.00	2.33	3.00	2.33	3.00	5.00
Technical regulations	3.93	4.73	3.80	3.40	3.47	4.60	5.00
Standardisation	4.14	3.71	4.14	4.43	4.00	4.24	4.29
Accreditation	3.24	2.89	4.84	5.00	4.68	4.92	5.00
Conformity assessment	2.92	2.67	3.75	3.67	3.58	4.92	5.00
Metrology	3.67	3.22	3.22	3.67	5.00	4.67	4.78
Market surveillance	2.56	4.00	3.67	5.00	5.00	4.00	5.00
Weighted average	**3.35**	**3.18**	**3.68**	**4.02**	**4.01**	**4.33**	**4.87**

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

Strategies to adopt and implement legislation are mostly in place but provision of information is patchy

While most economies have either adopted, or are preparing a strategy or an action plan for the adoption and implementation of legislation in the field of technical regulations, Bosnia and Herzegovina has yet to adopt a country-wide strategy in this field. The provision of all the relevant information SMEs need to export to the EU Single Market remains rather fragmented or insufficient in all economies.

Plans to align legislation with EU acquis are being put in place but institutions may lack capacity to implement it

All of the WBT economies have either adopted or are in the process of preparing an action plan or equivalent to align with EU sectoral legislation in priority sectors, and are amending their legislation to reflect that of the EU. All the economies have the relevant information online. However, not all of the economies have dedicated sufficient attention to assessing and addressing the training needs of the staff in the institutions implementing the technical regulations.

Economies are aligning their standards with Europe

Standards are shaped by consensus among enterprises, public authorities, consumers and trade unions through a consultation process organised by independent, recognised European standardisation bodies at the national and European level. All the economies have established a standardisation body and, with the exception of Kosovo, they are all either an affiliate or a full member of European and international standards organisations. Bosnia and Herzegovina, Serbia and Turkey are International Organization for Standardization (ISO) member bodies, while Albania and Montenegro are correspondent members. Serbia and Turkey are full members of the International Electrotechnical Commission (IEC), and Albania, Bosnia and Herzegovina, and Montenegro are associate members. The Former Yugoslav Republic of Macedonia and Turkey are full members of the European Committee for Standardization (CEN) / European Committee for Electrotechnical Standardization (CENELEC) and Albania, Bosnia and Herzegovina, Montenegro, and Serbia are affiliates. All of the economies except Kosovo are full members of the European Telecommunications Standards Institute (ETSI). All of the economies continue to adopt European standards, with the level of harmonisation being particularly high in Serbia (96%) and Turkey (97%) (see Box 7.1 for a fuller description of Serbia's harmonisation efforts). However, only a few economies have put measures in place to enhance the participation of SMEs in the development of standards.

Box 7.1. **A good practice example**

Serbia is a candidate country which is currently working towards meeting the opening benchmarks for the negotiations of Chapter 1 – Free movement of goods.

In the past years Serbia has made considerable progress in the field of standardisation.

The Institute for Standardization of Serbia (ISS) is the national body for standardisation for the Republic of Serbia. It is currently an affiliate member of the CEN and the CENELEC and has met the technical criteria for full membership in these organisations. Serbia is also a full member of the ETSI, a member body of the International Organization for Standardization (ISO), and a full member of the International Electrotechnical Commission (IEC).

The ISS has adopted approximately 96% of all European standards and harmonisation documents, and Serbia continues with the alignment of its horizontal legislation in this area. With such a high level of alignment to European standards, a higher level of competitiveness is ensured when exporting to the EU market, and this clearly benefits SMEs.

Serbia has also prepared a comprehensive Strategy for the Improvement of Quality Infrastructure in the Republic of Serbia for the period 2015-20, to be adopted by the government. This long-term strategic framework for further development of the quality infrastructure represents the basis for safety and quality of all products that are being placed on the market, and as such will support the development of all industrial branches.

The region is working towards conformity with European accreditation system

Accreditation supports conformity assessment bodies in both voluntary and mandatory areas. The European Co-operation for Accreditation (EA) develops and builds consistency in accreditation in order to reduce barriers to trade and to contribute to protecting health and safety. All WBT economies have established an accreditation body and the EA is supporting their development and their understanding of EA practices. Albania, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia and Turkey are full members of the EA, while Bosnia and Herzegovina, and Kosovo are affiliate members. Albania, the Former Yugoslav Republic of Macedonia, Serbia and Turkey have signed EA Multilateral

Agreements (EA MLAs) with the purpose of reaching the recognition and acceptance of the equivalence of their accreditation systems as well as the reliability of their conformity assessment results. As an associate member, Bosnia and Herzegovina has signed a bilateral agreement, which serves the same purpose as the EA MLA but is for associate members.

Conformity assessment structures are in place but more could be done to target information at SMEs

The purpose of a conformity assessment is to determine that the products conform to the provisions of the relevant legislation, in particular with respect to health and safety. All the economies have conformity assessment bodies, which cover most of the priority sectors and in most the register of conformity assessment bodies is available online. Only some economies provide information in this area specifically targeting SMEs.

Metrology is in development

Harmonisation of legal metrology procedures ensures that the certification of measuring devices is compatible around the world. This facilitates trade in measuring devices and the products relying on them. All of the WBT economies have a body responsible for metrology and are at various stages of putting in place legislation in line with European principles. The majority have yet to adopt a strategy in this field.

Market surveillance provisions are in line with the EU legislation, but co-ordination remains a challenge

Market surveillance is essential to protect consumers against the risks caused by non-compliant products. It also protects responsible businesses from unfair competition by those who ignore the rules. All the WBT economies have market surveillance legislation in line with the EU *acquis* in place, and most of them also have a strategy and an action plan. For several economies, the co-ordination of market surveillance activities remains a challenge.

The way forward

Although all economies have made overall progress, some specific issues related to SMEs will continue to require further attention:

- **Develop and adopt strategic documents** such as strategies and action plans on the adoption and implementation of legislation. This would ensure a longer-term commitment to ensuring a quality environment for businesses, including SMEs, who would benefit from a predictable legal framework for placing their products on the market.
- **Provide single central sources of information** specifically targeting the needs of SMEs. These should provide all the relevant information concerning standards, conformity assessment and other elements needed for exporting to the EU market. This would greatly benefit the SMEs, who do not necessarily have the resources to acquire the necessary information in timely and efficient way.
- **Regularly evaluate technical regulations and legislation**, taking into account the needs of the SMEs. Measures should be developed to enhance the participation of SMEs in the development of standards and other relevant documents.

Chapter 8

Enterprise skills and innovation (Dimensions 8a and 8b) in the Western Balkans and Turkey

Promote the upgrading of skills in SMEs and all forms of innovation (Small Business Act Principle 8)

Skills and innovation are crucial drivers of productivity and SME growth in today's knowledge-driven economy. Principle 8 of the Small Business Act provides the framework for analysing and evaluating innovation and enterprise skills policies in two areas: 1) building enterprise skills; and 2) innovation policy. As the European Union pulls out of a prolonged recession, it is also giving renewed policy consideration to training and the creation of a digital single market.

The SME training environments in the Western Balkans and Turkey could benefit from more co-ordinated data on existing training provision and SME training needs. Training for start-ups has improved, but economies could do more to combine training and mentoring with more diversified financial support, particularly for high-potential start-ups. More sustained effort is needed to develop training for growth-oriented businesses, including ensuring SMEs are ready for online activities. E-training is underdeveloped in most of the economies in the region. Policy makers will also need to pay more attention to quality assurance in training, particularly in the five EU membership candidates.

In innovation policy, some economies have made progress in establishing innovation policies and the infrastructure needed to implement them but progress has been uneven. Future challenges will include developing the right governance structure for innovation, promoting innovation, and enabling collaboration between academia and the private sector.

Dimension 8a: Enterprise skills

Introduction

As the European Union emerges from a long and deep recession there has been a resurgence of policy interest in the crucial role of human capital, and particularly workforce skills, in the economic turnaround (European Commission, 2015a). The primary driver for the renewed policy commitment to human capital is the EU's 2020 strategy which puts education and training at the centre of its drive for competitiveness and jobs (European Commission, 2010). However, the quality and availability of skilled labour continue to hamper growth (European Commission, 2014a).

More specifically, there are concerns about skill mismatches in the European Union and its pre-accession region (ILO, 2014; Arandarenko and Bartlett, 2012; ETF, 2012; European Commission, 2012b). Policy makers need to make greater efforts to ensure that their education and training provision reflects the specific needs of businesses (European Union, 2015b; SEECEL, 2013). Small and medium-sized enterprises (SMEs) account for 99% of all EU businesses, as they also do in the EU's pre-accession countries. Poor information about the skills in SMEs is a key factor in the mismatch between supply and provision (Lasku and Gribben, 2013). This may, in part, explain the "chronic underutilisation of human resources" in a number of economies preparing for EU integration (IMF, 2015).

High-quality training is a critical factor in building sustainable businesses whether starting up or scaling up (Deakins et al., 1998; Delanoë, 2013), boosting productivity (Konings and Vanormelingen, 2010) or increasing exports (Pucar, 2012). All four form an integral part of the Small Business Act for Europe (SBA) and the EU's industrial strategy (European Commission, 2014a). By adopting the SBA, the EU pre-accession economies have signed up to improve start-up training and training for businesses with growth potential, including training for businesses to trade in international markets.

As the European Union works towards a more integrated Digital Single Market (European Commission, 2015c), and with an estimated potential contribution of EUR 415 billion to European GDP (European Commission, 2015d), small businesses stand to benefit from online opportunities in terms of markets and sales as well as in generating innovation and efficiency in business administration. Online training for SMEs allows them to build knowledge and skills but also builds digital competence to maximise their market opportunities and productivity.

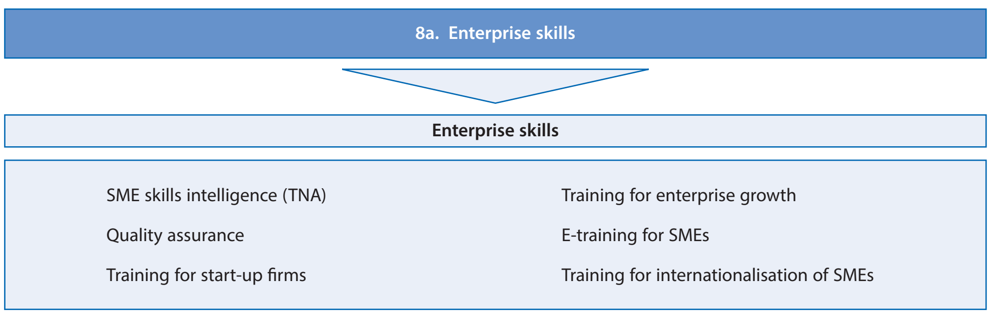
This section considers the progress and challenges for SME training in terms of policy intelligence, start-up training, training for SME growth and internationalisation, e-training developments, and quality assurance. It concludes with a number of recommendations for future development.

Assessment framework

The assessment followed the approach used in previous SBA assessments: a) self-assessment by country stakeholders, b) dedicated focused groups addressing each indicator and to review evidence facilitated by ETF and SEECEL, and c) follow-up bilateral exchanges with the partner countries to finalise evidence and scoring.

The assessment involved six indicators (Figure 8.1). As a package, they represent a prompt to policy makers and businesses to establish SME training as a strategic priority in enterprise development set against the "Copenhagen" national competitiveness criterion (European Union, 1993). Each economy's enterprises will need to meet the challenge of operating in the EU's open market. SME training covers management and regulatory skills as well as vocational skills – all are critical to productivity. Taken together, this makes for a complex institutional environment comprising a range of policy stakeholders, business support organisations and the training community (public and private). Co-operation and co-ordination are therefore important to ensure that the framework to support the development of skills in SMEs is comprehensive and cost effective.

Figure 8.1. **Assessment framework for Dimension 8a**



Two new indicators were added to the 2015 assessment: training for SME internationalisation and e-training. These indicators were elaborated by regional experts facilitated by the ETF and SEECEL. Both indicators reflect renewed EU concern and policy interest in these areas (SMEs in the internal market and efforts to improve the Digital Single Market). The four indicators focusing on training delivery (start-ups, growth, internationalisation and e-training) replace the 2012 "access to training" indicator.

While training for start-ups and early-phase and growing enterprises will differ, a prerequisite for all training provision is good intelligence. Ensuring the training on offer meets demand stands out as a critical factor for the SME human capital drive in encouraging and convincing cash-strapped SMEs to invest in training. The first indicator in the assessment – SME skills intelligence – encourages pre-accession partner countries to establish reliable and consistent data on SME training, and particularly on training needs (ETF, 2014). Weak intelligence on SME skills undermines wider enterprise policy objectives of establishing robust economies and investment in skills. A more system-based approach to building intelligence on SME skills allows policy makers to more confidently address the manpower requirements of the economy and to ensure greater efficiency in financial investment in training for SMEs. Finally, the training providers stand to gain by framing their training offer based on good, regular intelligence on SME training needs.

The SME skills intelligence indicator is an important "driver" for the remaining indicators. Assuming that skills intelligence and data are systematically available, progress on the remaining indicators, many of which are data-conditional is assured.

The start-up training indicator encourages governments (through policy) and training providers (through design and delivery of training) to give renewed consideration to training and mentoring for start-ups.[1] A dynamic economy depends on new ventures being started and training and mentoring affects the survival rate of start-ups. The indicator also encourages agencies supporting start-ups to specifically close the gap between start-up training and start-up finance. This requires a more developed interface between the training community and banks, as well as other financial support organisations, to maximise the value of investment in start-up training and the success of start-up grants and loans. Box 8.1 provides a good-practice example from Belgium, involving mentoring of young, high-potential entrepreneurs from the first idea through to early growth.

The training for SME growth indicator focuses on training for growing enterprises,[2] which is a particular priority (European Commission, 2010). Growth enterprises account for a significant share of job creation and are the principal drivers of national economic competitiveness (Lee, 2014; Anyadike-Danes et al., 2009). Training for growing enterprises, therefore, is an important feature within a wider SME-support framework. The indicator assesses the level of policy commitment to training for growth-oriented businesses, including financial support and targets.

Box 8.1. **Bryo: Innovative approaches to supporting young, high-potential entrepreneurs in Belgium**

Voka, Flanders' Chambers of Commerce and Industry (Belgium) is behind a drive to reinforce the entrepreneurship potential in its region. A primary focus is on young budding entrepreneurs keen to break into high-value sectors. The Bryo project (Bright & Young High Potential Entrepreneurship) lasts 24 months and takes place on evenings and weekends. It supports young people from the first idea, to start-up and early-phase SME development.

The project follows four phases. First, training needs are identified through informal, group-based discussions. Second, thematic sessions are scheduled over successive months to address core themes (e.g. business plans, access to finance, marketing, taxation, recruitment and employment regulations, intellectual property, and coping with failure). Learning methods vary across the thematic areas and include case studies, interactive workshops, story-telling and learning from others. Third, "business dates" pair participants with mentors – businessmen and women from the Chamber network. These focus on "what if" and "how to" issues and are geared to maximising success in the start-up and early-phase enterprise. The fourth phase addresses young entrepreneurs whose businesses are up and running and have growth potential. It involves more customised support from seasoned entrepreneurs, addressing issues such as innovation and investment options.

Peer support and learning from others are critical components within the project. All participants are also connected into the Chamber's wider networks involving some 3 000 entrepreneurs, making up a powerful learning resource. Bryo also has a strategic partnership arrangement with an established bank (BNP Paribas Fortis) ensuring that finance guidance and support is available to participants. Similarly, Deloitte Belgium provides advice and support to young entrepreneurs on issues like accounting, taxation or legal issues.

Demand for participation in the programme is high. The project is marketed through the press, a dedicated road show that travels the region and social media. The project is financially supported by the Chamber and the Flemish regional government. The costs are EUR 2 000 per head, with each participant contributing EUR 500. Between 2010 and 2013, the project has supported 566 young people, resulting in 283 start-ups creating more than 600 jobs. In June 2015, Bryo featured as an internationally recognised good practice at the World Chambers Congress in Turin.

Sources: www.voka.be/oost-vlaanderen; ETF and ICC (n.d.), *Bright & Young: Guiding Young High Potentials Toward Entrepreneurship,*www.etf.europa.eu/webatt.nsf/0/58DF0C61CD56E2D8C1257E67004E9774/$file/BEL%20Good%20practice.pdf.

The training for internationalisation indicator is related to training for growth, but concentrates on enhancing the knowledge and skills SMEs need to trade internationally. As the pre-accession economies prepare to join the EU Single Market, they need to make more concerted efforts to boost enterprise performance as well as capacity to withstand competitive pressure. A new EU single market strategy places particular emphasis on SMEs expanding beyond the domestic market to realise the full potential that the single market can offer (Evans, 2015).

The objective of the e-training indicator is to encourage the creation of a vibrant e-training environment for SMEs with the potential to bring extra value and efficiency to businesses. This factor takes on more significance as the EU reinforces its efforts for a digital internal market for improved online access to goods and services (European Commission, 2015b).

The final indicator addresses quality assurance in training. SMEs need to be convinced of the quality of training before they devote time and money to it. While a single quality assurance system may not comprehensively address all vocational and managerial skills, SMEs should be aware of different quality assurance options. This could include a national quality assurance framework for education and training (usually overseen by a national education ministry), sector-specific quality assurance for training provided by professional associations as well as quality assurance provided by international bodies. Confidence in training provision generates interest and demand for training within the SME community.

Analysis

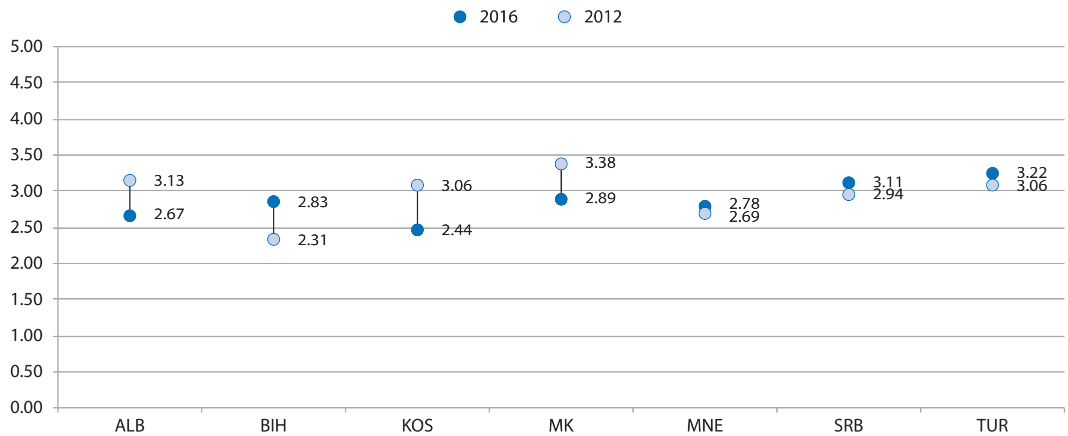
All economies in the region have made good progress on SME skills intelligence since the 2012 assessment but need to improve the co-ordination of data and wider intelligence on training needs in particular. Better developed intelligence will be key to improvements in training policy and training practice. All economies are making good efforts in start-up training although they could do more to dovetail training and mentoring with more diversified financial support, particularly for high-potential start-ups. While training for businesses with growth potential is good, governments need to make a more sustained and concerted effort to develop the knowledge and skills businesses need to trade in the EU Single Market. Turkey aside, e-training remains underdeveloped in all economies and will require policy attention as the EU reinforces its efforts in building a digital internal market. Quality assurance of training also requires more attention in the wake of the EU's new commitment to improve vocational education and training, particularly for those economies with EU candidate status (European Union, 2015b). Table 8.1 gives a breakdown of the scores by individual indicator. Figure 8.2 compares the overall scores for each economy with the 2012 results.

Table 8.1. **Scores for Dimension 8a: Enterprise skills**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
SME skills intelligence (TNA)	3.50	3.50	2.50	3.50	3.50	3.50	3.50
Quality assurance	3.00	3.00	3.00	3.00	3.00	3.50	3.50
Training for start-up firms	2.50	2.50	2.50	2.50	2.50	3.00	3.00
Training for SME growth	3.00	2.50	3.00	3.00	3.00	3.00	3.00
E-training for SMEs	1.00	2.00	1.00	2.00	1.00	2.00	3.00
Training for internationalisation	2.00	2.50	2.50	2.50	2.50	3.00	3.00
Weighted average	**2.67**	**2.83**	**2.44**	**2.89**	**2.78**	**3.11**	**3.22**

Note: see the Policy Framework and Assessment Process chapter for information on the methodology.

Figure 8.2. **Weighted scores for Dimension 8a compared to 2012**



Note: The comparison of scores for Dimension 8a between the 2012 and 2016 assessments should be interpreted with caution, since the 2016 assessment included new indicators and some revised criteria for certain existing indicators. The assessment team recommends that economies wishing to compare performance over time should focus on the qualitative/narrative parts of reports.

SME skills intelligence

The assessment highlights the good efforts economies have made to develop data and wider intelligence on SME skills developments, including training needs analyses (TNAs). Bosnia and Herzegovina's establishment of a multi-stakeholder working group and engagement with four sectors (textiles, metal, wood processing, and food and beverages), including the development of skills-tracking tools and expertise, provides a sound basis for follow-up work.

Serbia's new SME strategy gives renewed force to efforts to build credible intelligence for SME training while Montenegro's 2015-2019 Strategy for Entrepreneurial Learning features a commitment to more developed tracking of SME skills. The Albanian Investment Development Agency has been entrusted with reviewing SME skills requirements on a biannual basis. Direct engagement at local level with businesses is an important factor is closing the gap between the skills needed and the training on offer. In this regard, regional developments agencies continue to play an important role in tracking the skills requirements of businesses in Serbia and Turkey. Bosnia and Herzegovina's direct engagement of the business community through chambers of commerce, and the state-wide commitment to continuing to work together on intelligence developments, is good practice. In the Former Yugoslav Republic of Macedonia, the SME skills intelligence drive is led by the employment services. Meanwhile, Kosovo's active engagement in the TNA studies led by the South East European Centre for Entrepreneurial Learning (SEECEL, 2013, 2015) represents a good foundation for building national ownership of TNA developments.

All the economies need to make more effort to integrate the range of data sources on SME skills and maximise the value of the overall intelligence available. Identifying a dedicated agency to act as an SME skills "observatory" would help. It could also provide a monitoring and evaluation function to support the policy process.

The next step for all economies will be to demonstrate the impact of their SME skills intelligence and analysis on both policy and training practice. They will need to focus on sector-specific skills, and particularly in those sectors with growth potential. Second, they will need to pay more specific attention to women-owned businesses, given that data collection and analysis specifically on the training needs of this group varies. In this regard, İŞKUR's initiative on training intelligence for women-owned businesses in Turkey is promising.

Training for start-ups

All economies have shown progress on start-up training, with Serbia and Turkey most developed. Serbia particularly stands out for its start-up training drive delivered through 14 regional development agencies. All training provision is delivered by accredited training providers. Macedonia's National Centre for Innovation and Entrepreneurial Learning provides mentoring for innovative start-ups while Albania's Protik Innovation Centre provides training backed up with a range of business-to-business support. TÜBİTAK's training services in Turkey particularly stand out for their online training provision for technology start-ups.

Particularly important are the efforts made by all the economies to dovetail start-up training and access to finance, which is a critical factor in ensuring that start-up intention leads to business creation. While non-bank financing options for SMEs still remain undeveloped, banks will continue to play an important part in the SME ecosystem. Development banks would do well to encourage their network of intermediary banks in the region to meaningfully engage with the SME community (Durkin et al., 2013). This includes ensuring that lending is accompanied by training and/or mentoring provision.

Data on start-up training in all economies remains underdeveloped. Evaluation of start-up support is also weak. This in particularly important if policy makers and training providers are to determine what start-up support measures work most effectively and how best to reduce failures among new ventures.

Training for SME growth and internationalisation

The indicators for training for SME growth and SME internationalisation are addressed together given that internationalisation and growth are intertwined (ACCA, 2012; Račić et al., 2008). All economies have established SME growth and internationalisation as policy priorities and offer publicly financed training to support businesses. While weak data on training remains a policy frustration, the assessment highlighted a number of excellent training initiatives to support SME growth and internationalisation. Good examples of training for growth include a programme to promote innovative gazelles in Serbia, the City of Skopje's innovation-related training for SMEs and Özyeğin University (Turkey) which collaborates with the Kauffman Foundation's Growth Venture Programme to provide training for growing businesses. Good examples of export-related training include programmes by chambers of commerce for their members (e.g. Bosnia and Herzegovina and Kosovo) and sector-specific training offered by the Turkish Exporters Assembly.

Particular attention should be given to training and mentoring support for high-growth SMEs (European Commission, 2010) which are the primary contributors to job creation (Lee, 2014; Anyadike-Danes et al., 2009).

Many businesses internationalise through acquiring knowledge and know-how as they engage with other businesses and business support partners (Brown et al., 2014; Fletcher et al., 2011). The Enterprise Europe Network (which has local support offices in most of the partner economies) provides an opportunity for SMEs to connect into a wider community of businesses and where market information, partners, business mentoring and peer-based business assistance are available. This is particularly important for businesses keen on establishing entry into EU markets and where sector organisations will have a critical role in promoting regulatory training and advisory support to SMEs on EU trading standards (e.g. environmental norms, health and safety, consumer protection).

The EU is the pre-accession region's largest trading partner, accounting for over 75% of the region's total trade, but the region's share of overall EU trade was just over 1% in 2014. Training and advisory support will be an important factor in improving these trade figures. While the assessment highlighted excellent support to SMEs in terms of trade fairs and other export-promotion information campaigns, these initiatives would have more impact if they were more directly connected with training and advisory support.

Given the importance of labour productivity to business growth and internationalisation (European Commission, 2014b), details about training programmes and how they might spur growth and internationalisation are very underdeveloped. While Serbia and Turkey provide details of training programmes specifically focusing on SME internationalisation, all the economies need to make a more developed effort to raise the profile of the training available for SMEs. They should also highlight examples of the impact they have to generate interest from SMEs in expanding production and services beyond home markets.

E-training for SMEs

E-training for SMEs is underdeveloped in the region. Overall, the assessment found weak e-learning infrastructure in terms of support platforms, and most of the economies have not developed online mentoring and self-learning options for SMEs. Turkey's SME e-training support and developments, however, stands apart. First, its "SME Campus", established by KOSGEB is an excellent example of a dedicated platform for SME e-training managed by a national SME agency. Second, TÜBİTAK provides an innovative learning environment with online start-up training reinforced by an online mentoring facility. Third, the TEB SME Academy is an online training facility established by a leading bank. It provides training on areas such as sales, growth strategies and foreign trade. This interfaces with TEB SME TV providing business-interest television programmes on the internet in areas such as taxation.

With a reinforced effort at EU level to develop the digital economy (European Commission, 2015b), governments and business communities in pre-accession region should recognise the importance of SMEs being important stakeholders in each country's effort to build a digital economy. E-training and online support services should feature in the support framework.

Quality assurance

Quality assurance for training is well developed across all economies with both public and private-sector organisations providing certification of training providers. Evaluation of the wider quality assurance effort is undeveloped. It is important to give SMEs access to as much information as possible about the quality of training programmes and training providers, to improve their confidence in investing in training.

All EU membership candidates are encouraged to work further on the promotion of quality in vocational education and training (VET) as part of the wider European effort to improve the attractiveness of VET to both trainees and employers (European Union, 2015b)

The way forward

The following actions would bring forward the development of SME skills.

- **Skills intelligence:** efforts to build data and wider intelligence on SME skills should continue with the identification of a co-ordinating body for skills intelligence to provide a comprehensive and reliable reference for policy makers and the training community. Priority should be given to training intelligence for key sectors of the economy to allow for targeted support to those businesses with growth potential and/or readiness to operate in EU an wider international market.
- **Systematic monitoring and evaluation**: training at both project and system level should be monitored and evaluated as an integral factor in quality assurance, improvements in training and policy effectiveness.
- **E-business and the EU digital economy**: e-training should be afforded much higher consideration in the policy agenda set against evolving e-business demands and the EU's Digital Single Market. Strategic pilot actions could be considered to support training providers (management, vocational and EU regulatory training) and e-learning experts from higher education to co-develop e-training services.

Table 8.2. **Key policy instruments for improving SME skills**

Challenges	Policy instruments
SME intelligence to support policy development, decision making, and resource allocation for training	• More developed engagement and capacity building of the business support framework (e.g. chambers, employers organisations, sector interest bodies, clusters) into the development of skills intelligence, including greater visibility and access to intelligence sources for all stakeholders. • Competitive-based support to public and private-sector training organisations for training development in key economic sectors.
Impact of start-up training on employment and growth	• Give priority (policy and financing support) to training and mentoring of start-ups that are likely to scale-up and generate jobs. • Develop entrepreneurship careers guidance services for vocational and third-level education.
Training – access to finance interface	• Dovetail training with more diversified financial support for young high-potential and women entrepreneurs.
Stand-alone export support actions for SMEs	• Trade fairs and missions should be accompanied by training and advisory support for SMEs with high-growth and export potential.
Undeveloped e-training provision	• As part of wider cross-stakeholder dialogue on implications of the EU's Digital Single Market Strategy, determine options to bring forward e-training for SMEs.
Enterprise-training provider co-operation	• EU candidate economies in particular should reinforce dialogue and co-operation between businesses and training providers to improve VET quality assurance (Riga deliverable).
Weak monitoring and evaluation culture	• All training projects to be systematically monitored and evaluated with results made available to support policy makers and the training community with continuous improvements.

Notes

1. Start-ups refer to those considering starting a business (pre start-ups) and early phase businesses in their first three years of operation.

2. For the purposes of the assessment, a growing company meets at least one of the following criteria: 1) development of new products or services, 2) accessing new markets, and 3) generation of new jobs.

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Dimension 8b: Innovation policy for SMEs

Introduction

Innovation is defined by the Oslo Manual (OECD/Eurostat, 2005) as "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".

Micro, small and medium-sized enterprises (SMEs) are the backbone of the economy in the Western Balkans and Turkey. Empirical studies on the determinants of innovation have found that smaller firms have a lower propensity to innovate than larger ones. SMEs might initiate innovation activities, but it is difficult for them to carry them through. However, SMEs and new businesses still introduce large numbers of innovations and with public support they could develop and commercialise even more of these innovations, on their own or with the support of large established firms.

Research and development (R&D) and innovation policies are becoming increasingly complex. There are more potential policy instruments that can be administered by a number of different ministries and a multitude of new actors can be involved in the innovation system. Countries face the challenge of optimising the policy mix and establishing multi-level governance (OECD, 2014). Supportive policies and institutions adapted to their needs may strengthen the ability of SMEs to get involved with innovation. Policy makers are paying increasing attention to developing an "ecosystem" approach, creating "a framework where industries, entrepreneurs, citizens, governments and centres of knowledge interact alongside the lines of complexity, co-operation, competence, competition and communication to achieve solutions" (High Level Group, 2014).

Knowledge spill overs from other firms and from universities are important for the development of innovative enterprises (Audretsch, 2004). Public policy can enhance these through measures to promote co-operation between firms and between firms and universities, for instance integrating demand-driven measures into procurement to ensure a push for an innovation. Other measures could include the development of triple helix types of partnerships, using capacity building, training and incentive packages to encourage academia to collaborate with the private sector and government institutions to commercialise research outputs. Governments can also use direct financial instruments to initiate innovation at SMEs, for example in the form of innovation vouchers.

The EU Small Business Act encourages governments to undertake several broad activities in the area of innovation:

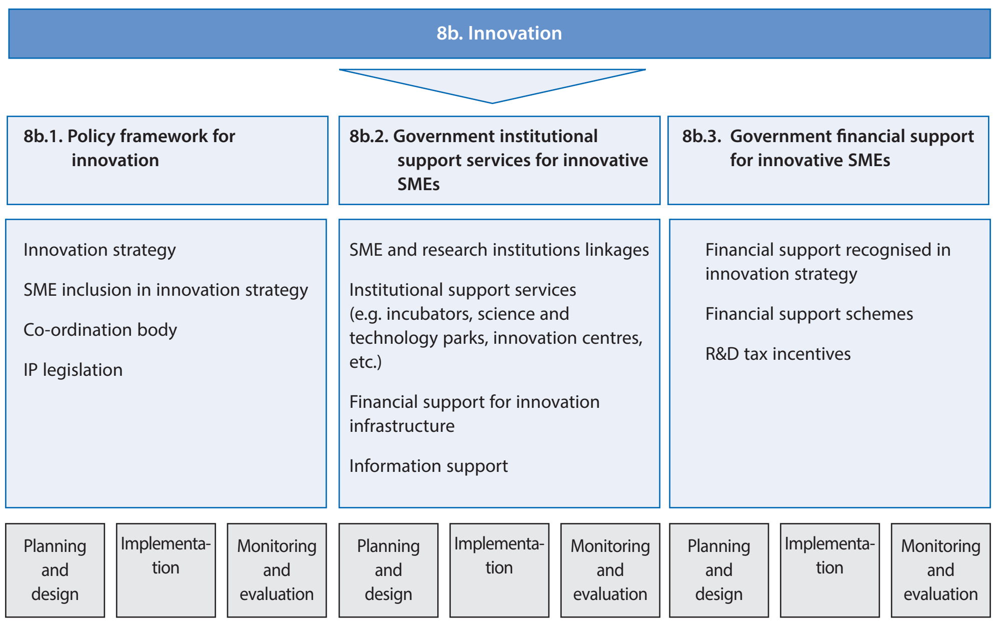
- Strengthen programmes to promote innovative clusters and networks, and provide support to high-growth enterprises (particularly SMEs).
- Ensure simplified access to public research infrastructure and national research programmes, and active participation of SMEs in transnational research activities.
- Foster innovative activities and the commercialisation of knowledge through the development of financial and non-technological support services for small businesses.

This chapter presents the assessment framework for innovation policy, analyses the key findings and current scores, and provides a summary of the policy recommendations.

Assessment framework

Dimension 8b has been restructured since the 2012 assessment and now looks at three sub-dimensions: 1) the policy framework for innovation (with a specific focus on SMEs); 2) government institutional support services for innovative SMEs; and 3) government financial support services for innovative SMEs (Figure 8.3). Each sub-dimension is structured into three thematic blocks covering the entire policy cycle from planning and design, through implementation to monitoring and evaluation.

Figure 8.3. **Assessment framework for Dimension 8b**



The changes in the assessment methodology were introduced to be able to gauge the innovation activities in the economies analysed and deepen our understanding of the activities which are effectively operational. Box 8.2 outlines the main changes to the innovation policy dimension compared to the 2012 assessment framework.

Box 8.2. **Changes in the composition of Dimension 8b: Innovation policy for SMEs**

- Change 1: introduction of monitoring into the evaluation framework.
- Change 2: integration of the intellectual property rights indicator into the policy framework for innovation sub-dimension.
- Change 3: introduction of *government* institutional support services for innovative SMEs, focusing only on the institutional infrastructure and support provided to them by the government.

The policy framework for innovation

The policy framework for innovation covers SMEs measures and the extent to which an institutional and policy framework is in place to design, co-ordinate and implement innovation-related policy support measures. It looks at a comprehensive innovation strategy, a co-ordinating body in charge of policy development and legislation on intellectual property rights. Such a policy framework is crucial for the co-operation between the private sector and academia, protecting intellectual property rights but also providing the right signals and motivation.

The innovation strategy can be a standalone document or can be included in other relevant policy documents such as the entrepreneurship policy, industrial policy or education and science strategy. It should cover core policy objectives such as fostering innovation activities, commercialisation and technology transfer, ideally with a focus on SMEs. Traditionally policy interventions have mainly been focused on technological innovations, since it is easier to identify the market failures and areas of intervention for the government. Policy frameworks should recognise that innovation can be both technological and non-technological and identify policy interventions to strengthen non-technological innovation as a complement to more conventional support for science and technology. Focusing on both technological and non-technological innovation is a challenge and could be addressed through further support of framework conditions for innovation. These framework conditions might include among other things, promotion of networking, support to strengthen SMEs' capacity to absorb knowledge from outside the firm, and the creation of awareness over innovation among variety of actors.

Policy co-ordination through a multi-stakeholder body helps avoid duplication of effort, minimises structural inefficiencies and harmonises policy actions. One of the options is to have a high-level council chaired by a high political authority. But there are also other models that could be tested in order to ensure a co-ordinated and efficient approach to work on the innovation policy.

Intellectual property (IP) legislation is an important element when promoting innovation. Having legislation regulating ownership of intellectual property rights and how royalties are split for publicly funded research can further boost co-operation between academia and private sector.

Government institutional support services for innovative SMEs

The government institutional support-services for innovative SMEs sub-dimension measures the policies and structures in place supporting innovative SMEs. It analyses the availability of infrastructure such as incubators, science and technology parks, technology transfer offices (TTOs) and other structures which could support SMEs in the initiation and scaling of their innovations. It also looks at databases of researchers and innovation-support institutions available to researchers. Relevant policy approaches to establishing such linkages include the creation of science parks and technology transfer offices as well as the framework needed for licences and patents to facilitate the commercialisation of innovation.

When introducing institutional support, policy makers need to distinguish between high-growth highly innovative firms and SMEs introducing incremental innovations into their products or everyday operations, such as upgrading internal processes. Both types of innovation, technological and non-technological, need to be encouraged through tailored support measures. In both cases, knowledge exchange and transfer need to be stimulated through support measures such as dedicated trainings, capacity building and specifically developing links with the venture capital community among others.

The institutional support services can catalyse this process through the provision of advice, access to information and capacity building to improve the readiness of SMEs to innovate. Collaboration with other stakeholders in the innovation ecosystem can help SMEs to overcome some of the barriers they encounter such as the lack of a skilled workforce and technological competences, and limited funding. Institutional support services can help support SMEs to find the right partners and create win-win partnerships. Governments can play a "matchmaking" role, facilitating linkages between SMEs and research institutions or universities. Policy approaches to establishing these linkages include developing a cluster policy, creating science parks and technology transfer offices, and ensuring a legal framework for licenses and patents conducive to the commercialisation of innovation.

Government financial support services for innovative SMEs

This last sub-dimension looks at the government financial support services available for innovative SMEs. It measures the availability of financial support schemes or public grants for innovative projects by SMEs as well as the availability of R&D tax incentives. It considers whether budgets have been mobilised, if financial schemes are operational and whether a competitive selection process is in use.

SMEs' limited financial resources represent a significant barrier to innovation. Policy interventions are needed to help SMEs access the finance they require at the different stages of the innovation process, such as developing a prototype or even buying the equipment needed in order to implement their innovation. Banks in the region still have strong collateral requirements which SMEs can rarely provide.

Policy interventions can take the form of grants, loans, loan guarantees, promotion of venture capital and business angel finance, and investor readiness programmes. Support measures need to distinguish between different types of innovation (e.g. technological product, internal process innovation) and different stages of innovative activities (e.g. idea development, engineering, commercialisation phases).

Analysis

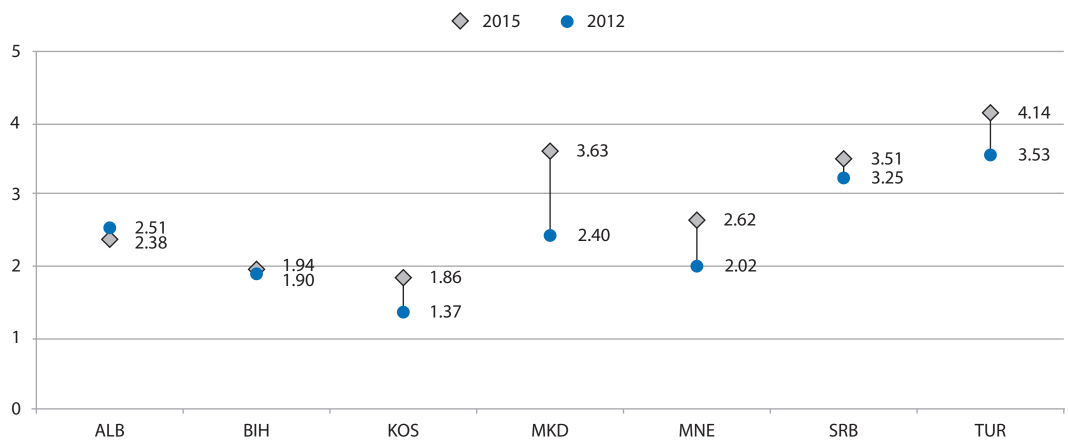
Innovation is recognised as an important area by all of the economies in the region The governments have made efforts to increase their expenditure on R&D and innovation. Although still significantly lower than the EU-28 average (around 2% of GDP), gross expenditure on R&D (GERD) has been increasing in all of the economies, apart from Bosnia and Herzegovina where it has been stable since 2009. Moreover the governments of the SEE economies have made efforts to increase the efficiency of their limited R&D expenditures. All economies in the region have introduced some form of competitive project funding for R&D activities.

According to the latest Business Environment and Enterprise Performance Survey (BEEPS; EBRD, 2014), the main obstacles that firms encounter in their operations are related to the informal sector, and access to finance and electricity. For innovation-intense firms, however, lack of skills, corruption and inefficiencies in the tax administration constitute the most serious impediments in developing their operations (see Box 8.4 for more details).

Since the SME Policy Index in 2012, policy frameworks for innovation in the region have been improving slowly. Governments have been paying increasing attention to developing innovation frameworks and infrastructure to promote innovation in general. This demonstrates a growing recognition of the need to move to innovation-driven and knowledge-based economies. There is also a wider range of infrastructure available in the region, and there are a number of financial instruments specifically focusing on innovation.

Despite challenges, some positive changes have been made and the scores of all of the economies apart from Albania have been improving. Even in Albania, the slight decrease in its score is related to the methodological changes described above as well as the slow pace of its innovation reform implementation. As a result, the average score for Dimension 8b in the region increased from 2.43 to 2.87 between 2012 and 2016 (Figure 8.4).

Figure 8.4. **Weighted scores for Dimension 8b compared to 2012**



Note: See Annex A for further information on the assessment methodology.

Although there have been many positive changes, the economies face several challenges. These include:

- **Lack of policy frameworks and unclear governance structures**. Few economies have put in place a clear structure to co-ordinate the development of innovation policies. Often innovation is the responsibility of two or more ministries or government bodies which can create confusion and fragmentation of initiatives tackling innovation.
- **Lack of strong research base**. Although all of the economies have universities, the research base is still too weak to compete at the international level and the number of researchers is low compared to the EU and other developing economies. Moreover, research is often focused on general subjects and does not cover areas which might be relevant to private-sector innovation.
- **Innovation and technology transfer are constrained by the lack of mechanisms and incentive programmes to encourage co-operation between academia and the private sector**. Academics are expected to be involved in teaching and there are no incentives for them to co-operate with the private sector. In some cases researchers are not even allowed to get involved in commercial activities, further creating disconnect between research and the needs of the private sector. Other supported measures could include engaging students, post-docs in knowledge transfer activities and promotion of the on-campus start-ups.

- **Lack of a systemic "ecosystem" approach**, which results in fragmentation of the entire system. Although a number of innovation programmes exist they often operate in a vacuum, making it difficult for a particular initiative to benefit from all of the incentives and programmes available. Sometimes a key element might be missing, breaking the entire chain of innovative idea development.
- **Development of financially unsustainable innovation-related infrastructure.** Although a number of incubators, innovation centres, and science and technology parks exist, few could operate without substantial support from donors or public money.
- **Lack of financial resources to implement programmed reforms and strategies**. Although there are often good intentions and strategies, the funding to fully implement them is lacking. For example, Albania has set up a number of funds but budget mobilisation is still not assured, while in Kosovo, GERD is expected to be just 0.7% of GDP, considerably below its target.

The policy frameworks are developing but further efforts are needed

The WBT economies have made progress formulating their innovation policy framework since the 2012 assessment, although this progress remains uneven (Table 8.3). The average score for this sub-dimension has slightly increased from 2.4 to 2.9 between 2012 and 2016, highlighting that in general policy frameworks have been developing slowly or are part of other strategies. Since 2012, some economies have clearly made more progress than others, however.

Table 8.3. **Scores for Sub-dimension 8b.1: Policy framework for innovation**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Planning & design	3.65	2.05	3.04	4.76	2.09	3.00	4.64
Implementation	3.33	2.00	1.00	4.00	3.00	4.33	4.33
M&E	1.00	1.00	1.00	2.00	2.00	3.00	3.00
Weighted average	**2.98**	**1.82**	**1.71**	**3.87**	**2.48**	**3.60**	**4.17**

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

Over the last several years some economies have significantly improved their innovation policy framework. Turkey and the Former Yugoslav Republic of Macedonia have made clear progress in the formulation and implementation of their policy framework. Albania already had an innovation policy in place. Serbia and Kosovo have developed a new policy but have yet to adopt it. Montenegro is in the process of preparing its innovation policy. Bosnia and Herzegovina has made limited progress in development of a national-level innovation policy but some efforts have been made at the entity level, especially in the Republika Srpska (RS), and this has been taken into account in its scores.

Policy co-ordination is not systematic in most of the WBT economies. In most, several ministries or dedicated bodies are responsible for innovation policy. Only Turkey and the Former Yugoslav Republic of Macedonia have an inter-governmental body for innovation policy co-ordination: the Scientific and Technological Research Council of Turkey (TÜBİTAK) and the Committee for Innovation and Entrepreneurship (chaired by the Prime Minister) respectively. The other economies do not have a centralised co-ordination body for innovation policy, which would be particularly useful for Bosnia and Herzegovina in order to ensure consistency of the policies pursued at the entity level.

In the area of intellectual property rights (IPR), most of the economies were already scoring fairly high in 2012 and all have made further progress since then. In the Former Yugoslav Republic of Macedonia, the innovation strategy contains measures to improve IPR regulations for public research institutions in order to facilitate the commercialisation of results. Albania's legislation is currently under revision to address the same issue and align it with the EU legislation. Turkey has amended the law on intellectual property and industrial design rights to enhance and clarify the rights to inventions by university members. Kosovo has developed a draft strategy to tackle the issue which is waiting to be adopted by the government.

The economies have made progress in the area of planning and design of dedicated policies, however their implementation is often delayed due to the challenge of finding the necessary funding. Although governments are making efforts to monitor and evaluate the implementation of their strategies and adjusting their action plans accordingly, only Serbia and Turkey have actually managed to do this.

Governments still need to make considerable efforts to develop, adopt, implement and monitor their innovation-related areas, and need to put further focus on SMEs and especially on innovative and high-growth ones (IHGSMEs).

The institutional support services on offer have been improving although the infrastructure is still not enough to meet innovation needs

Since the 2012 assessment, most WBT economies have scaled up their innovation infrastructure and improved the government institutional support infrastructure. The average score across the region increased from 2.1 to 2.7 between 2012 and 2016, showing the overall improvement in institutional support in the region, but also how far it still has to go (Table 8.4).

Table 8.4. **Scores for Sub-dimension 8b.2: Government institutional support services for innovative SMEs**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Planning & design	2.33	2.17	3.50	3.33	3.67	4.33	4.17
Implementation	1.33	2.60	1.37	2.87	2.30	3.47	4.63
M&E	1.00	1.89	1.00	3.67	1.00	1.00	1.00
Weighted average	**1.62**	**2.31**	**2.04**	**3.19**	**2.52**	**3.28**	**3.74**

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

All economies emphasise institutional support services in their national innovation strategy or the relevant laws or strategic documents, but they should aim to make further progress. Some economies have established dedicated institutions to ensure the implementation of their strategies. For instance, in the Former Yugoslav Republic of Macedonia the Fund for Innovation and Technological Development is taking that role.

Incubators, science and technology parks, TTOs, clusters and innovation centres are all present in the region. Turkey and Bosnia and Herzegovina have science and technology parks, while Serbia and Montenegro are currently planning theirs. The Former Yugoslav Republic of Macedonia, Serbia and Turkey are the only economies with technology transfer offices. Turkey is, without doubt, the most advanced economy with 20 TTOs, numerous incubators and technology parks. Of the 55 technology development zones Turkey has planned, 40 were already operational in 2014. Turkey also created a Patent Application Promotion and Support Programme to increasing the number of national and international patent applications by stimulating patent filing and creating awareness of intellectual property rights. Kosovo and especially Albania need to make more efforts to catch up with their peers. In general, further support could still be provided by not only building a physical infrastructure, but especially through developing soft infrastructure, the necessary skills and networks around it as it would create a more solid base to promote and develop innovations.

Mechanisms to promote co-operation between SMEs, research institutes and universities are underdeveloped in the region. The Ministry of Science and the Ministry of Education in Montenegro used a loan from the World Bank to implement the Higher Education and Research for Innovation and Competitiveness (HERIC) project. The project allows scientific institutions and public and private companies to collaborate over research and development and opportunities for technology transfer HERIC project has increased collaboration between academia and business and a Collaborative Research Grant Scheme is now ongoing. The Former Yugoslav Republic of Macedonia and Montenegro have created online platforms/databases that aim to facilitate contact between stakeholders of the sector but they lack of incentives and facilitation mechanisms. The OECD has been collaborating with the stakeholders in Kosovo and Albania to promote Triple Helix partnerships through dedicated competitions.

Even in economies with innovation infrastructure and incentives available, ensuring collaboration between industry and academia is a challenge. There is a demand for capacity-building exercises and the development of technical skills, and a shortage of people able to help coach entrepreneurs with innovative ideas, create the right partnerships and help them develop their business skills and grow their companies. In order to maximise the benefit of the infrastructure already created, economies need to make more efforts to develop these skillsets.

Implementation of the policies related to the creation of infrastructure has been advancing but the innovation support systems in the region continue to heavily depend on international donors and public finance for their funding, which hampers their sustainability. Policy makers should make further efforts to ensure their financially sustainable operation and promote the development of commercial services to reduce this dependency. It might be beneficial to develop a vision for the optimal use of the existing infrastructure in the region.

Only a few financial instruments to promote innovation are available to SMEs

Limited access to finance remains a significant constraint on SME innovation in the Western Balkans and Turkey. The BEEPS data confirm that access to finance constitutes one of the major obstacles to SMEs' development (Box 8.4). The average score for this sub-dimension increased from 2.0 to 2.8 between 2012 and 2016, suggesting a significant improvement in the financial instruments available although there is considerable variation between the economies in the region (Table 8.5).

A number of policy frameworks provide budgets to promote SMEs but few of them directly tackle innovation and even fewer provide direct access to finance. Not only could policy frameworks initiate direct access to finance, but they could also help create an environment which would attract potential investors, facilitating transactions and diminishing risks. Turkey has put in place substantial financial instruments and schemes to support innovative SMEs directly, including a dedicated incentive programme. It has implemented several funding programmes specific to SMEs' R&D and innovation activities, including the R&D Innovation and Industrial Application Support Programme and the R&D Start-up Funding Programme for

Table 8.5. **Scores for Sub-dimension 8b.3: Government financial support services for innovative SMEs**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Planning & design	2.00	2.71	2.81	2.88	3.69	3.88	4.81
Implementation	1.00	1.73	1.20	3.00	2.80	3.40	4.80
M&E	1.00	1.00	3.00	5.00	3.00	3.00	3.00
Weighted average	**1.35**	**1.93**	**2.12**	**3.36**	**3.15**	**3.49**	**4.44**

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

SMEs. In the Former Yugoslav Republic of Macedonia, the national strategy has focused on the establishment of a Fund for Innovation and Technological Development (FITD) since 2013. The FITD was established in 2015 and 33 organisations have managed to benefit from it so far. Companies are to be able to get co-financing to commercialise innovations, create spin-offs, and for technology transfers as well as obtain assistance from the FITD's supported accelerators. In Serbia the Innovation Fund has made substantial progress in offering financial instruments to support technological and non-technological innovations (see Box 8.3). On the other hand, Albania, Bosnia and Herzegovina, and Montenegro offer limited funding opportunities for businesses' innovative activities. Kosovo currently has no financial instruments specifically to promote innovation within SMEs.

Box 8.3. **Serbia's Innovation Fund**

The Innovation Fund was made fully operational in 2011 as a means to use the R&D support funds from the EU Instrument for Pre-accession Assistance (IPA) financed Serbia Innovation Project, to provide funding for the development of technological innovations from all fields of science and technology. The objective of the fund is to promote innovation, support commercially applicable R&D activities and, more recently, to act as a hub for the commercialisation of technology transfer, thus enabling new technologies to reach the market.

The Innovation Fund currently provides two financial instruments:

- **Mini grants** (up to EUR 80 000): aimed at early-stage, private, micro and small enterprises, which are developing technological innovations with the potential to create new intellectual property that aims to satisfy a clear market need. Its purpose is to stimulate the creation of innovative enterprises based on knowledge. The scheme expects match funding of at least 15%, for projects lasting up to 12 months. The programme provides financial support for human resources, R&D equipment and services, and initial IP protection. To date there have been 4 calls for proposals, and 41 projects have been awarded funding. So far, 13 of those companies have managed to generate revenue from their innovations.
- **Matching grants** (up to EUR 300 000): aim to expand collaboration opportunities for Serbian innovative micro, small and medium-sized companies with strategic partners (e.g. private-sector industry, R&D organisations and venture capital/private equity funds). Its goal is to increase private-sector investment in technology development and commercialisation projects for new and improved products/services. The scheme expects match funding of at least 30%, for projects lasting up to 24 months. The programme covers the same costs as the mini grants, but also includes marketing costs. There have been 4 calls for proposals and 11 financed projects. Concrete commercial results are expected to come in the next period.

Box 8.3. **Serbia's Innovation Fund** *(continued)*

Innovation Fund is also preparing to launch a new instrument in early 2016, the **collaborative grant scheme** (up to EUR 300 000). This programme is designed to promote collaboration between industry and academia on technological development with both short-term and long-term (precompetitive) commercial objective, facilitate transfer of good practices between private enterprises and public RDIs, and enable the creation of value through multidisciplinary development activities. The grant will only be available to consortia consisting of at least one Serbian private-sector company and one partner in the shape of a certified Serbian RDI.

The Innovation Fund was initially used to conduct the pilot Serbia Innovation project supported by EUR 8.4 million from the EU IPA. Due to its successful operation it secured additional funding of USD 11 million through a loan agreement with the World Bank in 2015. These funds are now awaiting approval by the Serbian parliament and will primarily be used for its flagship Mini and Matching grants programmes. It has also managed to secure additional resources from the EU IPA funds. Over 50 companies have benefited from its support.

Although the Innovation Fund's grant programmes still depend on donor support, it has also developed a royalty-based revenue mechanism. This will help it to achieve a certain degree of sustainability by leveraging the success of the innovative companies it has financed and reinvesting those resources into new projects to support economic growth. So far, the Fund has managed to secure royalty payments from two of its financed companies, and others are expected to follow soon. It is also actively working on expanding its service portfolio to include additional services pertaining to technology transfer and IP commercialisation through the establishment of its Technology Transfer Facility within the Serbia Research, Innovation and Technology Transfer Project.

The Innovation Fund is characterised by its independence and especially by its transparent evaluation process, led by a highly qualified and independent decision-making body and supported by international peer reviewers. The Investment Committee is composed of five independent and successful business people, boasting rich entrepreneurial, investment and academic experience in the development and commercialisation of new technologies on an international level. The Fund has also been working proactively with the companies it finances, providing them with crucial training, workshops and institutional support, as well as instructing them in the use of good international practices in terms of reporting, financial management and preparation for receiving further investment.

Source: Innovation Fund website www.innovationfund.rs/.

Implementation of financial support measures has been developing unevenly, mainly due to lack of finance. It is difficult to compare Turkey, with substantial amounts of finance being mobilised, and Bosnia and Herzegovina, whose total budget to promote innovation is limited to the equivalent of tens of thousands of euros per year. Serbia has successfully implemented financial instruments through the Ministry of Education, Science and Technological Development (MESTD), the Innovation Fund, and the Ministry of Economy, with the Innovation Fund and MESTD focusing on technological innovation. Kosovo's Innovation and Enterprise Support Agency is currently implementing an SME grant scheme providing direct financing of EUR 4 million. In contrast, although Albania announced significant budgets it only allocated a limited amount of funds to its Innovation Fund and other relevant funds and allocated almost no direct financial support to SMEs.

The most advanced economies in this area have created a dedicated institution to co-ordinate a number of financial incentives. In the Former Yugoslav Republic of Macedonia the FITD takes this role, in Turkey it is TÜBİTAK and the Small and Medium Enterprises Development Organisation (KOSGEB), and in Serbia the Innovation Fund. Having such an institution is important not just to provide finance but also to develop SMEs' ability to apply for the programmes. In economies where there is no such organisation, SMEs often struggle even to apply for the right incentives. This is the case in Kosovo, for example, where the uptake of its innovation vouchers has been limited.

Non-financial R&D and innovation incentives are not yet widely used in the region. There is little on offe to SMEs apart from few R&D incentives such as the deduction of value-added tax (VAT) on scientific equipment. In the former Republic of Macedonia, imports of R&D equipment are exempt from customs duties and the government also implemented a zero rate of corporate tax on all profits that are reinvested into the development of a company. This policy does not differentiate between R&D and other investments, although R&D is potentially included. Turkey is the only economy providing a wide range of R&D incentives to SMEs, including tax incentives to innovative enterprises.

Policy makers in the region should not ignore the possibilities raised by the whole variety of financial instruments provided by non-governmental institutions. Crowdfunding or microcredit could be an effective way to launch a new product or service especially for smaller companies. Larger SMEs could also benefit from a variety of EU-funded programmes to promote innovation and research including EUREKA, Horizon2020 and COSME. Governments could also do more to promote access to services such as licensing and factoring which would allow SMEs to reduce their dependency on banks to fund the purchase of new equipment needed for innovations.

Although a number of economies do offer financial instruments for innovation, only a few offer a full range of financing incentives for every stage of the innovation cycle. For instance, while innovation vouchers might be helpful in the initial stages, substantial grants might be needed to promote partnerships between academia and private sector, while credit guarantee schemes might help organisations grow and scale. All of these mechanisms are important.

Box 8.4. **Key findings of the BEEPS report**

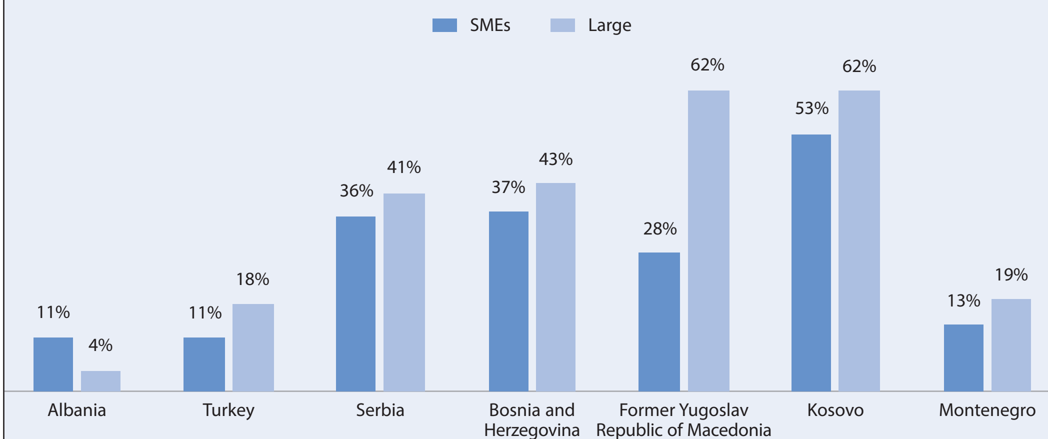
According to the most recent Business Environment and Enterprise Performance Survey (EBRD, 2014), the main obstacles that firms encounter in their operations are related to the informal sector, and access to finance and electricity. For innovation-intense firms the most serious impediments are a lack of skills, corruption and inefficiencies in tax administration. As of 2014 all transition economies had a nationwide policy or strategy on public support for innovation. Priority areas for innovation related investments in transition economies are found in the information and communications technology (ICT), energy, and biotechnology sectors (EBRD, 2014: p.82).

As revealed from the BEEPS innovation-related indicators, Montenegro is lagging behind the rest of the region in the percentage of firms with an internationally recognised quality certification, firms using technology licensed from foreign companies and firms having their own website. In the Former Yugoslav Republic of Macedonia more than one-third of firms possess an internationally-recognised quality certification, the highest in the region and even higher than the high-income OECD average of 32.8%. Albania has the lowest percentage of firms using email to interact with suppliers and clients, where this is not a common practice for about half of them. Serbia has the highest percentage in the region, with 96.8% of firms using email.

Box 8.4. **Key findings of the BEEPS report** *(continued)*

Based on the BEEPS study, Kosovo has the highest number of SMEs introducing new or significantly improved products or services, followed by Bosnia and Herzegovina and Serbia (Figure 8.5).

Figure 8.5. **Shares of innovative firms (2011-14)**



Source: OECD calculations based on EBRD (2014), "BEEPS V 2012-2014", *Business Environment and Enterprise Performance Survey Dataset,* European Bank for Reconstruction and Development, http://ebrd-beeps.com/, accessed September 2015.

The way forward

WBT economies have made considerable efforts in this area, SME innovation could be further improved. The following actions should be considered:

- **Develop and adopt policy frameworks and well-co-ordinated governance structures.** While Albania, the Former Yugoslav Republic of Macedonia and Turkey have relevant strategies in place, the other economies still need to develop and adopt the relevant policy frameworks. They should develop concrete action plans with measurable actions and introduce strong monitoring and evaluation mechanisms. Specific policy co-ordination structures would improve policy consistency and co-ordination between various ministries and stakeholders. While developing these strategies policy makers should pay special attention to understanding private-sector needs, which could be achieved through a regular consultation process with the main industry stakeholders.
- **Promote an "ecosystem" approach to innovation** (High Level Group, 2014), allowing an idea to benefit from consistent support at all stages of its development and scaling up. This might involve a co-operation mechanism between the whole variety of stakeholders, programmes and institutions. Many innovations fail because they do not have continuous follow-up support once they graduate from one programme but still require additional assistance. A co-ordination process would allow such companies to find information about and access follow-up support. An example of such approach is described in Box 8.5. For policy makers,

this approach would make it easier to spot missing elements in the ecosystem or elements that need to be improved.

- **Further develop innovation-related infrastructure**. Innovation infrastructure in the Western Balkans and Turkey has been rapidly developing but not enough to meet the increasing demand. Not only is there a need for hard infrastructure such as innovation centres, incubators, and science and technology parks, but it is also necessary to develop the capacities and skills of the people and organisations using them, bearing in mind the lack of a strong research base in most of the economies of the region. The first step could be the development of a network of "industry knowledge centres" that regularly interact and co-operate with SMEs. Such small-scale centres could support SMEs in a particular industry by providing them advice, training on the latest development in the industry internationally and access to consulting services.
- **Promote of co-operation between academia and private sector.** Economies need to establish links and programmes between research institutions and the private sector. Governments should progressively adopt the role of "innovator matchmakers" to build and promote partnerships between research institutions and SMEs, thereby ensuring innovation is driven by market demand**.** Regular triple helix competitions could encourage co-operation between private-sector firms and academia. Governments should establish the legal framework to promote such co-operation by allowing academics to co-operate, and also defining the benefits to academic institutions from such co-operation. Another way forward might be to increase public access to research infrastructure especially to entrepreneurs and firms who can test ideas, prototypes and work with researchers to solve specific problems.
- **Further promote financial instruments covering the entire financial cycle**. The WBT economies need to adopt a more strategic, proactive and market-oriented approach to the development of financial support measures, including the development of different financing mechanisms (grants, loans, vouchers) for all types of SME (pre-seed, start-ups, high-growth SMEs etc.). All of these instruments should be accompanied by the relevant training and capacity building especially if they are being offered for the first time. Innovation vouchers have proven to be an easy way to initiate the development of innovation-related activities and should be promoted in all of the economies.
- **When developing innovation-related infrastructure, economies should focus on the development of a sustainable business model** promoting co-operation with a variety of actors. A number of successful initiatives been unable to continue due to a lack of funding. Before creating new infrastructure, policy makers should conduct a feasibility study in order to ensure that there is enough demand to sustain it. Further collaboration with the private sector should be encouraged as well as application of fee-based or rent-based revenue models. Active involvement in the Horizon2020 programme of the European Union should be encouraged.

Box 8.5. **SPIRIT Slovenia**

The Slovenian Public Agency for Entrepreneurship, Innovation, Development, Investment and Tourism (SPIRIT) was created in 2013 through the merger of the Public Agency of the Republic of Slovenia for Entrepreneurship and Foreign Investments, the Slovenian Tourist Board and the Slovenian Technology Agency (TIA) in order to have a well-articulated co-operation between those sectors. As the implementation agency of the Ministry of Economic Development and Technology, it is integrally funded by the government. It independently performs activities aimed at boosting competitiveness, promoting the Slovenian economy, developing entrepreneurship, and promoting innovation, technological development, foreign direct investments and the internationalisation of companies. SPIRIT provides free services targeting technological as well as non-technological innovations and has a special focus on young people, potential entrepreneurs, social entrepreneurs and young companies. The two other national institutions actively working with entrepreneurs are the Slovene Enterprise Fund and the Slovene Regional Development Fund.

SPIRIT illustrates the efficiency of the approach of including all stakeholders in the innovation ecosystem. Its success was illustrated by the 15% increase in the number of companies created the year SPIRIT was established. According to its secretariat, its main success factors are its independence and flexibility, which allows it to respond quickly to changes in the economy and to entrepreneurs themselves, and its long-term co-operation with one-stop shops, technology parks and incubators offering a widespread network for dissemination of the information.

The work of SPIRIT's work is organised into the following main areas:

- **One-stop shops:** SPIRIT Slovenia co-finances a system of 32 one-stop shops, which offer comprehensive locally based high-quality support services for the promotion of entrepreneurship. They provide up-to-date information about sources of finance, legislative changes, open calls, events and any other kind of relevant information through weekly bulletins sent to 47 000 recipients. This helped to raise awareness, leading to Slovenia becoming the European country that submitted the most applications per SME in 2014, and ranked 6th for the number of funded projects/accepted applications. It has also provided basic-level counselling to 9 063 entrepreneurs since 2013 and organised 182 business-related workshops.
- **University incubator services:** In 2015, SPIRIT Slovenia had EUR 210 000 available to support university incubators, providing 1 980 hours of counselling in the first half of the year and organising 50 workshops. Since its inception, the number of incubated companies has doubled and 23 companies are currently being incubated in the 3 supported incubators.
- **Network of domestic and international partners:** SPIRIT co-operates with local and regional business centres, agencies, technology parks, incubators and is also a member of the Slovenian branch of the Enterprise Europe Network. Through the network, entrepreneurs have comprehensive access to information, counselling, funding and foreign markets. By connecting different stakeholders, SPIRIT is creating a supportive environment for entrepreneurs and innovative individuals to bring their ideas to fruition, leading to successful market realisation.

What has to be underlined is SPIRIT's ecosystem approach to innovation and entrepreneurship. It allows entrepreneurs to receive support services through the whole financial cycle, not just from SPIRIT but all the actors connected to it. In this sense the institution manages to direct entrepreneurs, depending on their needs, to the most suitable actor in the innovation ecosystem.

Source: SPIRIT Slovenia website www.spiritslovenia.si/en.

Note: The Slovenian Technology Agency was in charge of the Mechanism for Fostering Innovation in South East Europe programme funded by the European Commission from March 2011 to February 2014 (transferred to SPIRIT from 2013). The aim of the project was to contribute to better productivity and achieve more comparable level of innovativeness between South-East Europe countries through innovation measurement and policy recommendations.

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Chapter 9

SMES in a green economy (Dimension 9) in the Western Balkans and Turkey

Enable SMEs to turn environmental challenges into opportunities (Small Business Act Principle 9)

Policy makers are becoming increasingly concerned about how to achieve sustained economic growth without harming the environment. As SMEs often account for a large proportion of all enterprises within an economy, policy makers throughout the world are working to design policies which help them transition towards environmentally friendly and sustainable practices. Sound environmental policies should also offer environmentally innovative SMEs incentives to develop eco-friendly products or processes.

The economies of the Western Balkans and Turkey have made little progress in targeting green policies at SMEs, often exhibiting a disconnection between their environment policies and SME development. The lack of information and tools on environmental issues makes it hard for SMEs to adopt environmentally friendly practices. Moreover, policy makers have limited resources to offer regulatory and financial incentives to help SMEs with the greening of their enterprises.

Introduction

Policy makers increasingly recognise the importance of a green growth model, where pursuing economic growth and development does not come at the cost of environmental degradation. To fully realise such a model, policy makers must understand how to harness the potential of SMEs to bring about environmentally friendly growth. SMEs can make a large contribution to employment and economic growth, as they account for around 90% of all enterprises in the Western Balkans and Turkey, in both manufacturing and services. Those SMEs which are particularly innovative and are able to exploit new technologies and commercial opportunities can play an important role in pioneering eco-friendly products, thus helping develop new business opportunities and competitive advantages (OECD, 2010a).

However, SMEs' ability to adopt sustainable strategies and meet/comply with environmental standards is constrained by limited capacity – lack of resources, time and expertise (OECD, 2010a). Moreover, SMEs are often unaware of the benefits they can derive from adopting sustainable practices. For SMEs to fully participate in the transition towards a sustainable economy, policy makers should identify the primary barriers to green growth and eco-innovation, and tailor the appropriate policy interventions accordingly.

Traditionally, the government's role in environmental policy has been to create and implement regulations and standards that companies must comply with. Although this remains a crucial component of a government's duties, it should also take on the responsibility of encouraging the development of environmentally conscious firms. They can achieve this through regulatory and financial incentives to ease SMEs' transition to environmentally friendly practices (OECD, 2010b). These can include tax credits, capacity-building programmes and subsidised consultancy services. By actively developing environmental policy frameworks to encourage SMEs to develop eco-efficient business and products, firms and the government can work in partnership to help capture new economic opportunities and achieve environmentally friendly economic growth.

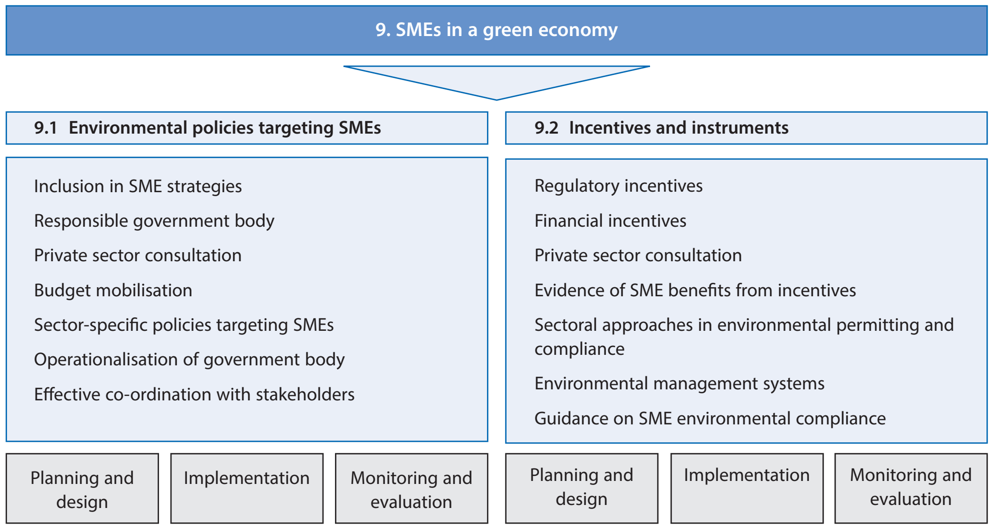
Assessment framework

Dimension 9 assesses governments' approaches towards fostering green growth and strengthening the absorptive capacities of SMEs (Figure 9.1). The 2016 SME Policy Index has increased the breadth and depth of the indicators used in this dimension compared to the 2012 edition. It is now organised in two sub-dimensions, each analysing performance across the entire policy cycle (planning and design, implementation, and monitoring and evaluation).

The first sub-dimension, on environmental policies targeting SMEs, evaluates the degree of "greening" of the current SME, industrial and innovation policy frameworks. It examines whether strategic enterprise and innovation policy documents cover eco-efficiency and eco-innovation and assesses the extent to which these concepts are embedded in national policy frameworks.

The second sub-dimension, on incentives and instruments, looks at the provision of institutional and financial incentives for SMEs to adopt sustainable practices. It evaluates the provision of environment-related information, expertise and funding available to SMEs. It also measures governments' efforts to promote environmental management systems and standards and compliance with environmental regulations.

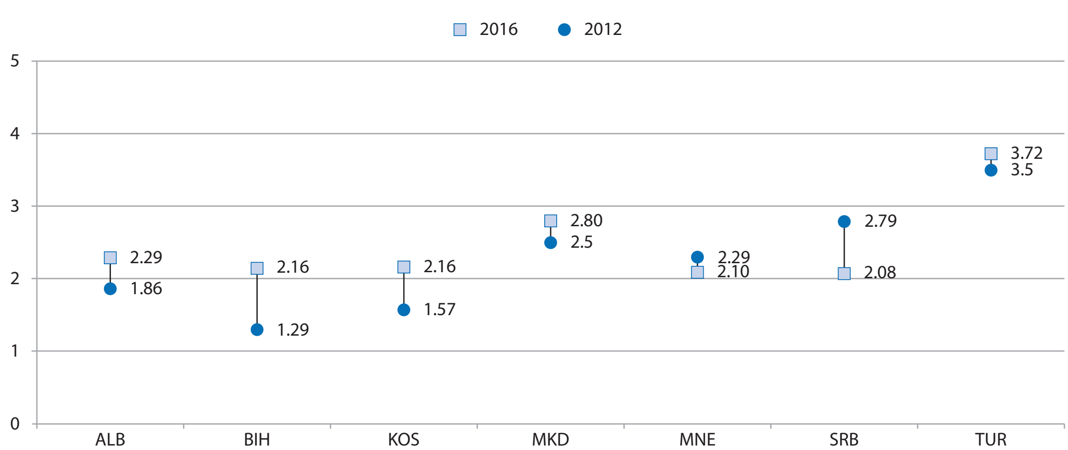
Figure 9.1. **Assessment framework for Dimension 9**



Analysis

The existence of policies to help SMEs develop environmentally friendly products and services varies widely across the region (Figure 9.2). Methodological changes in the 2016 SME Policy Index, and the addition of the new incentives and instruments sub-dimension, make it difficult to evaluate progress overall. However, the regional average score for this dimension stands at 2.51, a slight increase from 2.26 in the 2012 assessment. Turkey is the regional leader, with an overall score of 3.72, as it ensures that its national SME strategies include environmental provisions and offer financial incentives for the greening of SMEs. The Former Yugoslav Republic of Macedonia, the second-best performing economy with a score of 2.80, is considerably behind Turkey. The remaining economies, Albania (scoring 2.29), Bosnia and Herzegovina (2.16), Kosovo (2.16), Montenegro (2.10), and Serbia (2.08) have largely similar scores, as many of them have either no clearly defined environmental policies in their SME strategies or have failed to identify concrete actions or targets to meet their environmental goals.

Figure 9.2. **Weighted scores for Dimension 9 compared to 2012**



Note: See Annex A for further information on the assessment methodology.

Most of the economies have a government body in place to regulate and implement general environmental policies, but for many there is a continued disconnect between their policies on the environment and those on SME development. National action plans often set general environmental objectives, such as efficiency, emission levels and waste management but typically do not outline specific strategies or goals for the greening of SMEs. However, some of the economies in the region, such as Kosovo, Montenegro and Turkey, continue to ensure that SME development strategies highlight the need for environmental policy measures aimed at SMEs.

Due to the historically low priority given to the environmental development of SMEs, present-day policies and institutional support mechanisms are generally considered insufficient. Encouragingly, policy makers are becoming aware of the importance of measures to facilitate the greening of SMEs and some economies have started to focus on policies which would help SMEs move towards more sustainable activities. In most economies the private sector is being consulted in the development of environmental policies and strategies.

Many of the economies have limited capacity to provide regulatory and financial incentives to help SMEs with environmental development except for Serbia and Turkey, which have financial support mechanism in place. SMEs also continue to face challenges obtaining information on environmental issues and tools. Most economies provide such information through the relevant ministry websites and printed documents, but it is not clear if other methods are available (in-person contact, outreach and training programmes, etc.) or what the uptake of the information is among SMEs.

The development of environmentally oriented SME policies varies across the region

There are notable disparities in how far national policy frameworks in the region, especially SME strategies, emphasise eco-efficiency and eco-innovation (Table 9.1). In most economies, their environmental policies are not directed towards SMEs. In Serbia, the SME Development strategy does not include a single provision on eco-efficiency suggesting that policy makers do not view environmental protection and SME development as connected issues. In Bosnia and Herzegovina, there are differences between the national and entity level. In the Federation of Bosnia and Herzegovina (FBIH), the environmental strategy of 2008-18 highlights the need for eco-efficiency in commercial activity and the need to invest in environmental technologies although this policy does not explicitly focus on SMEs. In the Republika Srpska, the Sectorial Industry Development Strategy includes provisions on the protection of the environment but without detail on targets and objectives.

However some economies do perform slightly better in this area. In Kosovo, Montenegro and Turkey, national action plans and SME development strategies incorporate provisions

Table 9.1. **Scores for Sub-dimension 9.1: Environmental policies**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Planning & design	1.27	2.91	3.93	5.00	4.73	5.00	4.73
Implementation	3.50	3.50	2.00	2.00	3.00	1.50	3.00
M&E	1.00	1.44	3.67	2.33	3.67	1.00	3.67
Overall score for 9.1 Weighted average	**2.22**	**2.88**	**3.01**	**3.12**	**3.74**	**2.63**	**3.74**

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

for the greening of enterprises. For instance in Turkey, the SME Strategy and Action Plan (2011-2013) assesses SMEs' environmental impact and the National Climate Action plan promotes increased energy efficiency among SMEs and established awareness programmes on environmental policy. The plan is implemented primarily by the Small and Medium Enterprises Development Organisation (KOSGEB) and the Ministry of Environment and Urban Planning. Turkey also formally consulted the private sector in the formation of its policies. In Montenegro, the SME Development Strategy, developed by the Directorate for Development of Small and Medium Size Enterprises, stressed the need to develop eco-innovation and improve energy efficiency via renewable energy sources although the strategy fails to outline concrete actions or targets. Kosovo's Ministry of Environment and Spatial Planning is working to promote recycling efforts among SMEs.

In terms of promoting eco-innovation among SMEs, and thus potentially developing new economic opportunities, most economies lack substantive policies. If they do exist, they are found in non-SME related frameworks. For instance in Turkey, the Industrial Strategy Document (2011-2014) promotes the development of environmental technologies.

In most economies the private sector is being consulted in the development of environmental policies and strategies. In the Former Yugoslav Republic of Macedonia, environmental programmes were developed alongside businesses and the non-governmental sector (especially ecological organisations). In Montenegro the Cleaner Production Programme was based on United Nations Industrial Development Organization's (UNIDO) experience, with the Chamber of Commerce helping to introduce certification for cleaner production.

Furthermore environmental ministries and associated institutions in the region have different levels of capacity to provide guidance and advice for SMEs to meet environmental issues. All economies have a designated government body responsible for advice and guidance, which attempt to provide the information either in print or on web-based portals. However in some cases these government bodies have limited staff and funds, and there is limited information about whether alternative measures, such as outreach or training programmes, are also being provided. Serbia has relatively developed system where the Ministry of Agriculture and Environmental Protection in partnership with the National Agency for Regional Development provides training programmes on environmental protection and standards. The evidence of how effectively information on environment policies and regulations is being delivered to SMEs is patchy.

Financial and regulatory incentives to help SMEs adopt green practices are lacking across the region

Throughout the region, economies do not provide regulatory incentives to simplify permit procedures or reduce the inspection frequency of low-risk facilities. Similarly, the majority of economies do not offer any form of financial support for the greening of SMEs, with the exception of Serbia and Turkey (Table 9.2). Turkey offers a series of financial support measures. For instance the Decree on Supporting the Market Entry Certificates includes a provision to finance 50% of the costs associated with environmental certification or testing (up to a maximum of USD 25 000 per document). The Technology Development Foundation of Turkey provides soft loans of up to USD 1 million with clear sunset clauses for enterprises developing environmental technologies and energy efficiency projects. KOSGEB provides funds to SME for energy efficiency audits, and for environmental consultancy and training. In Serbia the Ministry of Agriculture and Environmental Protection is establishing a green fund which, among other things, will provide financial incentives for the greening of SMEs.

Table 9.2. **Scores for Sub-dimension 9.2: Incentives and instruments**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Planning & design	2.33	1.44	1.00	2.33	1.00	2.33	4.56
Implementation	2.33	1.86	2.33	3.48	1.00	1.57	3.67
M&E	2.33	1.67	1.00	1.00	1.00	1.00	2.33
Overall score for 9.2	**2.33**	**1.67**	**1.60**	**2.58**	**1.00**	**1.72**	**3.71**

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

The way forward

Governments in the region increasingly recognise the need to incorporate environmental provisions in SME policies but there is still considerable variation between them in how far they act on that recognition. Even those economies with structured environmental SME policies are still at the early stages. Incentives for SMEs are limited by lack of budgets and institutional capacity. The following are a few of the remaining challenges in the region:

- **Make information about environmental practices easier for SMEs to obtain.** Many economies provide information on environmental policies, but it is not clear how effectively they are reaching SMEs, nor if SMEs are receiving the appropriate guidance on how to adopt environmental practices. A few of the economies have implemented web-based systems to help SMEs obtain information on environmental issues and tools, but most could do more to implement government-sponsored business advisory websites. Outreach programmes would help deliver the message on the benefits of green practices and regulatory watch services should regularly and proactively update enterprises about changes in environmental legislations by e-mail or mobile phones etc. Such mechanisms would help SMEs better understand how they are expected to meet regulatory requirements. Effective information dissemination could also better inform SMEs of the business and social benefits that greening activities can achieve.

- **Help finance SMES to make the transition to greener practices.** SMEs in the region face limited access to finance to develop environmentally friendly products and services. While access to finance is a general constraint facing SMEs, the limited ability to fund potentially risky green investments and innovations particularly deters firms from making the transition to environmental practices. Policy makers can give firms incentives by offering tax exemptions and reduced-interest loans for environmental investments. Such measures can help establish an environment where the opportunity costs of environmentally sustainable business practices are lower. Box 9.1 gives an example of such a policy from Belgium.

Box 9.1. **Best practice: The Belgian ecological premium**

In Belgium, the Flemish ecological premium offers a financial subsidy to businesses that are actively innovating environmentally friendly technologies. Businesses that invest in environmentally supportive activities are eligible to apply for the subsidy.

The amount of the subsidy is conditional on the environmental performance of the technology. Performance is measured by the environmental performance factor, a qualitative indicator using an indexed measure. The Flemish Department of Economics Support Policy publishes a list of environmental technologies and their respective performance factors but the department will assess any technology or product not on the list upon application.

The subsidy can cover up to a maximum of 35% of the investments made by an SME but cannot exceed EUR 3.6 million. Larger companies can also apply for the subsidy but are capped at 25% of the total investment. The degree to which the maximum subsidy is provided depends on the performance factor. The government undertook an evaluation of the programme, and discovered that entrepreneurs were more conscious and that it motivated firms to take actions to minimise environmental harmful activities.

Source: Hoevenagel, R., G. Brummelkamp, A. Peytcheva and R. van der Horst (2007), *Promoting Environmental Technologies in SMEs: Barriers and Measures*, Joint Research Centre, European Commission, Brussels.

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Hoevenagel, R., G. Brummelkamp, A. Peytcheva and R. van der Horst (2007), *Promoting Environmental Technologies in SMEs: Barriers and Measures*, Joint Research Centre, European Commission, Brussels.

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Chapter 10

Internationalisation of SMEs (Dimension 10) in the Western Balkans and Turkey

Encourage and support SMEs to benefit from the growth of markets (Small Business Act Principle 10)

Accessing international markets and integrating into global value chains can enhance SMEs' growth and productivity and lead to higher employment, innovation, knowledge and skills transfer, and improved business networks. Internationalisation brings greater competition with foreign firms, which is particularly valuable for most of the economies of the region which have a relatively small domestic market. This chapter assesses the policy areas defined under SBA Principle 10, measuring trade performance and governments' approach to helping SMEs to access international markets and integrate into global value chains. It considers the removal of regulatory barriers to trade, implementation of export promotion strategies, government export promotion programmes and agencies, and specific measures to promote integration into global value chains.

As in the previous SBA assessment 2012, the Western Balkans and Turkey perform relatively well in this dimension. The costs and bureaucracy involved in importing and exporting are falling and moving closer to the OECD average although performances vary across the region. In general, all economies have export promotion programmes with various activities in place and, except in Bosnia and Herzegovina, they are all linked with export promotion strategies. The level of implementation varies among the economies, however. The remaining challenges are the lack of programmes targeting SMEs' integration into global values chains, weak monitoring, and limited staff and budget for export promotion agencies.

Introduction

Globalisation and the rise of emerging market economies have increased the competition faced by firms in the Western Balkans and Turkey. At the same time, the relatively small domestic markets of the Western Balkans mean that the wider opportunities offered by internationalisation may be crucial for enterprises' further advancement. For SMEs, especially, accessing international markets can open up new possibilities for growth. They can achieve economies of scale in a way that might not be possible operating in the domestic market. Increased exposure to foreign firms further encourages innovation, quality improvements and enhanced productivity. Consequently, competition can also foster the long-term sustainability of firms (OECD, 2007a).

Value chains comprise all commercial activities that are performed in order to offer a product on the market: all the steps from product conception to the final use of the product, such as design, production, marketing, logistics and distribution. A firm might carry out these various activities by itself or engage several other firms to deal with certain steps of this value chain (OECD, 2013). Global value chains (GVCs) are playing an increasing role in global trade and production, as multinationals outsource more and more stages of the production process. The fragmented production process provides opportunities for SMEs to act as global suppliers of components or services and consequently access global markets more cheaply than they could on their own. Since SMEs are flexible and can adapt quickly, they are particularly qualified to fill supply niches (OECD, 2013, 2008). This integration facilitates SMEs internationalisation and enables them to become specialised suppliers or outsource some of their activities, rationalising production (OECD, WTO and World Bank, 2014). GVC integration can also provide SMEs with the benefits of knowledge transfer, access to technology and increase their innovation potential. It can thus be key to increasing productivity and growth at the macro level.

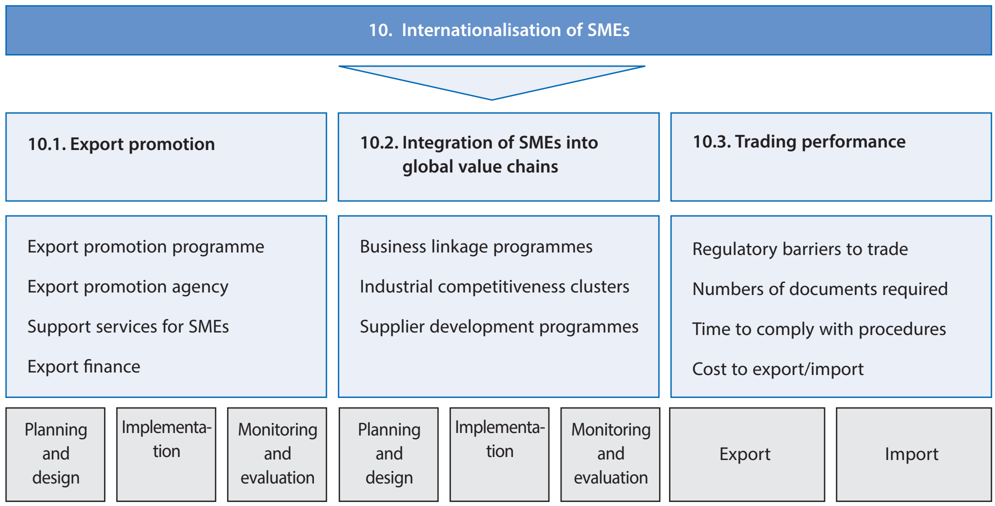
Despite these benefits, SMEs are more reluctant to engage in any form of internationalisation than larger firms. Due to their limited size, resources and managerial structure, SMEs are more likely to encounter informational, technical and administrative barriers to internationalisation than large enterprises. They also suffer from weaker technological and innovation capacity, financial constraints, difficulties meeting international standards and certification requirements, and struggle to find or develop suitable human capital (UNCTAD, 2010). Therefore, government programmes to enhance exports among SMEs are needed to support internationalisation (OECD, 2009).

Assessment framework

The assessment framework for Dimension 10 is composed of three sub-dimensions: 1) trade performances and regulatory barriers to trade; 2) government export promotion measures; and 3) government support for the integration of SMEs into global value chains (Figure 10.1). The trade performance and global value chains sub-dimensions are both new.

Sub-dimension 10.1 takes into account exporting and importing success and measures the extent of regulatory constraints. Since SMEs are disproportionally affected by trade barriers, government measures to reduce these can support them in accessing foreign markets and integrating in global value chains. The barriers considered are the number of documents required to import or export, the time to comply with all the procedures and the costs.

Figure 10.1. **Assessment framework for Dimension 10**



Sub-dimension 10.2 evaluates government efforts to promote exports. It assesses the provision of export promotion programmes, services, export finance tools and export promotion agencies. Export promotion programmes comprise various services such as information and assistance for export-oriented enterprises, support for participants at trade fairs, adoption of international accepted standards, and training for managers and staff related to exporting activities. This sub-dimension analyses the range of activities provided, the availability of financial support programmes, the efficiency of any export promotion agencies and whether a specific export promotion strategy has been implemented.

Sub-dimension 10.3 focuses on government measures to enhance SMEs' integration into global value chains. It assesses whether business linkage programmes, industrial competitiveness clusters and supplier development programmes are in place and operational.

Analysis

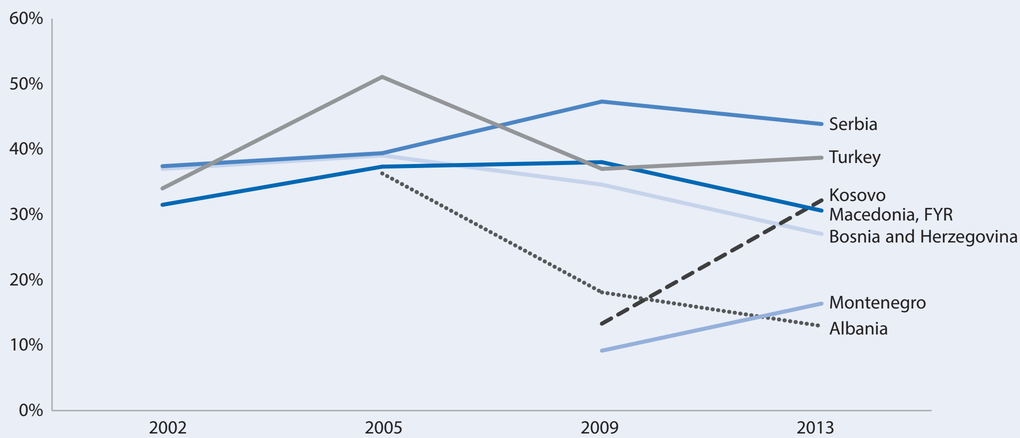
Internationalisation in the region could be improved, with only 36.7% of SMEs in 2013 exporting at least 1% of their sales directly or indirectly (Box 10.1; World Bank, 2014a). Governments have established export promotion programmes, but they could be further expanded. All the pre-accession economies are increasingly harmonising their trade standards with the EU. Turkey has also signed an accession agreement with the EU and is converging towards EU standards. These agreements provide further economic opportunities for the region and emphasise the importance of fostering support for SMEs internationalisation. The economies need to be prepared for increased competition, since they are moving closer towards EU integration and convergence with the *acquis*.

The overall scores for Dimension 10 cannot be directly compared with previous assessments due to the introduction of the two new sub-dimensions. In general, however, the WBT economies have taken steps to facilitate trade and made progress in providing support measures for SME internationalisation, but made only incremental progress in export promotion since 2012 (Figure 10.4).

Box 10.1. **Exporting SMEs experience the effects of weaker external demand**

The four Business Environment and Enterprise Performance Survey (BEEPS) rounds in 2002, 2005, 2009 and 2013 show that the percentage of firms exporting directly or indirectly declined after 2009 in Serbia and the Former Yugoslav Republic of Macedonia (Figure 10.2). After a rapid fall from 51% to 37% between 2005 and 2009, Turkey managed to slightly increase the share of exporting firms from 2009 onwards. In Albania, and Bosnia and Herzegovina the percentage has been in decline since 2005. Montenegro and, to a greater extent, Kosovo have raised their percentage of exporting firms since 2009 but there are no data for the previous years to provide an accurate comparison.

Figure 10.2. **Percentage of firms exporting directly or indirectly (2002-13)**



Sources: EBRD (2014), "BEEPS V 2012-2014", *Business Environment and Enterprise Performance Survey Dataset,* European Bank for Reconstruction and Development, http://ebrd-beeps.com/, accessed September 2015; World Bank (2014b), *Enterprise Survey*, data set available at www.enterprisesurveys.org, accessed September 2015.

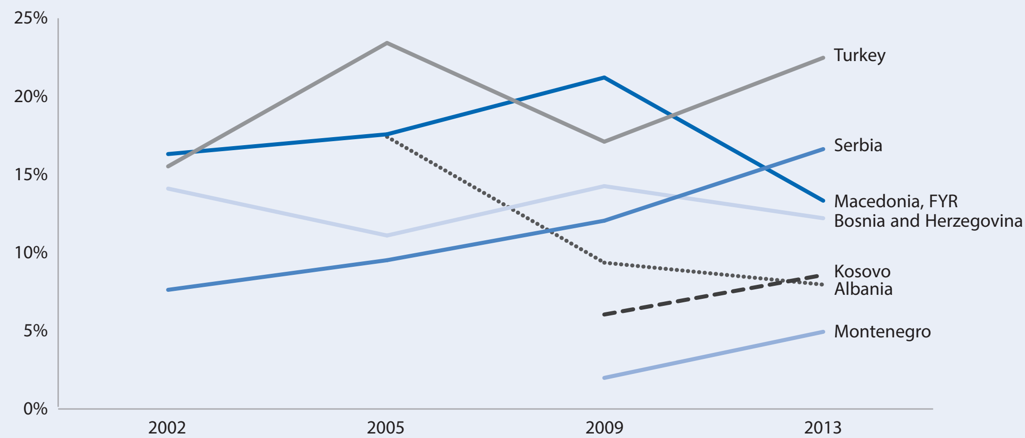
Export flows significantly dropped across the region due to weakened external demand from the EU, the region's primary trading partner. However, the high volatility due to weak export demand is not as evident in the figures, because of the segmented time-series data.

Despite the drop in external demand from the EU, the BEEPS V survey shows that Turkey increased the percentage of total sales exported directly or indirectly from 17% to 23% between 2009 and 2012 (Figure 10.3). Firms in Turkey have reoriented towards non-EU markets and diversified their export market destinations. Serbia has also seen its share of exports increase strongly after 2009. Serbia is the primary final goods producer in the region and since many of the other economies of the region export input goods to Serbia for final production. Serbia is the primary conduit for exports to the EU market. Serbia therefore aggregates these inputs and generates most of the value added that is exported to the EU market.

In the case of Kosovo and Montenegro have also seen the share of exports rise by 3 percentage points between 2009 and 2012 although data are only available for this period. However, both economies have continued to ramp up their export capacity over recent years.

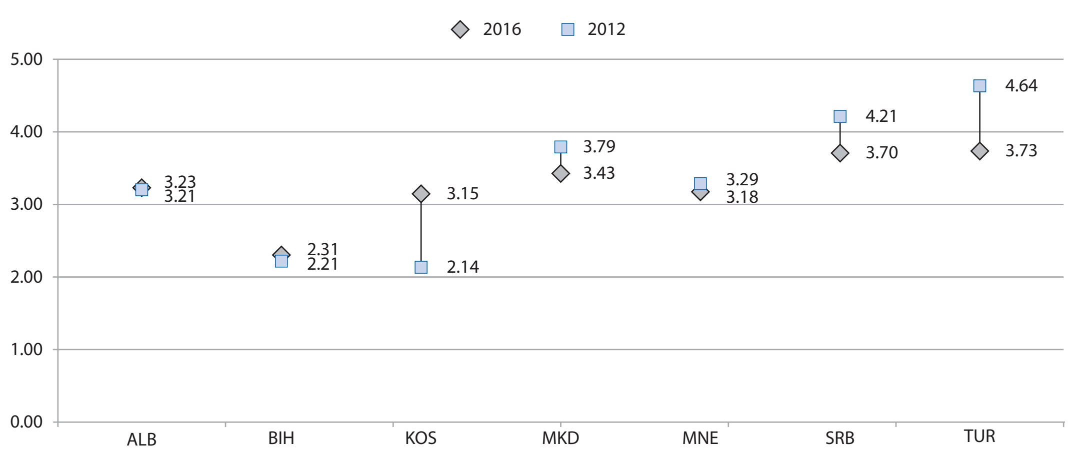
Box 10.1. **Exporting SMEs experience the effects of weaker external demand** *(continued)*

Figure 10.3. **Percentage of total sales exported directly or indirectly (2002-13)**



Sources: EBRD (2014), "BEEPS V 2012-2014", *Business Environment and Enterprise Performance Survey Dataset,* European Bank for Reconstruction and Development, http://ebrd-beeps.com/, accessed September 2015; World Bank (2014b), *Enterprise Survey*, data set available at www.enterprisesurveys.org, accessed September 2015.

Figure 10.4. **Weighted scores for Dimension 10 compared to 2012**



Note: See Annex A for further information on the assessment methodology.

Regulatory barriers to trade have been reduced but further effort is required

The trading performance differs slightly between the economies of the Western Balkans and Turkey (Table 10.1). Between 2010 and 2013, Turkey saw the greatest increase in total trade, with a rise of 33%. Albania lagged behind the other economies in the region with a total trade increase of 10%. Turkey had the lowest trade deficit in 2013, at 9% of gross domestic product (GDP), while Montenegro had the highest, at 22% (ITC, 2015).

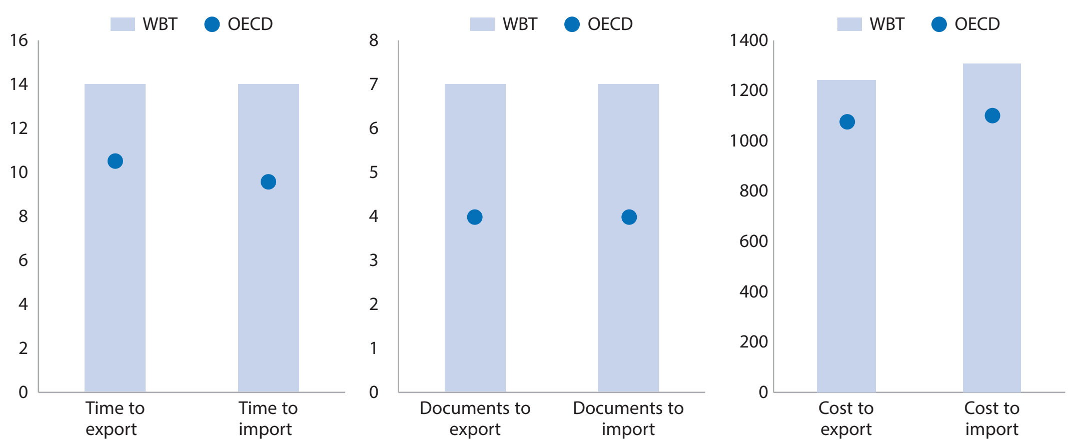
Table 10.1. **Scores for sub-dimension 10.3: Trading performance**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Exporting	3.40	2.78	3.13	3.67	3.93	2.87	3.93
Importing	3.93	2.98	3.40	3.67	4.47	3.40	2.87
Overall score	**3.67**	**2.87**	**3.27**	**3.67**	**4.20**	**3.13**	**3.40**

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

The cost of exporting and importing has been reduced between 2009 and 2015 across the entire region (Figure 10.5) except for Bosnia and Herzegovina, where the cost for both exports and imports has risen since 2009. Albania, Montenegro and Turkey have made significant improvements in the costs of exporting and importing, which are now below the OECD average. The time it takes to export or import and the documents required remain too high in Albania, Kosovo, Serbia and Turkey compared to the OECD average. Although Bosnia and Herzegovina managed to reduce the days needed to export or import, the number of required documents continues to stagnate above the OECD average. In the Former Yugoslav Republic of Macedonia, the number of documents needed remains high, but the number of days needed is approaching the OECD average. Montenegro is close to the OECD average for both time and documents needed but it has made no significant improvement on this measure since 2009.

Figure 10.5. **Trading performance of the SEE economies**



Source: World Bank (2014a), *Doing Business 2015: Going Beyond Efficiency*, World Bank, Washington, DC, www.doingbusiness.org/reports/global-reports/doing-business-2015.

Export promotion agencies and programmes are in place but their scope could be broadened

The Western Balkans and Turkey have established export promotion agencies supplying support services to SMEs but not all of them are fully independent or have sufficient budget and staff (Table 10.2). In most economies, the agencies have to report on their activities, but the lack of independent monitoring remains a problem. All economies have export promotion programmes, typically linked to their export promotion strategies. Albania's export promotion programmes are part of its 2014-2020 Business Development and Investment Strategy while Serbia's are linked to the relatively new Strategy for Entrepreneurship Development and Competitiveness for 2014-2020 and provide various activities to SMEs. Turkey's 2011-2013 SME Strategy and Action Plan specifies targets for SME exports and the DG Exports of the Ministry of Economy, Turkish Exporters Assembly (TIM), Small and Medium Enterprises Development Organisation (KOSGEB), and Turk Eximbank are responsible for implementing the government's export promotion programmes. The Export Promotion Strategy of the Former Yugoslav Republic of Macedonia was introduced in 2011 and gives a detailed plan of activities to target exports. It outlines three main areas of support: financial assistance to export-oriented companies; access to markets, information and networking; and support to increase the competitiveness of SMEs. Its export promotion programmes offer a variety of activities, including information for SMEs, training, product development, and representation at trade fairs and the organisation of national promotion events. In Kosovo, export promotion programmes are connected with the SME Development Strategy for Kosovo 2012-2016 with Vision to 2020. Montenegro has two strategies which relate to government export promotion programmes targeting SMEs: the Strategy for SME Development 2011-2015 and the Strategy for Competitiveness Enhancement at Micro Level 2011-2015. In Bosnia and Herzegovina, both the state and the entities have export promotion programmes. The range of activities offered at the state level is rather limited, including representation at major trade fairs, export promotion, marketing and foreign market research. At the entity level – or more precisely, in the Republika Srpska – various training and information are available for SMEs. Bosnia and Herzegovina drafted an Export Growth Strategy 2011 but it has never been adopted.

Table 10.2. **Scores for Sub-dimension 10.1: Export promotion**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Planning & design	3.67	2.55	4.67	4.67	4.67	4.67	4.67
Implementation	3.76	2.91	3.26	3.78	2.87	4.50	4.33
M&E	2.50	1.17	2.00	2.50	2.50	3.00	3.50
Weighted average	***3.47***	***2.44***	***3.50***	***3.83***	***3.42***	***4.26***	***4.28***

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

Currently, financial support programmes are poorly developed across the region except in Turkey. Turkey offers a range of financial tools to support export promotion activities and two credit lines with lower interest rates (Pre-Export Credit Programme and Pre-Shipment Export Credits) at the state-owned export credit agency Turk Eximbank. The selection criteria and procedures, and the list of beneficiaries, are all fully transparent. However, some co-ordination issues persist across the country and Turkey should work to ensure effective implementation. SMEs in the Former Yugoslav Republic of Macedonia can benefit from credit and export insurance provided by the Macedonian Bank for Development Promotion. The Ministry of Economy also co-finances up to 75% of SMEs' costs for CE marking, market research, marketing strategy, training, and promotional materials, as well as for clusters for export promotion, fairs and events. It awards funds annually following a public competitive procedure. Serbia's Export Credit and Insurance Agency offers export credit insurance, guarantees, export factoring and business financing. Direct financing, co-financing and loan refinancing by the exporter's commercial bank are also provided. However, in neither Serbia nor the Former Yugoslav Republic of Macedonia are the lists of beneficiaries made publicly available. Albania, Kosovo and Montenegro currently have no ongoing export finance projects. Bosnia and Herzegovina provides no financial support at the state level but at the entity level the Federation of Bosnia and Herzegovina has a grant scheme for export-oriented companies.

No tools to help SMEs integrate into regional and global value chains have been developed

Currently there are no government programmes in place to support SME integration into global value chains (Table 10.3). In Albania, a proposal has been drafted that foresees activities in this area financed by donor contributions. In Bosnia and Herzegovina, the Republika Srpska has plans to introduce some activities, such as cluster development programmes that will be monitored by the Ministry of Industry Energy and Mining, but there are no concrete details available. In Serbia, measures in the Strategy for the Entrepreneurship Development and Competitiveness will increase access to new markets and therefore contribute indirectly to the integration of SMEs into GVCs. Kosovo has no specific programmes either but the Micro and SME Grant Scheme project supported by the Ministry of Trade and Industry and the EU, the SME Development Strategy for Kosovo, and the EU-funded Enhancing Competitiveness and Export Promotion project are all related to the integration of SMEs into global value chains. The Enterprise Europe Network and COSME projects might enhance integration into GVCs in all the countries concerned since they are part of COSME.

Table 10.3. **Scores for Sub-dimension 10.2: Integration of SMEs into global value chains**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
Planning & design	2.83	1.47	2.17	1.92	1.00	2.92	2.42
Implementation	1.00	1.00	1.00	1.00	1.00	1.00	1.00
M&E	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Weighted average	***1.64***	***1.17***	***1.41***	***1.32***	***1.00***	***1.67***	***1.50***

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

The way forward

The economies of the Western Balkans and Turkey should further improve their internationalising activities in order to enhance competition and growth. Priority actions to be considered include:

- **Regulatory barriers to trade.** All economies in the region should work to reduce the number of documents needed per shipment to export or import and the time required to comply with all the procedures. The cost associated with exporting or importing goods should also be decreased in most of the economies.
- **Strengthen the capacity of export promotion agencies** and ensure they are fully funded and staffed. Although all the economies of the region have agencies, some of them are not operationally independent while staff shortages and limited budgets restrict their capabilities. Strong export promotion agencies, that are well equipped and working independently, can contribute significantly to internationalisation by encouraging SMEs to overcome barriers to access international markets and providing support to exporting SMEs.

- **Develop and strengthen export promotion activities and strategies**. Most of the economies offer activities like participation in trade fairs, information and training, as well as foreign market research but the range of activities could be expanded and support for quality standards and local brands added. Moreover, governments need to improve the availability and accessibility of information on the export programmes to increase their impact.
- **Monitor and evaluate existing initiatives.** Economies need to move beyond annual reporting and start evaluating the existing initiatives, which will be important for tailoring them to the needs of exporting SMEs and improving their effectiveness. Export promotion agencies should develop partnerships with business support organisations and chambers of commerce to create cross-border business networks (including the Enterprise Europe Network).
- **Trade finance tools for exporting SMEs.** Independent and specialised government agencies should join with financial institutions to offer trade finance tools and products. They should give financial institutions incentives to meet the needs of exporting SMEs. The range of financial tools should be expanded to support SMEs tackling a range of obstacles to accessing international markets and to reduce their risks. An advanced financial support programme might include export credit guarantees, export credit insurances and export working capital.
- **Establish programmes to support the integration of SMEs into global values chains.** There are no initiatives for global value chain integration in the region, so a systematic approach to introducing support programmes should be taken in the entire region. Such initiatives might include activities to promote business linkages, industrial competitive clusters, industrial zones and supplier upgrading schemes (Box 10.2).

Box 10.2. **Industrial zones in the Czech Republic**

The example of the Industrial Zone initiative in the Czech Republic highlights how an alternative property-led approach to economic development can attract flagship investors and promote SME linkages, bringing economic benefits to a wide range of regional economies including less favoured regions.

Following two pilot programmes in 1998, Industrial Zones were rolled out on a national basis in the period 1999-2006. In 2006 the initiative was expanded to include Strategic Industrial Zones, which aim to attract strategic investors in advanced industrial technologies, construction and development of technology centres and centres of business support services, and science and research.

The programme is administered by the Ministry of Industry and Trade of the Czech Republic and is designed to provide support which will stimulate and support the construction and regeneration of industrial sites and related infrastructure by municipalities, associations of municipalities, regions, development companies and significant investors.

The initiative includes four sub-programmes focused on “building individual capabilities” and the “revitalisation” of industrial zones. Those encompass the regeneration of abandoned “brownfield” industrial sites, the construction and renovation of rental buildings and the accreditation of industrial zones (skills training and development for inward investors).

Box 10.2. **Industrial zones in the Czech Republic** *(continued)*

One of the key problems initially was the fact that incoming foreign companies retained their original input supply chain rather than obtain intermediate products locally. For example, Panasonic originally bought only 5% of its inputs on the Czech market. To address this, the Supplier Development Programme was launched in 2000. Its main aim was to enable a group of Czech SMEs (with a maximum of 25% foreign capital) to supply large, foreign-owned companies in the electro-technical and electronics sector. Out of 200 Czech companies, 45 were chosen on the basis of predetermined assessment criteria. Eleven multinational companies looking for local suppliers participated in this programme.

The programme had several phases: 1) identification of the business weaknesses and strengths of SMEs, based on the European Quality Model assessment and other methodologies; 2) elaboration of a six-month action plan based on the company evaluation; 3) selection of relevant companies; and 4) linking selected SMEs with multinational corporations (MNCs).

By the end of the programme (July 2002), the majority of selected companies had become suppliers of MNC affiliates in the Czech Republic and had experienced a substantial increase (on average 10%) in earnings between 2000 and 2001. The share of local input in the sector had risen by 21% in 2004, according to KPMG estimates.

Following the success of this pilot programme, the EU provided additional financing to expand the programme to other sectors considered strategic by CzechInvest. The programme's second phase was launched in January 2003 and lasted until October 2004; 50 firms were involved from the following selected sectors: production of components for automotive and aircraft industries, equipment, biotechnology and pharmaceuticals/health care. As of 2015, there are 103 fully prepared industrial zones, which are on average 70% occupied with over 600 investors.

Source: CzechInvest (n.d.), "Industrial zones", CzechInvest website, www.czechinvest.org/en/industrial-zones-cr; OECD (2013), *Interconnected Economies: Benefiting from Global Value Chains*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264189560-en; OECD (2007b), *Progress in Policy Reforms to Improve the Investment Climate in South East Europe: Investment Reform Index 2006,* OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264037243-en.

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Part II

Small Business Act assessment profiles: Western Balkans and Turkey

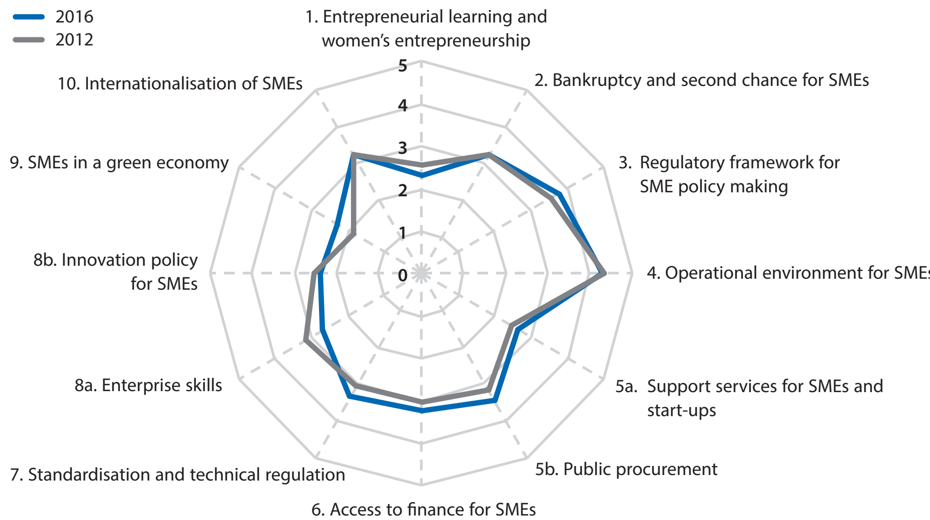
Chapter 11

Albania: Small Business Act profile

Albania has been proactive in strengthening its institutional, regulatory and operational environment for SME development since the 2012 SBA Assessment. The Business Investment and Development Strategy for 2014-2020 frames the country's policy for promoting the SME sector. Albania has introduced a new e-government portal which eases business operations and launched a new tax filing system which allows for the online filing of all taxes. The National Business Centre acts as central one-stop shop for businesses. In addition, Albania has improved its policy framework for entrepreneurial learning.

Going forward, the government should pay particular attention to formalising its regulatory impact analysis and developing a proportional approach to its use. It should strengthen the institutional support mechanisms for bankruptcy by developing an early warning system and second chance programmes. The Albanian government authorities should ensure that actions outlined in its strategies are systematically implemented, monitored and evaluated. Developing the necessary infrastructure and financial instruments will be necessary to promote innovation within SMEs. Targeted support services would help SMEs acquire the skills to move into knowledge-intensive sectors. Non-banking sources of finance remain limited and should be broadened.

Figure 11.1. **SBA draft scores for Albania**



Key findings

Albania has continued to improve the institutional, regulatory and operational environment for small and medium-sized enterprise (SME) development since the 2012 assessment. The recently adopted Business Investment and Development Strategy for 2014-2020 (BIDS) outlines a number of important policy objectives and support services, which, if successfully implemented, are likely to have a major effect on the SME sector and the general economic development. Albania also expanded its e-government services and eased company registration procedures. The government's main challenge for the future will be to match sound policy design with adequate implementation as well as monitoring and evaluation. The new law on bankruptcy procedures has been under revision since 2015, with the assistance of the World Bank, and is expected to be adopted by the government within spring 2016. Formal mechanisms to promote second chances for entrepreneurs (i.e. starting a new company after bankruptcy) are at an early stage of development, but are gaining more attention from governments in the region.

Access to finance remains difficult in Albania, a problem exacerbated by high levels of informality in the economy. A legal framework to support SME lending is in place, although enforcement remains ineffective in some areas. Bank lending is the predominant source of funding, as alternative options such as factoring remain underdeveloped. Financial literacy, especially amongst smaller companies, is low, increasing small businesses' difficulties in accessing finance.

Albania has made progress since 2012 regarding the inclusion of entrepreneurial learning into key national policy documents and strategies. However, a structured policy partnership for entrepreneurial learning is necessary for further improvement in this area. In the area of women's entrepreneurship, considerable steps have been taken since the 2012 assessment through the development of the Women's Entrepreneurship Action Plan (2014-2020), but further improvements need to be made in training provision for women entrepreneurs as well as in monitoring and evaluation in this area. In the area of SME skills, Albania has made some progress since 2012, including in the identification of training needs. The overall drop in Albania's score for Dimension 8a since 2012 is only due to the low score on the new indicators included in the 2016 assessment (e-training and training for internationalisation), a trend reflected in most other countries in the region.

Albanian legislation allows tenders to be divided into lots and this happens in practice. Public procurement now also covers small-value procurements. Albania needs to strengthen the independence of its Public Procurement Commission.

Marginal progress has been made in developing the framework for business support and innovation policy since the 2012 assessment. The government needs to adopt its draft strategy for innovation, and focus on developing the necessary infrastructure to promote innovation within SMEs, as well as links between government, academia and the private sector. Mechanisms to monitor and evaluate the effectiveness of the business support services offered remain at an early stage of development.

Although there are general environmental strategies for economic development, none of the policy frameworks clearly target SMEs. This lack of policies targeting the greening of SMEs means no financial or regulatory incentives are in place.

Albania has the Albanian Investment Development Agency, which serves also as export promotion agency through its dedicated directorate on exports. The Business Investment and Development Strategy covers exports as a policy. Regulatory barriers to trade remain a major challenge to further development. The time needed to export and import, as well as the number of documents needed, is too high, although costs are relatively low. The implementation of export finance tools and programmes to support the integration of SMEs into global value chains might be beneficial for SMEs internationalisation. Regarding technical standards and standardisation, Albania continues to adopt European standards, mainly through the "cover page" translation method, and it has adopted a law designed to align to the EU *acquis* in the area of the notification of standards and EU principles in this field. In 2010 it established the Managing Board with a decision-making role, composed of all stakeholders of in the area of standardisation. The National Standardization Institution is working to fulfil the technical criteria for full membership of the European Committee for Standardization (CEN) and the European Committee for Electrotechnical Standardization (CENELEC) and it has planned to transpose into national legislation the Regulation (EU) No 1025/2012 on European standardisation, "On European Standardization" by mid 2017. In 2015 Albania became a full member of the European Accreditation (EA) body, and in 2014 it set up a new advisory board on accreditation.

Overview

Economic snapshot

Albania is a small, consumption-driven economy, characterised by a high share of services as a proportion of gross domestic product (GDP) at 62.4%, and a relatively important agricultural sector, which accounts for 20% of GDP and half of total employment (World Bank 2015c). Since the 1990s, Albania has experienced a transition from a centrally planned state towards an open-market economy. Its shift towards an export-led economy is nonetheless being slowed down by a number of structural constraints that are impeding it from achieving a sustainable growth model based on investment.

Private-sector competitiveness is still restricted by limited access to finance, low quality of human capital and information externalities that prevent economic diversification. The concept of information externalities was developed by Hausmann and Rodrik (2003), who studied the delay in the introduction of innovative entrepreneurial discoveries in developing economies. The authors compared the low social value gained by the initial entrepreneur who introduces a new product, to that gained by the latecomers who emulate such discoveries, minimising their own entrepreneurial risk, thus diminishing both the degree of innovation and supply differentiation in the country.

The business environment is also challenged by weak property rights and contract enforcement, as well as difficulties accessing the electricity grid. Corruption represents another constraint: Albania is ranked 88th in the Corruption Perception Index (CPI), out of 167 countries, scoring 36 points, compared with 110th in the 2014 CPI when it scored 33 points. Corruption indicators have deteriorated over the past ten years, and potential investors from the Albanian diaspora mention corruption as the biggest impediment to business in their home country. The recent improvements in the CPI in 2015 might hint at a reverse in this trend, but it is still early for a definitive assessment. This problem is also reflected in the efficiency of the judicial system, which is below the regional average, as well as the independence of its judges.

The informal economy accounts for one-third of total GDP, representing a relevant source of unfair competition for legal firms, 21% of which mention informal competition as a major obstacle to doing business (World Bank, 2015b), and fighting the grey economy continues to be difficult due to remaining administrative and regulatory issues and weak law enforcement. The government intensified its actions against informality in 2015 and some positive results were recorded in the number of registered businesses.

Despite these problems, the Albanian economy was among the fastest growing in Europe prior to the global crisis. Since 2008, growth rates have declined, falling to 1.4% in 2013, and recovering to 1.9% in 2014 (Table 11.1), due to domestic problems and the difficulties of Albania's trading partners in the euro area, although even at their lowest growth rates remained above the regional average. Strong trade links and close banking sector ties with Greece and Italy, its two most important foreign partners, negatively affected the Albanian economy, due to the recession they have been suffering.

Table 11.1. **Albania: Main macroeconomic indicators (2010-15)**

Indicator	Unit of measurement	2010	2011	2012	2013	2014	2015
GDP growth[1]	% year-on-year	3.7	2.5	1.6	*1.4*	*1.9*	*2.7*
Inflation[1]	% average	3.6	3.4	2.0	1.9	1.6	*2.2*
Government balance[1]	% of GDP	-3.5	-3.5	-3.4	-5.2	-5.4	*-5.1*
Current account balance[1]	% of GDP	-11.3	-13.2	-10.2	*-10.7*	*-13.0*	*-13.2*
Exports of goods and services[2]	% of GDP	32.4	34.0	33.4	35.4	28.2	n.a.
Imports of goods and services[2]	% of GDP	53.0	56.7	52.0	53.5	47.3	n.a.
Net FDI[3]	% of GDP	n.a.	6.6	6.7	9.5	8.0	*8.1*
External debt[3]	% of GDP	n.a.	34.8	35.6	34.4	36.9	n.a
Gross reserves[3]	% of GDP	n.a.	20.7	20.6	20.7	22.0	n.a
Credit to private sector[3]	% of GDP	n.a.	39.5	39	37.6	37.4	n.a
Unemployment[1]	% of total active population	14.0	14.0	13.4	16.0	17.5	*17.3*
Nominal GDP[1]	USD billion	11.9	12.9	12.3	*12.9*	*13.3*	*11.6*

Sources: (1) IMF (2015); (2) World Bank (2015a); (3) EBRD (2015). Italics indicate estimates in the original sources.

Albania's unemployment rate stood at 17.5% in 2014 (IMF, 2015), which is relatively high but slightly below the regional average. Unemployment represents a major concearn within the current economic framework, despite signs of a deceleration in the rate of increase in the most recent period. In particular, unemployment has been fuelled by the post-crisis return of members of the diaspora (half of the 250 000 returned Albanians remain unemployed).

Foreign direct investment (FDI) is higher than before the crisis and its share of GDP is larger than for other countries of the SEE region. Net FDI peaked in 2013 at 9.5% of GDP, falling by 1.5 percentage points in 2014. Most FDI was targeted on the service sector. Exports accounted for 18.3% of Albanian GDP in 2014, with textile footwear and mineral products accounting for the largest share of total exports (37% and 26.5% in 2014, respectively). The trade deficit has remained constant over the years, at about 20% of GDP.

Albania has undertaken reforms in the political and economic sector in the past years and was granted EU candidate status in June 2014. A new programme signed with the International Monetary Fund (IMF) will allow the implementation of a three-year EUR 331 million Extended Fund Facility arrangement meant to improve the sustainability of the public finances. In addition, the World Bank will contribute to the support of the Albanian public finances and the stability of the financial sector through two development policy loans, totalling USD 220 million.

According to estimates by the European Bank for Reconstruction and Development (EBRD), a slight upturn in Albania's economic growth is expected in the short term, thanks to the clearing of public sector arrears in line with the IMF and World Bank programmes (EBRD, 2014a). However, macroeconomic imbalances and the fragility of the financial sector are still cause for concern. In the medium term, the Albanian economy could profit from its newly acquired EU candidate status.

SMEs in Albania

Law No. 8957 "On small and medium enterprises" of 2002 defines SMEs in Albania according to number of employees, annual turnover and balance sheet. In 2008 Albania made some changes to the classification of SMEs – in particular related to the number of employees – to align its definition with the EU's. The employment size criteria now conform to the EU definition (Table 11.2).

In 2013, SMEs made up 99.9% of the total business population and the total number of SMEs had increased by 10% since 2009. The SME sector generated 68% of total added value in 2013, which is significantly higher than the EU average of 58% (Figure 11.2).

Table 11.2. **Definition of micro, small and medium-sized enterprises in Albania**

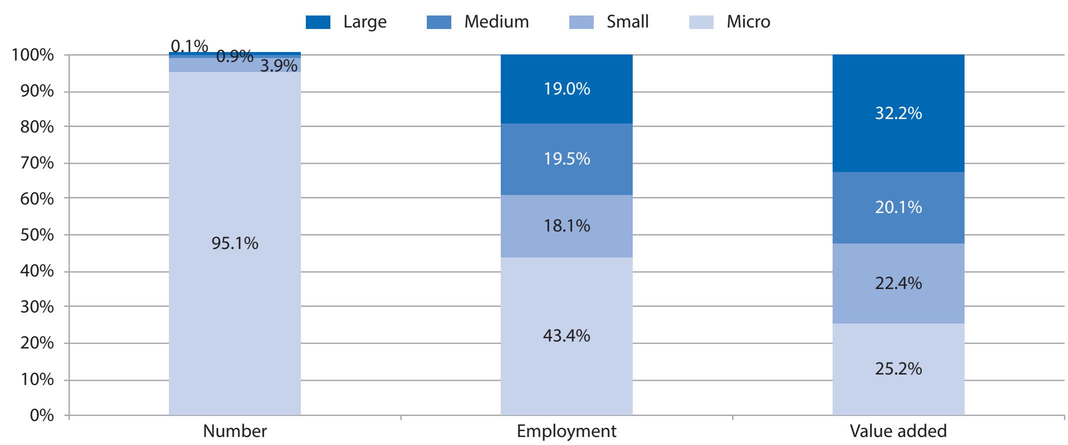
	EU definition	Article 4 of the Law No. 8957 on SMEs
Micro	< 10 employees ≤ EUR 2 million turnover or balance sheet	< 10 employees ≤ ALL 10 million (Albanian lek, equivalent to EUR 70 000) turnover and/or balance sheet
Small	< 50 employees ≤ EUR 10 million turnover or balance sheet	< 50 employees ≤ ALL 50 million (EUR 360 000) turnover and/or balance sheet
Medium-sized	< 250 employees ≤ EUR 50 million turnover ≤ EUR 43 million balance sheet	< 250 employees ≤ ALL 250 million (EUR 1.8 million) turnover and/or balance sheet

Note: exchange rates as of August 2015.

Source: Art 4 of the Law Nr.8957, dated 17 October 2002 "On SME", www.ekonomia.gov.al/al/newsroom/vkm/per-miratimin-e-strategjise-se-zhvillimit-te-biznesit-dhe-investimeve-dhe-te-planit-te-veprimit-per-periudhen-2014-2020&page=3.

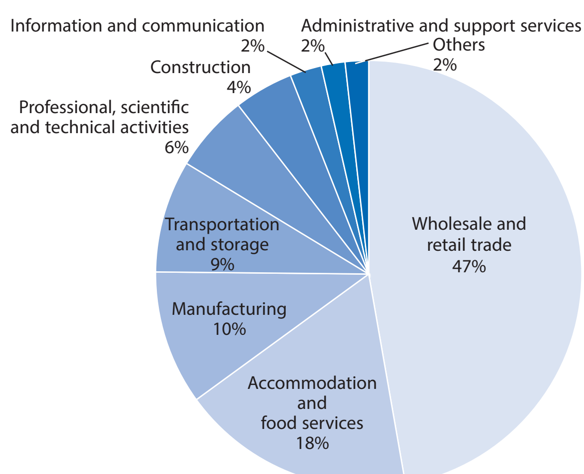
Almost half of all SMEs operate in the wholesale and retail trade sector (47%), followed by accommodation and food services (18%), and manufacturing (10%) (Figure 11.3).

Figure 11.2. **Business demography indicators in Albania (2013)**



Sources: European Commission (DG GROW) and German Institute for Economic Research (DIW ECON); European Commission (2015), 2015 SBA Factsheet: Albania, http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/files/countries-sheets/2015/albania_en.pdf.

Figure 11.3. **Distribution of SMEs in Albania by sector (2013)**



Sources: European Commission (DG GROW) and German Institute for Economic Research (DIW ECON); European Commission (2015), 2015 SBA Factsheet: Albania, http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/files/countries-sheets/2015/albania_en.pdf.

SBA assessment results

Strengthening the institutional, regulatory and operational environment (Dimensions 3, 4 and 2)

Institutional framework

The Entrepreneurship Support Directorate of the Ministry of Economic Development, Tourism, Trade and Entrepreneurship (MEDTTE) has responsibility for SME policy design and co-ordination. The Albanian Investment Development Agency (AIDA), in operation since 2011, is in charge of the implementation of the new Business Investment and Development Strategy 2014-2020 (BIDS).

The strategy is supplemented by an action plan with clearly outlined measures and an allocated budget for each measure. It includes targeted support for selected sectors and groups such as creative industries, women entrepreneurs and innovative SMEs. The estimated total budget for AIDA's SME support programmes is ALL 45 million (Albanian lek, approximately EUR 316 200). The strategy also contains evaluation and monitoring mechanisms but they have not yet been implemented.

Slow progress has been made in tackling the informal economy, which in 2014 was estimated at 32.7% of GDP in Albania (EBRD, 2014b). However, on 1 September 2015 the government started to intensify its actions against informality and joint inter-agency actions were taken intended to combat the informal economy.

Legislative simplification and regulatory impact analysis (RIA)

Legislative simplification is well anchored in the BIDS 2014-2020 strategy, whose objectives include the improvement of the business climate, including simplifying business legislation. Looking at its implementation, a legislative review process identified primary and subordinate business-related legislation, and their elimination is ongoing. Particular emphasis has been placed on streamlining licences and permits, which have been extensively reviewed. Getting a construction permit remains a burdensome process for businesses. However, no data were provided by the government on the actual number of laws reviewed and it is unclear in how far aspects relating to SMEs are taken into consideration. Furthermore, there are not yet any whole-of-government institutions monitoring simplification procedures.

The simple lightweight regulatory impact analysis which was introduced in 2011 has not yet been transformed into a fully-fledged RIA and nor is there any formal requirement to conduct RIA. Although a light RIA approach has been applied to several major regulations, no further information on its actual effects has been provided.

Public-private consultations (PPCs)

Albania recently introduced the law on Notification and Public Consultation (146/2014), which contains a general requirement to conduct public-private consultations for all regulations. Written guidance is stipulated by the law and supplemented by guidelines drafted by the Albanian Parliament on how to conduct PPCs. In an improvement to the previous assessment process, the legislation introduced the National Economic Council (NEC), which serves as a platform for dialogue between the government and business representatives to discuss legislation and policies relevant to businesses. However, while meetings are supposed to take place monthly, the evidence suggests they have been rather sporadic. There has not yet been any monitoring of the activities of the NEC, which makes it difficult to assess whether it has had any tangible success in identifying issues specific to SMEs. A second consultative body, the Investment Council, has been established by the Decision of Council of Ministers No. 294 of 8.04.2015. The platform was set up with the support of the EBRD with the purpose of intensifying the dialogue between the government and the private sector, improving the business climate and promoting good governance. The work of the Council is supported by a Secretariat, an independent body of professionals selected and contracted by the EBRD to directly engage with the business community.

Interaction with government services (e-government)

Since the 2012 assessment, Albania has recorded considerable progress in the development of electronic services. An e-government portal was created in 2013 and currently manages 12 out of the 75 existing e-services offered by 176 government institutions. A new tax filing system was launched on 1 January 2015 allowing all taxes to be filed online. As well as universal filing and payment of taxes and social security contributions, functional e-services now include e-registration of taxes, e-cadastre and e-procurement systems.

E-signatures are in use and two main certified service providers issuing e-certificates have been established: ALEAT shpk, which issues e-certificates to the private sector and the National Agency for Information Society (NAIS) for the public administration. In 2013, Albania introduced the Government Gateway Platform which established the architecture for interoperability. It currently connects 16 institutions' systems, with a further 11 institutions due to be connected by the end of 2015. On the other hand, less than half of all public institutions are able to view each other's data and SMEs are still mostly required to share the same information with several institutions' databases.

E-services are promoted to entrepreneurs by the NAIS and through meetings with the business community. There have not yet been any surveys about usage, user satisfaction and the effectiveness of e-government services, although the NAIS website offers a forum for businesses and citizens to report problems they have faced in using e-services.

Company registration

Albania continues to perform above the regional average for the cost and efficiency of company registration. It is ranked 41 out of 189 economies globally for the World Bank *Doing Business* ease of starting a business indicator (World Bank, 2015b). The National Registration Centre Law of 3 May 2007 established the National Registration Centre (NRC) as a new central public institution, which functions as a one-stop shop where entrepreneurs can complete company registration, tax registration, social insurance, health insurance and labour directorate registration using a single application procedure. Services are offered in 33 offices covering the whole territory of Albania.

Currently, registering a company at the NRC takes one day and the registration fees are minimal, less than ALL 100 (EUR 0.7). A business can be set up in a total of 5.5 days and involves six procedures, which is well below the average for the Western Balkans and Turkey. Registration fees overall were slightly increased in 2015 and amount to 10.4% of income per capita. No minimum capital needs to be paid in. Since 2013, the burden of getting incorporation documents notarised has been removed by making it optional. In practice however, businesses still encounter random requests for registration and notification forms to be stamped, based on the interpretation of individual agency officers, in particular the Labour Office and at the Municipality Registration (World Bank, 2015b).

Business licensing

The procedures for obtaining a licence in Albania are defined in the Law on Licensing Permits and Authorizations in the Republic of Albania (No. 10081). The National Licensing Centre (NLC) operates as a one-stop shop for licences and permits, providing written guidance on how to obtain a licence and overseeing which licences and permits are granted by which authority. It manages a national licence register containing information on all licences granted. SMEs are able to provide feedback on licence procedures and costs at the NLC and can also ask for assistance in dealing with other licensing authorities. In a recent survey conducted by the World Bank, the percentage of firms identifying permits and licences as a major constraint of doing business was very low at 3.5%, indicating a rather smooth business licensing system (World Bank, 2013).

Bankruptcy procedures and second chance

The Law on Bankruptcy (8901/2002) governs the procedures for distressed companies, receivership and bankruptcy in Albania. A revision of the law is currently ongoing and a revised law is to be adopted in spring 2016. The current law provides formal procedures for discharge, processes for the announcement of bankruptcy decisions and notification to interest bodies, as well as clearly defined frameworks for secured transactions. However, no information has been made available concerning the time for discharge, although the understanding is that the maximum time stood at three years. A company which has been fully discharged from bankruptcy is not necessarily removed from the bankruptcy register or from the national credit blacklist. Other elements of the law are lacking, such as how bankruptcy laws are applied to state-owned enterprises or any form of early warning system.

Albania has established the Bankruptcy Supervision Agency, which serves as the formal insolvency register for all bankruptcy cases but this register is not open to the public. According to the World Bank *Doing Business 2016* report, bankruptcy procedures take two years, at a cost of 10% of the business estate. The recovery rate stands at 42.3%, a slight increase from the 40.2% recorded in the 2012 assessment (World Bank, 2015b). Currently Albania has no formal strategy to promote second chances for entrepreneurs, although the Bankruptcy Supervision Agency has a project in place to draft such an initiative.

Facilitating SME access to finance (Dimension 6)

Legal and regulatory framework

The legal and regulatory framework has only seen modest changes in recent years. The 2012 assessment noted that a reasonably well-defined legal framework protecting creditor's rights was in place, but enforcement has remained an issue. A revision of the bankruptcy law is currently underway and could provide important clarifications regarding definitions, responsibilities and processes which in turn should facilitate enforcement.

A system for registering charges over movable assets as security is operational although it is not available online and thus access to records is limited, especially outside the capital. A public credit registry has been in place since 2008 and coverage has increased in recent years to around 27.1% of Albania's adult population (World Bank, 2015b).

The regulatory framework for the banking sector is improving with Basel II expected to be implemented by end 2015. However, there are high levels of exposure to the euro.

Disclosure requirements about the risks associated with borrowing in foreign exchange (FX) are in place, but according to the latest IMF Financial System Stability Assessment, around 50% of foreign-currency loans are to unhedged borrowers. Regulatory requirements could be further strengthened to reflect associated risks within the banking system (IMF, 2014).

Sources of external finance for SMEs (bank financing, non-bank financing and venture capital)

The banking sector provides the vast majority of lending to the economy, as non-bank finance only accounts for around 6% of total financial assets. Private-sector lending remains low and is mainly used to finance real estate and overdrafts. The level of non-performing loans (NPLs) remains high at 20.5% (as of October 2015), but a comprehensive plan by the authorities to tackle the problem is being implemented and levels have decreased by around 5 percentage points compared to the peak in autumn 2014. The availability of bank financing outside the main cities is limited. High levels of informality also contribute to restricted access to financing. Collateral requirements, especially for small firms, remain high (around 150% for medium-sized and significantly more for small firms [1]). A number of donor-funded initiatives offer credit guarantee schemes for SMEs, but their impact to date has been limited due to a general lack of investment appetite and a large informal economy, as well as limited involvement of stakeholders in the design of the final structure of the credit guarantee scheme.

Non-bank financing is mainly provided through savings and loan associations (SLAs), as well as a number of microfinance institutions, both of which are supported by a well-defined legal framework. In 2012, the market for SLAs was consolidated into four relatively large institutions, which has helped increase lending activity in this segment, although the cost of lending remains significantly higher than through conventional banking channels. Other non-bank financial instruments, such as factoring, leasing and venture capital, remain in their infancy and are largely unavailable or experience little uptake due to a lack of awareness, in particular among smaller companies. Local capital market development has also been dampened by the closing down of the Tirana stock exchange in late 2014, although it was already effectively non-functioning before.

Financial literacy

Low levels of financial literacy, in particular amongst SMEs, remain a major obstacle to SME access to finance. However, the authorities have recognised the need for improved awareness and understanding of financial issues and have incorporated elements of financial training into the national curriculum since the last SBA assessment in 2012. In addition, a voucher scheme to help SMEs build business skills is being introduced.

Developing entrepreneurial learning, women's entrepreneurship and SME skills (Dimensions 1 and 8a)

Lifelong entrepreneurial learning

Albania has made progress since 2012 regarding the inclusion of entrepreneurial learning into key national policy documents and strategies. It has put a range of different strategies and policy documents in place acknowledging the importance of entrepreneurial learning as a key competence to promote economic growth and employment or self-employment. The National Employment & Skills Strategy (2014-2020) includes the development of entrepreneurial learning as a key competence as well as women's entrepreneurship. The Business Investment and Development Strategy 2014-2020 also mentions the importance of entrepreneurial learning at all levels of education. However, joined-up policy thinking and overall co-ordination of actions by the different key ministries and institutions have not improved since the last assessment. Such policy partnerships for entrepreneurial learning have proven to be key to ensuring the update of entrepreneurial learning in other countries in the region.

The ongoing educational reform in Albania offers opportunities to integrate and implement entrepreneurship as a key competence in the education system. The National Pre-University Curriculum Framework covering pre-school, primary and secondary education identifies seven key competences, including entrepreneurial and digital competences. The next step will be to integrate these key competences into qualifications, curricula and teacher training schemes. Sufficient resources will be required to develop or revise the curricula for all subjects and (re)train the teachers.

There are many examples of good practice in implementing entrepreneurial learning at school but Albania has not yet developed a system-level approach. A network of schools in Albania have piloted entrepreneurial learning in co-operation with the South East European Centre for Entrepreneurial Learning (SEECEL), which can act as a good practice example for teaching entrepreneurship as a key competence at primary and secondary level (ISCED levels 1, 2 and 3). It would be good to further extend the network and continue to scale up the results at national level. Other organisations such as Kulturkontakt, Junior Achievement, Aflatoun, Albanian-American Development Fund, Bank of Albania and Partners Albania are promoting the entrepreneurial spirit and skills of young people in the formal and non-formal education systems. Fostering a culture of partnership between national agencies, donors, non-governmental organisations (NGOs) and private-sector stakeholders would serve to better capture and steer what is happening in the field of entrepreneurial learning within and outside the school environment.

Considerable efforts have been made to introduce entrepreneurship into the curricula of vocational education and training (VET) schools. The subject "Basics of Entrepreneurship" has become compulsory. This is a good step towards reaching one of the medium-term deliverables identified by the European Union's Riga Conclusion, which is intended to further strengthen key competences in VET curricula (European Union, 2015). However, although important activities on the entrepreneurship agenda are taking place within VET, there is still no formal mechanism for tracking VET graduates.

There are examples of co-operation between universities and business, including student work placements that can be organised during or after studies. However, the recently revised policy and legal frameworks for higher education provide little evidence that much emphasis was placed on structured entrepreneurial learning and university-business partnerships. Work placements during university studies and research need to be further enhanced, and co-operation with SMEs should be srengthened and further developed.

Overall, Albania has to move towards a more systematic approach to integrating entrepreneurial learning into its education system. This would require data collection on what is happening in practice in the field of entrepreneurial learning in both the formal and non-formal education systems which would result in a better monitoring and evaluation of the implementation of its recently adopted strategies and action plans.

Women's entrepreneurship

Since the 2012 assessment, considerable steps have been taken in this policy area through the development of the Women's Entrepreneurship Action Plan in Albania (2014-2020) following the BIDS. An advisory group on women's entrepreneurship has been put in place. A training needs analysis for women entrepreneurs has been conducted within the framework of the project "Women Entrepreneurship – A Job Creation Engine for South Eastern Europe" (SEECEL, 2014). There are some training initiatives for women entrepreneurs but they could be further developed. The action plan recommended that online training courses should be developed to address as many women as possible. There is limited information available at national level on the type of training offered, attendance rates, etc. These data could be made available on web portals specifically dedicated to women entrepreneurs as good intelligence results in better policy and better monitoring.

Albania should continue to support women entrepreneurs through training and mentoring programmes and further reinforce networks of women entrepreneurs with the aim of sharing know-how, providing examples of good practice and inspiring other women, including in rural areas (Bekh, 2013).

SME skills

Albania has made some progress since 2012 on the development of skills for SMEs, including the identification of their training needs, which falls under the responsibility of the Albanian Investment Development Agency (AIDA).

The Business Investment and Development Strategy 2014-2020 provides a good basis for moving forward with support for SMEs including training for start-ups, women entrepreneurs and entrepreneurs with growth ambitions. AIDA manages the Competitiveness Fund, Creative Economy Fund and Start-Up Fund, which are the chief sources of funding for training costs for start-ups and businesses with growth potential.

Albania offers training courses for SMEs through AIDA, the Chamber of Commerce, donor projects such as Risi Albania, and private and public training providers. For example, the Start-Up Accelerator Programme organised by the Protik Innovation Center delivers a range of training on financial and legal issues for start-ups. The Chamber of Commerce has provided a range of training modules focusing on businesses with growth potential. The general uptake of training by SMEs might be improved if course offers were better promoted and adjusted to the needs of SMEs. This might include online courses, on-site coaching and mentoring services.

The data on training for SMEs need to be systematised. Albania would benefit from having a single information point collecting data on training needs, training offers and delivery, and satisfaction rates for the different sectors. This would require AIDA, the Chamber of Commerce, the Statistical Office and other training providers to co-ordinate better and exchange information.

Enhancing SME competitiveness (Dimensions 5a, 5b, 8b and 9)

Business information and services

Business development support services are addressed in the BIDS 2014-2020, which contains both support services for enterprises at different stages (start-up, growth) and thematic focuses (innovation, internationalisation). Most business support services provided by the government are co-ordinated by AIDA, which supplies information on starting and operating a business on its website. While there is no portal dedicated solely to SMEs, there are plans to establish and launch an operational website by the end of 2016. Further financing schemes and consultancy services are offered through the Competitiveness Fund and the Creative Economy Fund, but funding and uptake are limited. The General Directorate of Patents and Trademarks offers legal support services on intellectual property rights. Financial support for SME start-ups has been available through the Italian SME programme. So far 11 start-ups projects have benefited from the fund, for a total of EUR 1.43 million. A start-up fund established by the government under AIDA in September 2014 has limited financial resources (EUR 180 000 over four years). Albania benefits from the Western Balkans Enterprise Development and Innovation facility (EDIF).

There is no systematic monitoring and evaluation of support programmes yet. AIDA reports to the Ministry of Economy periodically on its business support services, but there are no formal feedback mechanisms in place for SMEs. Data on SME participation are collected sporadically and reported in the annual report of the relevant institution. Although monitoring mechanisms are in place for the implementation of the BIDS 2014-2020 strategy, there is no independent evaluation foreseen.

Public procurement

Albanian legislation allows tenders to be divided into lots and this happens in practice. The public procurement market is open to foreign enterprises without any preferential provisions in the public procurement legislation. The legislation allows the grouping of economic operators and there are general provisions requiring public authorities to allow companies the possibility of joint bidding. It limits requests for turnover statements to the last three years and stipulates that the turnover required cannot exceed the value of the procured contract. All procurement procedures are conducted electronically and tender documents are available in electronic form. There is a law in place to regulate late payments to contractors, although this is only partially aligned with the respective EU Directive.

Albania has achieved some progress in electronic procurement, which has been extended to also cover small-value procurements. It adopted new rules on framework agreements on 29 December 2014.

Nevertheless, some challenges remain. The proportion of unpublished negotiations is high (26.4% of total procedures and 14% of the total value of public tenders) and should be reduced. Albania needs to strengthen the independence of its Public Procurement Commission, which is subordinate to the Council of Ministers and therefore lacks the institutional independence required for a review body.

Innovation policy

Gross expenditure on research and development (GERD) has increased in Albania from 0.2% of GDP in 2009 to 0.35% in 2012 but it remains far below the average of 2.01% for the 28 EU member states (EU-28) during the same year. High-technology exports have been steadily declining from 0.76% of manufactured exports in 2009 to 0.44% in 2012, compared with around 15% in the EU-28.

Since the 2012 assessment, Albania has made progress on its institutional framework for innovation policy. The 2011-2016 Albanian Business Innovation and Technology Strategy provides the framework and indicators for developing innovation within SMEs. The new National Strategy for Science, Technology and Innovation for 2016-2020 is being prepared but has not yet been adopted by the government. Other relevant government strategy documents with a dedicated focus on SME innovation relate to the enterprise policy, industrial policy and science policy. For example, BIDS 2014-2020 envisages the creation of one technology business incubator and three new clusters although it is not clear whether they were expected to be funded by government or donors.

There is no inter-governmental body to co-ordinate innovation policy; currently this responsibility is shared by the Council for Scientific Policy and three ministries (the Ministry of Education and Sports; the Ministry of Economic Development, Tourism, Trade and Entrepreneurship; and the Ministry of Innovation and Public Administration). The design of SME innovation policy is operationally separated from its implementation. Two agencies have been established to implement proposed policy instruments: the Agency for Research, Technology and Innovation (ARTI) and AIDA. The private sector is represented on the boards of AIDA and ARTI and is regularly consulted. Albania has its own Patent and Trademark Office and since 2012 has made progress in the legal protection and enforcement of intellectual property rights (IPRs). Moreover a new Strategy of Intellectual and Industrial Property Rights (2016-2020) is currently being prepared.

The institutional support infrastructure to promote innovation within SMEs is limited. Albania does not yet have a business incubator, nor any science or technology parks. There are few institutional support services promoting innovation or linking universities and research centres with innovative SMEs, including an OECD-supported Triple Helix Competition in 2015-16. The Business Relay and Innovation Centre, which operates under AIDA, possesses limited resources, while the Protik ICT Resource Centre (both innovation incubators), was established in 2012, but its focus is limited to the information and communications technology (ICT) sector. Some private-led initiatives are starting to appear in Tirana, providing institutional support to SMEs and innovation, but their scale is fairly small. Even though national strategies have foreseen the provision of financial support, in practice there are few financial resources available to support innovation support organisations such as incubators, technology transfer offices or innovation centres. Most of the existing initiatives operate with donor support without any particular focus on innovation, including the Protik ICT Resource Centre and Nucleus Albania (funded by GIZ). The existing technology transfer offices (TTOs) operate under the auspices of the Ministry of Agriculture and act as consulting centres to the agricultural sector rather than as typical TTOs. National indicators monitoring the performance of the SME innovation policies have been set up, but they are not regularly validated. ARTI organised several events focused on fostering the participation of researchers and private sector in applications to European funding programmes such as Horizon 2020 (SME Instrument), COSME and Eureka.

A number of programmes supporting innovation in private firms have been launched but many of them lack funding and institutional support. The two operational funds are the Innovation Fund and the Competitiveness Fund, which both need additional resources. The Innovation Fund (2011-16) has a budget of approximately EUR 285 000 and supports enterprises developing innovations. The fund offers vouchers for "innovation audits", which are conducted by innovation auditors certified by AIDA. In 2014, the fund supported 24 companies with a total amount of around EUR 62 000. In 2015 it accepted 27 applications amounting to a total of EUR 71 000. No assessment has been done on the effectiveness of this measure or how helpful these audits have been to the companies. The Competitiveness Fund, which has operated since 2006, helps Albanian companies to effectively promote their exports in foreign markets and also aims to support Albanian SMEs whose work engenders "technological improvement". The MEDTTE has proposed the establishment of a voucher scheme for micro, small and medium-sized enterprises operating in manufacturing, including agro-processing, and computer programming (software ICT). This scheme would facilitate the direct transfer of knowledge from service providers, provide marketing techniques, and offer advice based on accumulated experience and best practices. The SMEs received partial funding (Innovation Fund), but have not been provided with direct financing in the form of seed capital, grants or other direct financial support. The Enterprise Development and Innovation Facility (EDIF) funded by the European Union has been operational since 2012, but as from 2015 it started to roll out specific initiatives supporting innovative enterprises. EDIF aims to improve access to finance for small and medium sized enterprises (SMEs), enhance the regulatory framework for innovative and high-potential SMEs and stimulate the build-up of the venture capital ecosystem in South East Europe.

Green economy

National policies do not include clearly defined environmental policies specifically directed towards SMEs. The BIDS 2014-2020 does outline the need to invest in environmentally sustainability, namely the developing of a recycling industry. The United Nations Industrial Development Organization (UNIDO) and United Nations Environment Programme (UNEP) in partnership with the Albania government undertook an initiative, the National Cleaner Production Programme for Albania, which aimed to increase the range of eco-efficient products of businesses in selected sectors, but without directly focusing on the SME sector. Albania benefits from an EU-EBRD funded programme supporting small businesses to improve market performance, management effectiveness and skills and to improve strategic planning through the direct transfer of relevant commercial and technical expertise from experienced directors and senior managers from the established market economy. Incorporation and/or improvement of sound environmental practices in the enterprise's activities (optimal use of energy and materials, better manufacturing processes and production quality control) are part of the programme. Information on environmental policy has improved, with government authorities (notably the Ministry of Environment, Forests and Water Administration; the National Environmental Agency; and the Regional Inspectorate of Environment and Forests) providing SMEs with information promoting the use of environmental management systems and guidance on how to comply with environmental regulations. Environmental authorities undertook consultations with the private sector to ensure the development of effective policies. Albania has not established any frameworks to provide regulatory and financial incentives for the greening of SMEs.

Supporting SME internationalisation (Dimensions 10 and 7)

Trade performance and regulatory barriers to trade

Albania's total trade in goods and services amounted to USD 11.9 billion in 2013, a 10% increase over the same period in 2010. The trade deficit was -18.0% of GDP in 2013, and has decreased from 21% in 2010 (ITC, 2014). SMEs accounted for 41% of exports in 2013, which is significantly less than the 64% share recorded in 2010. The average value of exports per enterprise fell from EUR 419 853 in 2010 to EUR 335 211 in 2013. The World Bank's *Doing Business* indicators for exports and imports show that Albania made a significant reduction in costs from 2009 to 2015 and is now below the OECD average (Table 11.3). However, the time and number of documents needed to import or export are still too high, which is a burden for exporting SMEs.

In Albania export promotion activities are integrated into the BIDS 2014-2020 that sets the main strategic directions for the government's export promotion policies. Export promotion activities are financed by the Albanian Competitiveness Fund that was established by the government in 2007, and donor contributions. During the year 2014, 21 projects were financed by the Competitiveness Fund for a total amount of ALL 23.9 million (approximately EUR 171 542).

Table 11.3. **Albania: Trading across borders (2015)**

	Albania	OECD average
Documents needed to export (number)	7	4
Time to export (days)	19	10.5
Cost to export (USD per container)	745	1 080
Documents needed to import (number)	8	4
Time to import (days)	18	9.6
Cost to import (USD per container)	730	1 100

Source: World Bank (2014), *World Bank Doing Business Report 2015.*

AIDA is in charge of the implementation of export promotion activities. It has a twofold mission: to increase the competitiveness of the Albanian economy by making it more attractive for foreign investors and to support the development of SME and Albanian exports. Through its SME and Export Development Department, it provides a number of services to SMEs: trade policy information, identification of new markets for Albanian exporters, country representation at major trade fairs, and product certification and training. Furthermore, it regularly organises national SME promotion events – around 10 SME promotion activities took place during 2014 and SME week is organised every year.

Albania used to have an export guarantee fund, but it is no longer functioning and there is no further official information available about its discontinuation. Financial support for export promotion activities is currently limited to financing business missions and participation in export promotion events. Around 47 financial support requests were granted in 2014.

AIDA is an operationally independent body, which is staffed and budgeted. It is obliged to report regularly on its activities to the AIDA Board chaired by the Prime Minister. However, no annual report on its export promotion activities is publicly available. No independent review has been carried out to assess the efficiency of its export promotion programmes.

At the moment Albania has no government programmes in place to support SME integration into global value chains (GVCs) but a proposal has been drafted which envisages some activities that will be mainly financed through donor contributions.

Standards and technical regulation

Albania continues to adopt European standards, and it has adopted a law designed to align to the European *acquis* in the area of the notification of standards. Albania's General Directorate of Standardization is an affiliate member of the European Committee for Standardization (CEN) and the European Committee for Electrotechnical Standardization (CENELEC). Albania has adopted a strategy on consumer protection and market surveillance, also covering accreditation and metrology. In 2015, Albania became a full member of the

European co-operation for Accreditation (EA). Since October 2015 the General Directorate for Accreditation of Albania has been a signatory member in the EA Multilateral Agreement (EA-MLA). In 2015 Albania also adopted a new law on metrology. Aligning its legislation with the European Union *acquis*, however, will need further action. It has recently adopted the legal basis for the establishment of a market surveillance inspectorate, which is not yet operational. Albania has adopted further legislation in the area of "Old" and "New" approach product legislation.

The way forward

Strengthening the institutional, regulatory and operational environment

Albania performs very well when it comes to policy design with a well-elaborated SME strategy and a dedicated SME agency in place. In the short to medium term, Albania needs to ensure it matches this design effort with continued policy implementation and that it realises the monitoring system outlined in the SME strategy. It should consider continuous implementation of more explicit measures to tackle the informal economy, given the estimated size of Albania's shadow economy and the evidence that SMEs in particular suffer from it. It will be crucial to address the existing shortcomings in the regulatory framework to reduce compliance costs for SMEs. Particular attention should be paid to the formalisation of the RIA process and the development of a proportional approach in the use of RIA. To improve the operational environment for SMEs, Albania should continue to expand its e-services. Enhanced data exchange between different government authorities would reduce the administrative burden on SMEs. Full implementation of the interoperability system constitutes an important step in that area.

Although a formal bankruptcy law is in place, it is not clear how effectively it has been implemented as, according to the World Bank data, bankruptcy procedure times and costs remain unchanged since 2012. Institutional support mechanisms are either not fully developed, for example the insolvency register, or not in place yet, such as an early warning system. Albania is encouraged to move forward with the adoption and implementation of the new draft law on bankruptcy. Albania would also potentially benefit from continuing to develop strategies to promote second chances for entrepreneurs, possibly through information campaigns or training programmes.

Facilitating SME access to finance

Overall, the legal framework for creditor rights is reasonably well developed, but Albania should consider more effective enforcement of creditor rights in order to render enforcement less cumbersome. The relevant authorities are taking action to tackle high levels of NPLs and this will continue to be important to restore credit growth more generally, which could also benefit SMEs. The inclusion of information from retailers and utility companies in the credit information system could be facilitated by either expanding the credit registry or by encouraging the establishment of a private credit bureau. This could help smaller companies build a credit history and thus ease their access to finance. Non-bank financing is mainly provided through savings and loan associations and a number of microfinance institutions, both of which are supported by a well-defined legal framework. Access to finance could however be further broadened by facilitating the provision of other non-bank financial instruments such as leasing and in particular factoring.

Developing Entrepreneurial Learning, women's entrepreneurship and SME skills

The ongoing educational reform in Albania offers opportunities to integrate and implement entrepreneurship as a key competence in the education system. Policy partnerships should be established through an inter-institutional working group in order to prioritise the monitoring and evaluation of entrepreneurial learning initiatives in Albania. In the future, this working group could take the lead on the development of entrepreneurship as one of the key competences in the curriculum, as included in the 2015 Riga Conclusions (European Union, 2015).

Schools should be provided with more autonomy to implement the curriculum in a more flexible, innovative and practice-oriented way. Schools should also be encouraged to become "entrepreneurial schools" by co-operating more closely with SMEs and the world of work at all levels of education (including in VET). Furthermore, entrepreneurial learning should be included in the development of teachers and trainers (in-service and pre-service).

Regarding higher education, the Quality Assurance Agency, which is currently undertaking a re-accreditation of all higher education programmes, could pay specific attention to whether programmes are geared towards developing key competences, including entrepreneurial learning. Further dialogue could also be stimulated between the bodies in charge of higher education (including the Ministry of Education and Science, the National Agency for Accreditation of Higher Education Institutions and the Rectors' Conference) and the MEDTTE, the Chamber of Commerce, business associations and other key stakeholders.

Lastly, building up SME skills will need a single source of information on the business training on offer. Further development of online courses for business start-up and growth should be considered.

Enhancing SME competitiveness

Compared to 2012, Albania has made incremental progress on the provision of business support services. Monitoring of the actual effects of the services offered remains at an early stage of development. The Albanian government should map existing business development services (BDSs) provided by the private sector, assess which services are most needed by SMEs and focus its support on those that are not covered or not accessible to SMEs. In addition, it should stimulate the development of the BDS infrastructure by introducing co-financing schemes and certification of private BDS providers. The government will also need to develop mechanisms to monitor and evaluate the effectiveness of its public support programmes.

Albania achieved some progress on public procurement as electronic procurement has been extended to cover also small value procurements and new rules on framework agreements were adopted on 29 December 2014. There are nevertheless some challenges remaining, as the proportion of negotiations without publication is high and should be reduced. Albania should further strengthen the independence of the Public Procurement Commission.

When it comes to innovation policies for SMEs, Albania has made limited progress overall. It should therefore primarily focus its effort on developing the necessary infrastructure to promote innovation within SMEs, such as multi-sector innovation centres and incubators. Particular emphasis should be placed on the implementation of financial instruments such as innovation vouchers and direct financial assistance to SMEs to promote and develop innovative products and services. It should encourage the further strengthening of links between science research organisations and the private sector to foster innovation.

Although Albania has general environmental polices targeting the investment into suitable economic activity, it could do more to highlight how environmental policies can target SMEs. The continued efforts to improve the promotion of information on environmental policies are an encouraging step towards environmentally friendly economic development. The development of regulatory and financial incentives could help SMEs undertake greening activities.

Supporting SME internationalisation

The number of documents and the time needed to export or import remains to too high, although the cost of exporting or importing is relatively low. It is crucial for Albania to improve these regulatory barriers in order to move forward. It should also publish the reports on the activities of the Albanian export promotion agency. Feedback and evaluation of the agency's activities could be enhanced to improve the effectiveness of the measures. The previous export guarantee fund should be restored and further developed. The government should expand its financial support for export promotion activities and provide structural guidelines and greater transparency. Finally, the government should consider actions to support the integration of SMEs into global values chains in the future. The Enterprise Europe Network (EEN) in Albania provides a key instrument to foster SME internationalisation by providing a platform for SMEs to seize business opportunities in the EU Single Market and beyond.

Note

1. According to the Business Environment and Enterprise Performance Survey (BEEPS V; EBRD, 2014b).

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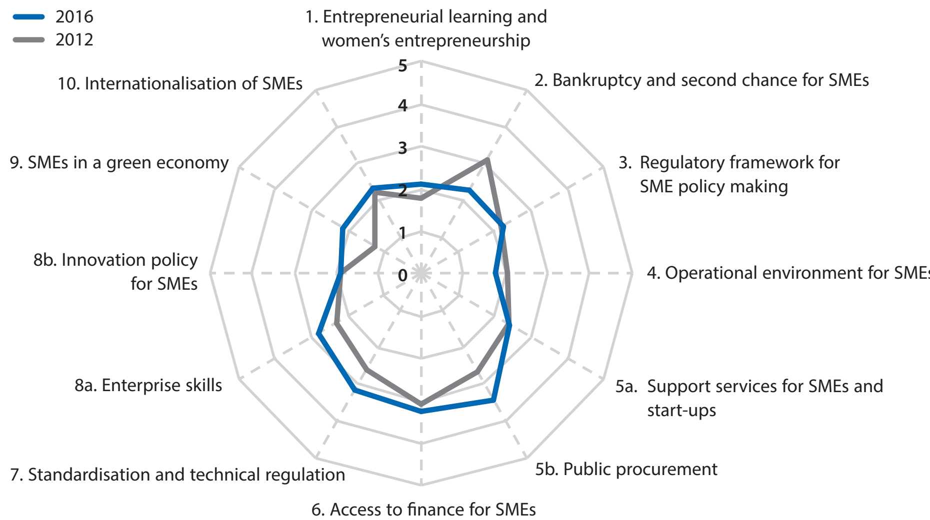
Chapter 12

Bosnia and Herzegovina: Small Business Act profile

Bosnia and Herzegovina has made incremental progress since the 2012 assessment, but its business environment continues to be cumbersome and it still lags behind its regional neighbours in small and medium-sized enterprise (SME) policy development. The weak co-ordination between public institutions at state and entity levels not only leads to the creation of disconnected policies but also impedes their implementation. More positively, a new public procurement law was adopted in 2014. The signing of the Stabilisation and Association Agreement with the European Union established access to EU public procurement markets. The country has made efforts to promote entrepreneurial skills with the introduction of a nationwide entrepreneurial learning strategy, and introducing entrepreneurial skills into school curricula.

Bosnia and Herzegovina continues to face severe issues with bureaucratic procedures such as company registration and business licensing, which currently have to be performed twice, once in each respective entity, creating serious market distortions within the country. SMEs and start-ups would benefit from a strategic approach to innovation and financial instruments to promote it. Access to finance remains a major obstacle for SME development. These challenges, and others, highlight the growing need for increased policy co-ordination between the state and entities and the need to introduce a nationwide SME development strategy.

Figure 12.1. **SBA draft scores for Bosnia and Herzegovina**



Key findings

Overall, Bosnia and Herzegovina is lagging behind its peers in the Western Balkan region in its policies for small and medium-sized enterprises (SMEs). SME forums and strategies have either expired or become inactive and there has been a serious lack of initiatives to follow up, renew or revive them even though they are fundamental to creating an environment conducive to strengthening SME development. Bankruptcy procedures are set by the individual entities, rather than through a single state law, although clearly defined procedures are in place. At neither the state nor the entity level are there any efforts to promote second chance opportunities to entrepreneurs.

Access to finance continues to be one of the key obstacles to the activity of SMEs, particularly newly established ones, in Bosnia and Herzegovina. Discrepancies in policies and regulations between the entities not only hinder SME activities, but also bank lending. The banking sector continues to be the main source of financing for SMEs. Alternative sources of finance are centred around microfinance, with a lack of policy and regulatory support for other forms, such as factoring or leasing.

Good progress has been made with putting the essential building blocks of a lifelong entrepreneurial learning system in place. A new development involving chambers of commerce from across Bosnia and Herzegovina to build intelligence on SME skills is an important step in closing the gap between training offers and the specific needs of SMEs.

The public procurement market is partially open to foreign enterprises; however, there is a mandatory application of preferential treatment for domestic products which will only be phased out within five years. The legislation allows tenders to be cut into lots and this happens in practice. In April 2015, the Stabilisation and Association Agreement (SAA) with the EU was finally concluded.

The provision of SME support services in Bosnia and Herzegovina is largely unchanged since the 2012 assessment. Donor funding continues to be considerable and many initiatives remain regional. Uptake is constrained and monitoring and evaluation of these services is still in the early stages. Government initiatives aimed at the stimulation of private businesses are part of a national strategy, but significant challenges remain in co-ordination and implementation.

The country has equally made little progress in the area of innovation. There is still no state-level strategy for innovation or dedicated financial instruments to support innovation among SMEs. The respective entities in Bosnia and Herzegovina have a number of environmentally related policies and strategies related to environmental standards and regulations, although these mostly do not explicitly target SMEs.

The lack of co-operation between state and entity-level institutions remains a major obstacle to the development of a solid policy framework for SME internationalisation. Limited government budget for export promotion programmes limits the implementation and the efficiency of export promotion activities. An Export Promotion Agency was established in 2006, but it is not fully operational. The range of export promotion activities and financial support tools is more advanced at the entity level. The adoption of an export strategy at state level, and the facilitation of trade administration will be crucial for progress. Bosnia and Herzegovina lacks a country-wide strategy for quality infrastructure, and co-ordination in this area between the relevant institutions at different levels of government remains weak.

Overview

Economic snapshot

Bosnia and Herzegovina is one of the most volatile economies in the region with an economic structure that remains exposed to external economic fluctuations. External competitiveness is a key issue for the Bosnian economy, with a wage-productivity gap that has widened over the past 15 years due to a steep increase in real wages, which does not reflect an equivalent increase in productivity.

The size of the public sector poses a challenge to the growth of the Bosnian economy: a large state with considerable influence over the private sector creates high financial, administrative and regulatory costs and uncertainty. In addition to that, a weak fiscal position and large current account deficit threaten the government's fiscal sustainability.

Although Bosnia and Herzegovina's economy is mostly service dominated, industry makes up a relatively high share in comparison with other countries of the region. Compared to its regional neighbours Bosnia and Herzegovina has a diverse export sector. Nevertheless raw materials and lower value-added products make up the largest share of exports. Exports of goods and services have increased a little, from 32.8% of gross domestic product (GDP) in 2012 to 34.3% in 2014 (Table 12.1).

The European economic crisis negatively affected the Bosnian economy, while weak domestic demand constrains its economic recovery. After the 2012 recession, when GDP fell by -1.2%, 2013 seemed to bring a recovery that more than offset the previous downturn, with growth of +2.5%. However, the severe floods in the middle of 2014 caused damage worth up to 15% of GDP and seriously reduced growth prospects. GDP growth for 2014 was just 1.1% (IMF, 2015), and is expected to increase slightly in 2015 to 2.1%. Overall, the economic performance of Bosnia and Herzegovina remains volatile.

The unemployment rate stayed at 27.5% in 2013 and 2014, the second highest rate in the region after Kosovo. A major source of concern is the high level of youth unemployment, amounting to 60% in 2013 and the grey economy, which accounts for 30-50% of GDP. Foreign direct investment (FDI) is among the lowest in the region and fell to 1.7% of GDP in 2013, recovering to 3.1% of GDP in 2014, but still remains a weak source of investment.

Table 12.1. **Bosnia and Herzegovina: Main macroeconomic indicators (2010-15)**

Indicator	Unit of measurement	2010	2011	2012	2013	2014	2015
GDP growth[1]	% year-on-year	0.8	1.0	-1.2	2.5	1.1	*2.1*
Inflation[1]	% average	2.1	3.7	2.0	-0.1	-0.9	*0.5*
Government balance[1]	% of GDP	-4.1	-2.8	-2.7	-1.9	-3.0	*-1.6*
Current account balance[1]	% of GDP	-6.2	-9.6	-8.9	-5.8	-7.7	*-7.7*
Exports of goods and services[2]	% of GDP	30.3	32.6	32.8	34.2	34.3	n.a.
Imports of goods and services[2]	% of GDP	52.3	56.8	56.9	55.2	57.6	n.a.
Net FDI[3]	% of GDP	n.a.	2.6	2.0	1.7	3.1	*2.6*
External debt[3]	% of GDP	n.a.	48.9	52.2	52.2	51.9	n.a.
Gross reserves[3]	% of GDP	n.a.	24.5	24.8	26.4	28.7	n.a.
Credit to private sector[3]	% of GDP	n.a.	57.1	58.8	59.0	59.7	n.a.
Unemployment[1]	% of total active population	27.2	27.6	28.0	27.5	27.5	*27.0*
Nominal GDP[1]	USD billion	16.8	18.3	16.9	17.8	18.2	*15.6*

Sources: (1) IMF (2015); (2) World Bank (2015a); (3) EBRD (2015). Italics indicate estimates in the original source.

Overall, doing business in Bosnia and Herzegovina remains troublesome, due to the large number of para-fiscal charges and the lack of an up-to-date portal on charges and regulations. Challenges to competitiveness persist: limited FDI constrains the diffusion of technology and know-how to domestic firms through spillover effects, and access to credit proves rather difficult due to moderately high real interest rates. Another problematic factor is the complex political situation, with duplication of institutions for the two entities of the country and a high level of corruption that hinders reforms. According to World Bank's *Doing Business 2016*, the most relevant issues lie in dealing with construction permits, paying taxes and starting a new business (World Bank, 2015b). Bosnia is ranked 79 out of 189 countries for the overall ease of doing business, the lowest ranking in the region.

After the EU approximation process had been at a standstill in recent years, the Stabilisation and Association Agreement (SAA) entered into force on 1 June 2015. Bosnia and Herzegovina submitted its application for EU membership on 15 February 2016. In 2012 The IMF approved a stand-by agreement of EUR 379 million, which is acting a driver for reforms in the country. In January 2014, the stand-by agreement was extended by nine months and augmented by EUR 152 million. Because of the flood damage, it was augmented for a second time in June 2014 to support Bosnia and Herzegovina with its balance-of-payments problems. Delays in the implementation of agreed structural reforms led to a stalling of negotiations between Bosnia and Herzegovina and the IMF, while ongoing negotiations are expected to lead to a new programme (Extended Fund Facility) in the course of 2016.

SMEs in Bosnia and Herzegovina

There is no legal definition for SMEs at the state level, only at the entity level. Each entity has two definitions, one according to the Law on Accounting and Auditing and one according to the Law on Incentives for Small Business Development (Tables 12.2 and 12.3). Moreover, Brčko District has its own definition of SMEs according to the Law on Enterprises in Brčko District (Table 12.4). The definition for accounting purposes is the same in both entities and distinguishes between small, medium-sized and large enterprises, but does not define micro enterprises. Enterprises have to fulfil at least two of the three criteria in order to be classified. The employment size criteria are in line with the EU definition.

Table 12.2. **Definition of micro, small and medium-sized enterprises in the Federation of Bosnia and Herzegovina**

	EU definition	Law on Accounting and Auditing	Law on Development of Small Business Development
Micro	< 10 employees ≤ EUR 2 million turnover or balance sheet	No definition in place	< 10 employees
Small	< 50 employees ≤ EUR 10 million turnover or balance sheet	< 50 employees < BAM 1 million (~EUR 0.5 million) circulating assets < BAM 2 million (~EUR 1 million) turnover	< 50 employees ≤ BAM 2 million (~EUR 1 million) turnover < BAM 1 million (~EUR 0.5 million) balance sheet
Medium-sized	< 250 employees ≤ EUR 50 million turnover; ≤ EUR 43 million balance sheet	< 250 employees < BAM 4 million (~EUR 2 million) circulating assets; < BAM 8 million (~EUR 4 million) turnover	< 250 employees ≤ BAM 8.50 million (~EUR 4.25 million) turnover and/or ≤ BAM 4.43 million (~EUR 2.15 million) balance sheet

Note: exchange rates as of August 2015.

Sources: Federation of Bosnia and Herzegovina (2009), "Zakon o racunovodstvu I reviziji u Federcaiji Bosne I Hercegovine" (law on accounting and auditing), 01-02-568/09, Parliament of the Federation of Bosnia and Herzegovina, www.fmf.gov.ba/zakoni/2010/bosanski/pravilnici/Zakon%20o%20racunovodstvu%20i%20reviziji%20u%20Federaciji%20BiH.pdf; Federation of Bosnia and Herzegovina (2006), "Zakon o posticanju razvoja malog gospodarstva" (Law on incentives for small business development), Official Gazette of the Federation of Bosnia and Herzegovina, No. 19/06, www.fbihvlada.gov.ba/bosanski/zakoni/2006/zakoni/14hrv.htm.

Table 12.3. **Definition of micro, small and medium-sized enterprises in the Republika Srpska**

	EU definition	Law on Accounting and Auditing	Law on Incentives for Small Business Development
Micro	< 10 employees ≤ EUR 2 million turnover or balance sheet	No definition in place	< 10 employees
Small	< 50 employees ≤ EUR 10 million turnover or balance sheet	< 50 employees < BAM 1 million (~EUR 0.5 million) circulating assets < BAM 2 million (~EUR 1 million) turnover	< 50 employees ≤ BAM 10 million (~EUR 5 million) turnover or balance sheet
Medium-sized	< 250 employees ≤ EUR 50 million turnover; ≤ EUR 43 million balance sheet	< 250 employees < BAM 4 million (~EUR 2 million) circulating assets < BAM 8 million (~EUR 4 million) turnover	< 250 employees ≤ BAM 50 million (~EUR 25 million) turnover and/or ≤ BAM 43 million (~EUR 15 million) balance sheet

Note: exchange rates as of August 2015.

Sources: Republika Srpska (2011), "Zakon o racunovodstvu I reviziji Republike Srpske" (Law on Accounting and Auditing), https://advokat-prnjavorac.com/zakoni/Zakon_o_racunovodstvu_i_reviziji_RS.pdf; Republika Srpska (2007), "Zakon o posticanju malih i srednjih preduzeca" (law on incentives for small business development), https://advokat-prnjavorac.com/zakoni/Zakon_o_razvoju_malih_i_srednjih_preduzeca.pdf.

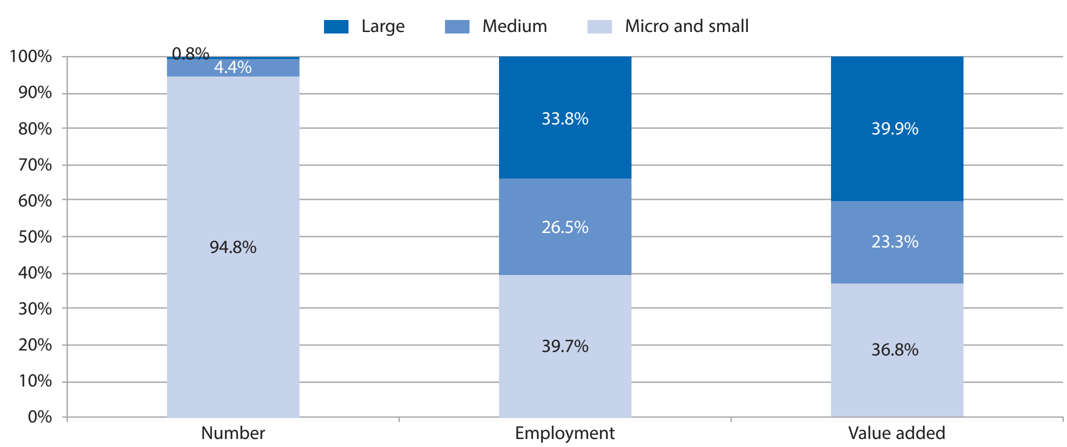
Table 12.4. **Definition of micro, small and medium enterprises in Brčko District**

	EU definition	Brčko District Law on Entrerprises
Micro	< 10 employees ≤ EUR 2 million turnover or balance sheet	No definition in place
Small	< 50 employees ≤ EUR 10 million turnover or balance sheet	≤ 50 employees < BAM 2.8 million (~EUR 1.4 million) turnover ≤ BAM 1.4 million (~EUR 0.7 million) circulating assets
Medium-sized	< 250 employees ≤ EUR 50 million turnover, ≤ EUR 43 million balance sheet	≤ 250 employees < BAM 11 million (~EUR 5.5 million) turnover ≤ BAM 5.5 million (~EUR 2.8 million) circulating assets

Note: exchange rates as of August 2015
Source: Brčko District (2011), "Zakon o preduzećima Brčko distrikta BiH (prečišćen tekst)" (Law on Enterprises Brčko District of Bosnia and Herzegovina (consolidated text)), *Official Gazette of Brčko District*, No. 01. 3-05-1188/11, available at http://skupstinabd.ba/3-zakon/ba/Zakon%20o%20preduzec-ima%20Brc--ko%20Distrikta%20BiH/000%2049-11%20Zakon%20o%20preduzec-ima%20Brc--ko%20distrikta%20BiH,%20prec--is--c-en%20tekst.pdf.

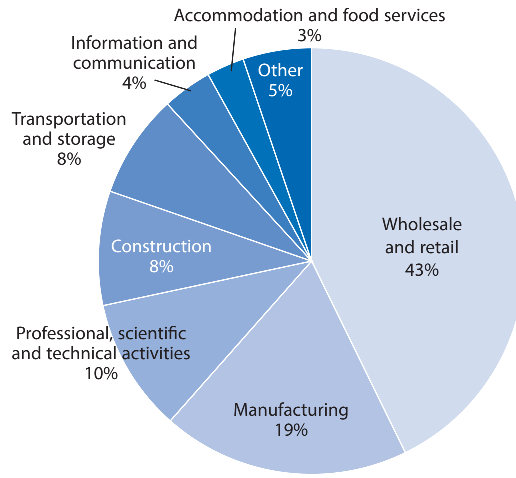
In 2013, SMEs made up 99.3% of the total business population. The total number of SMEs increased slightly from 20 196 enterprises in 2010 to 23 381 in 2013. Their share of total employment stood at 68.4% in 2013, which is close to the EU average of 66.9%, with micro and small enterprises providing more than 40% of total employment. SMEs contributed 62.4% to the total value added in the economy, slightly more than the EU-28 (see Figure 12.2). The largest sector for SMEs is the wholesale and retail trade sector, with 43% of SMEs, followed by the manufacturing sector (19%) (Figure 12.3).

Figure 12.2. **Business demography indicators in Bosnia and Herzegovina (2013)**



Source: SBA assessment government questionnaire.

Figure 12.3. **Distribution of SMEs in Bosnia and Herzegovina by sector (2013)**



Source: SBA assessment government questionnaire.

SBA assessment results

Strengthening the institutional, regulatory and operational environment (Dimensions 3, 4 and 2)

Institutional framework

Although the Ministry of Foreign Trade and Economic Relations (MoFTER) is in charge of SME policy co-ordination in the country, the institutional setup continues to be less advanced in Bosnia and Herzegovina compared with the other Western Balkan economies. The previous state Strategy for the Development of SMEs 2009-2011 has expired without being implemented and the envisaged SME Consultative Committee has become inactive. At state level, there is a serious lack of initiatives to follow up, renew or revive these fundamental elements for the creation of an environment conducive to businesses.

Support to businesses is however provided at entity level. The Republika Srpska (RS) recently adopted an SME development strategy for 2014-18 containing quantitative objectives and an action plan. The total budget for the implementation of the strategy in 2015 amounts to BAM 5 million (approximately EUR 2.5 million). Strategy implementation is co-ordinated by the SME Agency for the Republika Srpska, which has been operational since 2004 with a current staff of 22 employees. The Federation of Bosnia and Herzegovina (FBIH) has no SME strategy or SME agency, but does have a strategic document to foster entrepreneurship for 2009-18.

None of the entities' strategies were embedded in the expired national SME strategy. There is a lack of vertical co-ordination and linkages to align SME policy objectives between the state level and the entities and policy co-ordination remains very weak. Neither of the two entity-level strategic documents contain specific actions to address the informal economy. The Republika Srpska has however adopted an action plan on combating the grey economy, but its implementation status is unclear. Following the principles of the Reform Agenda for Bosnia and Herzegovina for the period of 2015 to 2018 the government of the FBIH gave its approval to the model (laws and by-laws) for the mitigation of the grey economy.

Legislative simplification and regulatory impact analysis (RIA)

Bosnia and Herzegovina does not carry out any systematic and continuous implementation of regulatory guillotines at the state level. There is not yet any formal requirement to carry out regulatory impact analysis (RIA). However the Directorate for European Integration has launched several initiatives related to RIA, including training and pilot RIA studies. The MoFTER has also produced three RIA studies.

The Federation of Bosnia and Herzegovina adopted a Strategy for Regulatory Reform for the period 2013-16. In addition, a Manual on Regulatory Impact Assessment was prepared in 2013 with the support of the International Finance Corporation (IFC) and a Department of Regulatory Reform established within the FBIH government. The Republika Srpska has adopted a Regulatory Reform Strategy 2012-2015 and an action plan. In 2013 it took the decision to implement RIA related to draft laws.

Even though there has been some progress in the development of legislative simplification and RIA at state and entity level, it has not yet been sufficiently institutionalised and depends on foreign technical assistance and donors. Regulatory guillotine has only been carried out sporadically. The FBIH has reviewed nine laws and one piece of subordinated legislation. In the Republika Srpska, 20 laws were reviewed in 2013, 9 in 2014 and 1 law so far in 2015. There is no SME test under consideration as part of an examination of SME aspects of RIA.

Public-private consultations (PPCs)

Procedures for conducting consultations have been established at state and entity level in Bosnia and Herzegovina but no written guidance on how to conduct public-private consultations (PPCs) has yet been introduced. At the state level, the Rules of Consultations apply to the regulations issued by the Council of Ministers of Bosnia and Herzegovina and other institutions. However, PPCs still take place on an ad hoc basis, and documents on legislative proposals relevant to businesses are not necessarily shared with the private sector. Furthermore, SMEs are only partially involved in PPCs at all government levels. In most cases, participation is only possible upon invitation and the private sector is not able to call for exceptional PPCs.

The Ministry of Justice of Bosnia and Herzegovina issues a report every two years on the implementation of the Rules of Consultations in legislative drafting in the institutions of Bosnia and Herzegovina. This report fills the gap in monitoring and assessment of the implementation of Rules of Consultations, and it is carried out in a partnership between government and non-government sector representatives.

Interaction with government services (e-government)

Bosnia and Herzegovina is significantly lagging behind the rest of the region when it comes to adapting the services of the public administration to the needs of the SME sector. Online filing of taxes is limited to certain forms of taxes, i.e. income and property taxes, and there is no online system for paying them. E-filing of value-added tax (VAT) through the Indirect Taxation Authority is not yet operational, but is envisaged for 2016. Other services, such as online filing of social security returns and pensions do not yet exist. Electronic cadastre has been established at the entity level but e-cadastres only offer the ability to view data; legal entities and individuals are not able to obtain official electronic documents from the real estate registry.

A law on electronic signatures was adopted in 2006 but has not yet been implemented. This constitutes a severe barrier to further progress in expanding electronic government infrastructure and e-services. Some progress has been made in establishing connections between the databases of different public institutions at entity level. Connections between the databases of the two entities is still at an early stage of development. Limited awareness and use of electronic services remains a challenge. To date, SMEs have not been informed about existing services and no data on usage of and need for e-services have been provided.

Company registration

The business registration and start-up process in Bosnia and Herzegovina remains cumbersome and costly and little progress has been made since the 2012 assessment. Globally Bosnia and Herzegovina ranks 175 out of 189 in the World Bank *Doing Business* report, considerably lower than any of its neighbours (World Bank, 2015b). According to the World Bank, starting a business in Bosnia and Herzegovina requires 12 procedures, takes 67 days, costs 14.8% of income per capita and requires paid-in minimum capital of 28.0% of income per capita, well above the average for the Western Balkans and Turkey (WBT). The total cost of business registration is about EUR 500 (World Bank, 2015b).

The issue of double registration for a company that wants to operate in the Republika Srpska and in the Federation Bosnia and Herzegovina has still not been resolved. Company registration procedures differ between the two entities, creating significant market distortions within Bosnia and Herzegovina. In the RS, the entire procedure for company registration can be done through a one-stop procedure conducted by the Agency for Intermediary, IT and Financial Services (APIF), which has 11 branches in the RS. With the adoption of the Law on Registration of Business Entities in the RS in August 2013, business registration has been significantly enhanced and simplified and is more cost-effective. The registration period has been shortened to 5 days and registration costs have been reduced to less than EUR 10. The picture looks different for the FBIH. A one-stop procedure for company registration system has not yet been established and company registration remains lengthy and costly.

Business licensing

The process of obtaining licences and permits in Bosnia and Herzegovina is complex and fragmented. Business licences are issued by the entities under the jurisdiction of different public authorities. Within the Republika Srpska, the APIF functions as a one-stop shop providing guidance and application forms for business licences. No such single point of contact exists in the FBIH. Licences and permits are perceived by 8.4% of firms as a major constraint to doing business (World Bank, 2013), which is the highest value in the WBT region. Attempts to streamline licence procedures are more prominent in the Republika Srpska, but remain selective.

Bankruptcy procedures and second chance

Bankruptcy law in Bosnia and Herzegovina is not governed at the state level, but rather by the respective bankruptcy laws of FBIH and RS. Both of these laws are considered to be in line with international standards for well-functioning insolvency legislation. In both entities, formal procedures for discharge from bankruptcy are in place, but do not define the maximum time limit for discharge. In addition, the entity laws apply to state-owned enterprises as if they were part of the private sector. In both entities there is room for improvement, as a backlog of old cases has built up due to slow judicial processes. Furthermore, no early warning systems to identify distressed companies have been established. The World Bank *Doing Business 2016* report indicates that the average bankruptcy procedure takes 3.3 years, at a cost of 9% of the estate and with an average recovery rate of 35.9% of the estate, figures which remain unchanged from the 2012 assessment (World Bank, 2015b).

In both entities out-of-court settlements are available and are often considered a less expensive measure than filing for formal bankruptcy. The commercial courts of both entities determine the removal of an enterprise from the bankruptcy registers after a final court decision. There is no evidence that public authorities have conducted information campaigns or training programmes to promote the concept of second chances among entrepreneurs.

Facilitating SME access to finance (Dimension 6)

Legal and regulatory framework

Overall, the legal and regulatory framework for finance in Bosnia and Herzegovina is operational and has shown some signs of improvement since the 2012 assessment, although inter-entity differences continue to inhibit country-wide SME operations.

The legal framework for creditor rights is generally in line with EU legislation and a cadastre system and registration system for security over movable assets are operational, comprehensive and available online. All borrower data and registration of security over assets is done at the entity level. Some further work is currently being carried out to improve the reliability and cross-entity harmonisation of the cadastre.

Bosnia and Herzegovina has both a public and a private credit information system, although the private registry discontinued its collection of credit information on individuals in 2012-13. While the public credit registry's growth since the last assessment (to 38% of the adult population compared to 35.3% in 2011, according to World Bank, 2015b) has not offset the missing coverage from the private credit bureau, research shows that the increased transparency created by the growing credit registry has strongly and positively affected default rates, particularly for first-time borrowers (Bos et al., 2015). This positive impact, strengthened by the increased frequency of updating (daily since April 2012), should serve as further motivation to provide transparency and ease of access to both borrowers and lenders.

Basel II recommendations are currently being implemented, although to differing extents for local and international banks (IMF, 2014). This disparity, as with the entity-level regulation of stock exchange markets, prevents regulatory streamlining at the national level.

Sources of external finance for SMEs (bank financing, non-bank financing and venture capital)

Despite significantly increased collateral requirements, bank financing remains the primary source of capital for SMEs with an above-average number of companies accessing bank finance compared to other countries in South Eastern Europe. According to the BEEPS V survey (EBRD, 2014b), 66.3% of companies have an outstanding loan/credit line compared to a regional SEE average of 49%. The same survey suggests that complexity, collateral and interest rates have all become less important as barriers to loan applications. Credit guarantee schemes, a key government SME support mechanism, exist at the entity level but without private sector involvement or systematic review mechanism. There is no SME-specific assistance or information programme about sources of external finance. Non-bank sources of finance remain centred around microfinance, which is well developed across the country. The Central Credit Registry has simplified and improved the operational environment for microfinance institutions (MFIs), although additional registration is required to operate in both entities. Leasing represents another important alternative source of financing. It currently has a penetration of 1.7% of GDP, with regulation at the entity level. Both entities are also currently preparing legislation on factoring, although limited activity already exists in the country.

Venture capital (VC) activities remain underdeveloped in Bosnia and Herzegovina, with no legislation facilitating SME investment, although both entities allow investment in VC funds under their respective laws on investment funds. The regulatory framework has not been reviewed to address the needs of venture capital activities and there are no initiatives to encourage the development of VC as an SME financing tool.

Financial literacy

Support for financial literacy has been limited to individual donor-funded programmes. Neither the entities nor the national government have created financial literacy strategies and no assessments of existing literacy levels have been carried out.

Promoting skills and entrepreneurship development (Dimensions 1 and 8a)

Lifelong entrepreneurial learning

Good progress has been made with a state-wide entrepreneurial learning strategy adopted by the Council of Ministers in 2012 and an action plan that places particular emphasis on promoting entrepreneurship at all levels of education. Both include further developments of a state-wide partnership for entrepreneurial learning which will be important to see through the reforms. Further, entrepreneurial learning forms a promising feature of the ongoing discussions on skills development up to 2020 (European Commission, 2012).

Entrepreneurship as a key competence is part of a draft common core curriculum, building on a pilot exercise in 13 schools. The pilot included training for school managers, teachers and pedagogical advisors. All schools involved in key competence developments should be evaluated as a first step towards embedding entrepreneurial learning outcomes within the curriculum and qualifications. The engagement of the pedagogic institutes through their curriculum reform and teacher support function in evaluation and staff training are good first steps. In particular, the role of teachers and pedagogic advisors in the key competence development should be evaluated with continued efforts made to actively engage pupils in school-based entrepreneurial activities.

Plans for the pedagogic institutes, including staff training, on evaluation, are a good step. The evaluation could include a sample of other schools that have additionally been working on the entrepreneurship key competence. These include SEECEL and NGO-supported schools as well as schools receiving direct support through bilateral aid (the government of Norway provides important support for entrepreneurial learning developments). In particular, the role and contribution of school managers, teachers and pedagogic advisors in the key competence developments should be reviewed, as well as how pupils actively engage in school-based entrepreneurial activities.

Building a "can-do" attitude among young people is key to the entrepreneurship key competence (European Commission, 2012). Practical entrepreneurial experience (learning by doing) is a feature of the state entrepreneurial learning strategy with a host of excellent examples across secondary and vocational schools. The school mini-company is the most prevalent tool for providing entrepreneurial experience. Vocational schools could also consider how to reinforce entrepreneurship as a key competence (European Union, 2015), including within career guidance and counselling.

Individual efforts are being made to promote university-enterprise co-operation, but more strategic promotion of "cross-campus" entrepreneurship (all students, all faculties) at all tertiary level education institutions remains a challenge. With a dedicated Chair of Entrepreneurship, the University of Tuzla stands out for its cross-campus entrepreneurship development. Meanwhile a student entrepreneurship programme supported by the United States Agency for International Development (USAID) involving Sarajevo, Banja Luka and Mostar universities provides an excellent example of cross-university co-operation in entrepreneurship promotion. The sharing of good practice between Bosnia and Herzegovina and the EU could help build understanding of why and how higher education is key to building an entrepreneurial economy (Gribben, 2013).

Women's entrepreneurship

No state-wide strategy on women's entrepreneurship has been developed (SEECEL, 2013). Data gathering on women's entrepreneurship and training is also undeveloped at state level. However, women's entrepreneurship is an integral feature of the Strategy for Development of SMEs and Entrepreneurship in the Republika Srpska. Awareness raising and improved capacity for public and private-sector interest groups in tracking the specific training needs of women entrepreneurs should build on earlier SIDA-supported work (SEECEL, 2014). Overall, Bosnia and Herzegovina needs a more integrated policy approach to women's entrepreneurship addressing training, access to finance and sharing of good practice (Bekh, 2013).

SME skills

A new development involving chambers of commerce from across Bosnia and Herzegovina to build intelligence on SME skills is an important step towards closing the gap between the training on offer and the specific needs of SMEs. With priority given to important sectors for growth and export potential (the food processing, textiles, wood and metal sectors), annual reviews of skills within the sectors are planned. These will support policy makers and training providers to better meet SME interests. Equally important are the plans by key stakeholders (chambers, government agencies) to share SME skills intelligence. The training community must be part of this dynamic. A closer working relationship between training providers and sector-support organisations will be essential in building confidence and buy in of the SME community to training provision.

Good efforts are being made in start-up training, with recommendations by a working group for an accreditation framework for start-up training. Given chronic youth unemployment levels – 60%, rising to 70% in the Federation of Bosnia and Herzegovina (EBRD, 2014c) – a more developed focus on start-up training and financial support for young entrepreneurs could be considered (Loughran, 2014). An important factor for start-up training will be the systematic tracking of training support, particularly by the main public and private training providers. Having consistent and reliable data on start-up training is therefore an important next step. These data can be sourced from training providers and agencies (including donors) supporting start-ups (up to three years after registration). Assuming that business registration includes a question on start-up training, the state statistics office would also be a source of data. Data concerns are also a factor in the drive to develop training for SMEs with growth potential. Given that the five regional development agencies are the primary SME training providers, data collection on SME training by the agencies and global analysis of the data by the Foreign Investment Promotion Agency or other competent body could be considered.

Examples of more innovative uses of technologies to deliver training to SMEs include e-learning for young people with an interest in self-employment, led by the Federal Employment Service. A wider consultation of SMEs by the training community should determine the interest and readiness of small businesses in e-training. A particular target group will be those SMEs either already trading or with the potential to trade in the region and the EU. There are successful examples of such training provided by the Foreign Trade Chamber of Commerce. The chamber and the regional development agencies should consider options for the design and delivery of e-training programmes to support the internationalisation of SMEs.

Enhancing SME competitiveness (Dimensions 5a, 5b, 8b and 9)

Business information and services

Bosnia and Herzegovina has made incremental progress in providing support services to SMEs. There are no adequate strategies at the state level. Currently, only the Republika Srpska has conducted a market study to assess the demand and supply of adequate investment readiness services. The provision of investment-readiness services is largely financed by donor funds in both entities. Financial and advisory services are offered to support innovation and start-ups, but the uptake remains limited. Entity-level SME portals exist, but the extent of the information about starting and conducting a small business is limited. Further, monitoring and evaluation mechanisms for business support programmes are in the early stages of development. Formal mechanisms for SME feedback are only available for some programmes at the entity level, where data on SME participation are regularly collected. No systematic government approach can be observed to stimulate private market suppliers to provide business development services to SMEs. Although it is addressed to some extent in the entity-level SME-related strategies, entity-level governments provide only limited information to SMEs about privately offered business support services or offer limited co-funding opportunities.

Public procurement

The public procurement market is partially open to foreign enterprises. However, preferential treatment of domestic products is currently mandatory, a policy which will only be phased out within five years. In April 2014 a new Public Procurement Law was adopted and entered into force in November 2014, aiming at transposing the EU Directives from 2004. The Stabilisation and Association Agreement with the EU establishes access to public procurement markets in the EU for companies from Bosnia and Herzegovina and will gradually result in improved market access for EU companies in Bosnia and Herzegovina.

The legislation allows tenders to be cut into lots and this happens in practice. There is a law regulating late payments to contractors. Contracting authorities can allow companies to bid jointly and SMEs do participate in joint bids. Information on public procurement opportunities is openly available, centralised at national level and free of charge.

Nevertheless some challenges remain, as the necessary secondary legislation to the Law on Public Procurement still needs to be adopted and alignment with the EU Public Procurement Directives of 2014 has not yet started. The existing domestic preference requirements should be reduced in line with the provisions of the SAA. Overall, administrative burdens for tendering businesses should be reduced and e-procurement further developed.

Innovation policy

Gross expenditure on research and development (GERD) is low in Bosnia and Herzegovina, just 0.33% of GDP in 2012, and levels have been stagnant since 2009. In addition, it only has about 402 R&D personnel per million inhabitants, which is less than one-tenth of the average figure (5 147) in the 28 countries of the EU (EU-28). However, mainly due to the infrastructure in place, Bosnia and Herzegovina ranked 63 out of 142 countries in the Innovation dimension of the World Economic Forum in its Global Competitiveness Report 2012 (World Economic Forum, 2014). Moreover, it ranked 37th for industry-academia collaboration in the same year.

Innovation is recognised as an important growth component by the institutions of Bosnia and Herzegovina. However, the country's performance in the development of innovation policies is poor for the region. Currently, legal and institutional frameworks stimulating innovation are incorporated in the FBIH in the Strategy for the Development of Science in FBIH 2010-2015 and its action plan. The latter emphasises the creation of favourable conditions for private-sector investment in research and innovation through the removal of administrative barriers, tax reliefs and subsidies. There have also been attempts to promote innovation through science policies at the state and entity level in recent years. The Strategy on Scientific and Technological Development of the Republika Srpska and its action plan (2012-16) stressed the need to align strategic and legal regulations with the European standards in science and innovation. As of March 2015, the FBIH is in the process of adopting its new science strategy for the period 2012-22. The draft strategy stresses the importance of the SME sector as an accelerator of innovation and technological progress. However, it does not present any concrete proposals for support measures for this objective.

There is no single inter-governmental body at the state level responsible for co-ordination policies on innovation. The Science Council of Bosnia and Herzegovina was created in 2010 to co-ordinate science policies and monitor the implementation of the 2010-2015 Strategy for Science Development. The Ministry of Civil Affairs co-ordinates policies concerning scientific research. Innovation in the RS is managed by the Ministry of Science and Technology whereas in the FBIH there are two ministries involved in innovation policy making, the Ministry of Development, Entrepreneurship and Craft, and the Federal Ministry of Education and Science. There is no separation between policy development and implementation. The FBIH has been active in co-operating at regional level and co-signed the Western Balkan Regional R&D Strategy for Innovation adopted in October 2013.

Government institutional support services for innovative SMEs are presented in the Federation's Strategy for the Development of Science (2010-15), which suggests the creation of "regional centres of excellence" and technology parks across the FBIH. This strategy also emphasises the creation of science and technology parks, technology transfer offices and innovation centres at entity level in both the FBIH and the RS. However, there has been limited progress in the implementation of these proposals. Financial support and grant schemes aimed at developing innovation support organisations have been limited and heavily reliant on donors. The FBIH currently benefits from the presence of the INTERA Technology Park, the Business Innovation and Technology Park Tuzla, the Technology Park in Zeneca, and the Innovation Centre Banja Luka. A technology business park in Banja Luka is in the process of being established. Finally, the INOVO project (2012-14) emphasised the need for increased institutional capacity development of the innovation centres in Banja Luka, Mostar and Zenica, and the research sector in Bosnia and Herzegovina. Following project suggestions from INOVO, SMEs from one entity will be able to use the institutional infrastructure of the other entity only if they have a branch office registered in the entity providing support.

No financial support services for innovative SMEs are specifically mentioned in the national strategies. In the RS, financial support for innovative SMEs is provided indirectly, as stipulated in the Strategy on Scientific and Technological Development 2012-2016. The fiscal policy instruments in Bosnia and Herzegovina still do not recognise or support R&D through tax incentives. The entity-level Laws on Corporate Tax of the RS and FBIH foresee incentives only for those companies that reinvest in production. At the state level, the Ministry of Civil Affairs has been supporting innovators since 2007 under the Support for Innovation and Technical Culture in BIH programme. Funds are allocated through public competition and in 2014 it allocated a total of EUR 37 000. The RS also allocates government budget funds for technological development, which includes innovators, meetings and projects for the development of new technologies and the information society, with a total budget of EUR 22 000 in 2014. It has established a grant scheme for technology transfer and the first calls for proposals are expected by the end of 2015. Moreover, the Republika Srpska organises an annual business plan competition named *Inost Mladih* for technological innovation. In the FBIH, the Federal Ministry of Education and Science, and the Ministry of Development, Entrepreneurship and Craft launched public calls to promote and support innovation and innovators with a total budgets for 2014 of EUR 37 000 and EUR 20 000 respectively. A pilot trans-national innovation voucher scheme, the WIDER project, which focuses on SMEs in the energy sector, is being launched with support from the EU Instrument for Pre-accession Assistance (IPA). Since 2014, seven projects from Bosnia and Herzegovina have benefited from it.

Since the 2012 SBA Assessment, the government of Bosnia and Herzegovina has failed to develop and adopt a state-level strategy for innovation. Innovation is only partially covered by a series of documents and strategies at entity level. Innovation support infrastructure and services have improved across the country. The financial support services, however, are limited. A number of EU-funded initiatives (H2020, COST and EURECA) may support local actors involved in spurring innovation and link them with others involved in this process.

Green economy

In Bosnia and Herzegovina a number of policies and laws exist at the entity levels which regulate environmental polices (such as environmental standards, sustainable development targets, emission levels, etc.). However, at either the entity level or the state level, these environmental policies often do not explicitly focus on SMEs. Enterprises can access information on how to meet environmental standards at both the state and entity level, through web-based documents. At the entity levels, the information is in the Environmental Strategy of FBIH 2008-2018 and the Sectorial Industry Development Strategy of the Republic of Srpska 2009-2013 and Energy Strategy of Republika Srpksa 2030. In the FBIH the focus lies on enterprises which are working towards waste management, sustainable forest management, energy efficiency and environmentally sustainable transport. The FBIH strategy does highlight the need for instructions for entrepreneurs on how to comply and meet environmental standards. The Republika Srpska strategy sets out the objectives of establishing renewable energy sources, increasing energy efficiency and eco-innovation. The Energy Strategy of Republika Srpksa 2030 calls for SMEs to use more renewable energy sources, and the adoption of new technologies. There is currently ambiguity over the existence of financial and regulatory incentives to promote environmental investments among SMEs, although incentives for general environmental incentives do exist in the FBIH and RS, primarily for waste management, energy efficiency, and renewable energy.

Supporting SME internationalisation (Dimensions 10 and 7)

Trade performance and regulatory barriers to trade

In 2013 the total trade in goods and services for Bosnia and Herzegovina amounted to USD 18.2 billion, an 11% increase, compared to the same period in 2010. The trade deficit stands at 19% of GDP and has increased slightly since 2010 (ITC, 2014). The *Doing Business* indicators for export and import show that in Bosnia and Herzegovina the costs for both exports and imports have increased from 2009 to 2015 (World Bank, 2014). Although the time taken for imports and exports was reduced significantly, the number of documents needed, which is much higher than the OECD average, has stayed at the same level since 2009 (Table 12.5).

Table 12.5. **Bosnia and Herzegovina: Trading across borders (2015)**

	Bosnia and Herzegovina[1]	**OECD average**
Documents to export (number)	8	4
Time to export (days)	16	10.5
Cost to export (USD per container)	1 260	1 080
Documents to import (number)	8	4
Time to import (days)	13	9.6
Cost to import (USD per container)	1 200	1 100

Note: (1) Port: Ploče, Croatia; City: Sarajevo.

Source: World Bank (2014), *World Bank Doing Business Report 2015.*

Export promotion and global value chains

Bosnia and Herzegovina has export promotion programmes targeting SMEs at both the state and entity level. Though an export growth strategy for Bosnia and Herzegovina for the period 2012-15 was drafted in 2011, it has never been adopted.

The Foreign Trade Chamber of Bosnia and Herzegovina was designated in 2006 as the acting Export Promotion Agency (EPA). The EPA is the only body at state level responsible for export promotion activities. It further supports the development of export promotion policies with the Ministry of Foreign Trade and Economic Relations and is responsible for the improvement of potential export sectors in co-operation with other existing agencies (i.e. the development agencies, the Foreign Investment Promotion Agency and the regional chambers of commerce) and entity-level ministries. In 2014, the EPA supported fair promotion at eight different international fairs events, some of which were donor supported (for example by the USAID/Sida FIRMA Project). The Export Promotion Agency is not fully operational as it lacks the budget and staff needed to create innovative initiatives and support export-oriented SMEs.

The Export Council, a public-private partnership set up in 2006, is in charge of supervising, reviewing and evaluating information supplied by the EPA. However, the EPA does not publish an annual report on its activities and there has not yet been any specific independent review of the impact of any export promotion measures it has introduced.

Financial support from state and entity budgets for export promotion activities remains insufficient. There is also a lack of horizontal and vertical co-ordination between the state and entity institutions, as well as a limited range of services provided by export promotion institutions, due to limited staff and financial resources.

Export promotion programmes at the state level provide a narrow range of activities for SMEs: country representation at major trade fairs, export promotion and marketing, and foreign market research. However, at entity level a wider range of export promotion activities is available, including trade policy information and commercial intelligence, product development, and training. In the RS, the Department for Foreign Investments, Export Promotion and Development of Projects (within the Ministry of Economy) is responsible for the implementation of export promotion programmes and provision of services to SMEs.

Some forms of financial support for export promotion activities are in place at the entity level. In the FBIH, the Federal Ministry of Development, Entrepreneurship and Crafts supported a grant scheme for export-oriented companies for the first time in 2014. It approved 42 requests out of 77 companies that applied. The grant amount varied from EUR 7 500 for micro enterprises (5-9 employees), to EUR 10 000 for small companies (10-49 employees) and was dedicated mostly to the purchase of equipment. There are no recent data in relation to funding schemes in the Republika Srpska but in 2012 support was approved for 198 exporting companies.

There are no government programmes in place to support SME integration into global value chains (GVCs) and no related activities are currently implemented at the state level. The RS stated that it plans some activities that will be monitored by the Ministry of Industry, Energy and Mining but provide no information on what type of activities these were.

Standards and technical regulation

Bosnia and Herzegovina does not have a country-wide strategy for quality infrastructure, and co-ordination between the relevant institutions at different levels of government remains weak in this area. In the area of standardisation the Institute for Standardisation of Bosnia and Herzegovina adopted 85% of the European standards required for membership of the European Committee for Standardization (CEN) and the European Committee for Electrotechnical Standardization (CENELEC). However, conflicting ex-Yugoslav mandatory standards have not yet been withdrawn. On conformity assessment, the Republika Srpska develops and implements its own legislation, while the rest of the country implements the Law on Technical Requirements for Products and Conformity Assessment of Bosnia and Herzegovina. The Institute for Accreditation of Bosnia and Herzegovina has now accredited 77 conformity assessment bodies. The Market Surveillance Agency and the inspection bodies have initiated, implemented and co-ordinated proactive and reactive market surveillance activities. However, the market surveillance system is still largely based on mandatory standards and pre-market checks. Although "New and Global Approach" product legislation is regulated at state level, Republika Srpska is adopting its own legislation separately from the state, Federation and Brčko District. The division of responsibilities for aligning with the "Old Approach" *acquis* has yet to be clarified.

The way forward

The 2016 SBA assessment shows that Bosnia and Herzegovina continues to lag behind in aligning its policy with the SBA principles. Once-established strategies to strengthen SMEs have either expired or have become inactive. The administrative burden on SMEs and access to finance remain major constraints on doing business. Company registration procedures remain different in both entities and create an artificial economic divide between them. However, there has been good progress in the area of entrepreneurial learning and the basic building blocks of a lifelong entrepreneurial learning system have been established. Business support services for entrepreneurs and SMEs and some targeted support are in place, but remain limited. The lack of policy co-ordination between the state and the entities persists as a major constraint on aligning SME policies and programmes.

Strengthening the institutional, regulatory and operational environment

The biggest challenge for Bosnia and Herzegovina remains the introduction of a nationwide policy framework and the co-ordination of existing and future initiatives taking place at the state level, and in the Republika Srpska, the Federation of Bosnia and Herzegovina, and Brčko District. Belgium, with its federal government and three regional authorities, could serve as example of how to share responsibilities for enterprise policy. While the federal government co-ordinates SME development for policies related to market surveillance, competition, regulation, statistics and international competitiveness, most other competences are transferred to the administrations of the Brussels Capital Region, Flanders and Wallonia.

The lack of an SME Development Strategy in Bosnia and Herzegovina creates big obstacles to the development of effective policies for SMEs. Increased policy co-ordination between the state and the entities will be crucial to reducing artificial boundaries within the country and creating a single economic space. The harmonisation of company registration procedures and tax systems between the two entities would constitute a vital component of that goal. Bosnia and Herzegovina should further introduce formal frameworks and structures for legislative reviews, RIAs and public-private consultations.

The respective entities' bankruptcy laws are fairly well developed with clearly defined procedures. However the effectiveness of the implementation of these laws could be improved as the time and cost associated with bankruptcy procedures have remained unchanged since the 2012 assessment. Additionally, the government should work to establish policies to promote second chances for entrepreneurs through information campaigns or training programmes.

Facilitating SME access to finance

Increased inter-entity policy harmonisation should be strengthened in order to tackle regulatory discrepancies, which not only hinder SME activities, but also bank lending. A key governmental SME support mechanism, credit guarantee schemes, exists at the entity level but without private-sector involvement and there is no systematic review mechanism in place. Bosnia and Herzegovina should consider introducing a systematic monitoring and evaluation process for the existing credit guarantee schemes, which also involves the private sector. In order to broaden non-bank sources of finance, the planned factoring legislation should be passed by the government. Improvements in the legal framework for leasing could increase its attractiveness as a financing option for SMEs. Financial literacy programmes have not yet been introduced. A comprehensive financial strategy on the basis of an assessment of existing financial literacy levels should be adopted to promote financial literacy.

Developing Entrepreneurial Learning, women's entrepreneurship and SME skills

The state-wide entrepreneurial learning partnership arrangement will need financial and logistical support from the Ministry of Civil Affairs to ensure the partnership remains committed and contributes to further developments. This includes monitoring and supporting expertise for the implementation of the lifelong entrepreneurial learning strategy and discussions on a 2020 skills strategy. It will also be important to prioritise support for the pedagogic institutes to see through the entrepreneurship key competence reforms in the curriculum and the resulting teacher developments.

A state-wide dialogue and policy awareness campaign could be considered to bring forward women's entrepreneurship. This could be helped by an advocacy body such as a women entrepreneurs' ambassador network.

All training for SMEs, including e-training, should be directly based on a training needs analysis undertaken prior to any training design or delivery. Policy development should be based on training needs intelligence. The training efforts for start-ups, SME growth and internationalisation will require systematic monitoring and evaluation.

Enhancing SME competitiveness

Bosnia and Herzegovina achieved some progress on public procurement with the new Public Procurement Law being adopted and entered into force in November 2014, and the Stabilisation and Association Agreement (SAA) with the EU having finally been concluded. The necessary secondary legislation to the Law on Public Procurement still needs to be adopted, and alignment with the EU Public Procurement Directives of 2014 has not yet started. The existing domestic preferences should be reduced in line with the provisions of the Stabilisation and Association Agreement.

The provision of SME support services in Bosnia and Herzegovina is largely unchanged. It continues to rely considerably on donor funding and many initiatives remain regional. Uptake is limited and monitoring and evaluation of these services is still in its infancy. The national strategy includes government initiatives aimed at stimulating private business support services, but significant challenges remain in their co-ordination and implementation.

Since the 2012 SBA Assessment, the government of Bosnia and Herzegovina has shown no progress in developing a state-level strategy for innovation. To move forward, it needs to adopt such a national strategy. It would also be beneficial to establish a co-ordination body to ensure that the measures implemented at national, entity, canton and local level are complementary and effective. Currently, Bosnia and Herzegovina's scores for the governance of innovation policies are the lowest in the region. In order to improve this situation, it should provide further incentives for the private sector to innovate and collaborate with researchers. This could be done through dedicated financial instruments such as innovation vouchers or grant schemes for joint business-academia projects.

There are no state-level environmental policies for SMEs and environmental policies and strategies at the entity level largely do not explicitly target SMEs. Efforts to do so would be highly beneficial. Furthermore, at both the state and entity level, it would be beneficial to start developing financial and regulatory incentives to help SMEs green their businesses.

Supporting SME internationalisation

Although there are export promotion programmes at both state and entity level, the lack of co-ordination between them continues to be a major constraint on SME internationalisation. In order to move forward, functioning co-operation between the institutions should be established and sufficient government budget for the programmes secured, rather than continuing to rely largely on donor contributions. At the state level, the Foreign Trade Chamber lacks the budget and staff to act as an export promotion agency and would need more resources to become fully operational and support SMEs. It needs to publish annual reports on its activities, while independent evaluations might help to assess and optimise the impact of these activities. Furthermore, the range of activities offered to SMEs should be extended, particularly at state level. Another priority should be the adoption of an export strategy. An export growth strategy has been drafted, but it has never been adopted. Export finance tools are in place in the FBIH, but these should be implemented at state level as well. The Enterprise Europe Network (EEN) in Bosnia and Herzegovina provides a key instrument to foster SME internationalisation by providing a platform for SMEs to seize business opportunities in the EU Single Market and beyond.

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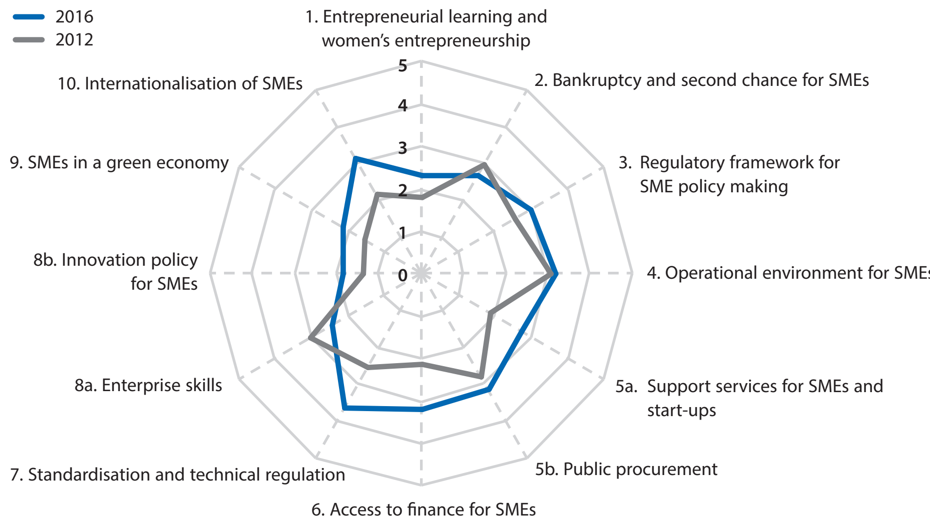
Chapter 13

Kosovo: Small Business Act profile

Kosovo has made significant progress since the 2012 assessment, in particular in improving its institutional environment for SME development through launching its new Private Sector Development Strategy 2013-2017. It has improved the business environment through simplifying company registration procedures and by introducing one-stop shops across Kosovo. Access to finance has been improved through a strengthened legal and regulatory framework but lending remains constrained by a challenging economic environment with high levels of informality. The implementation of the entrepreneurship and skills agenda has mainly involved higher education.

Kosovo now needs to finally adopt its innovation strategy and help SMEs make better use of technology, research and innovation. Kosovo should further expand e-services and raise awareness of them among the business community. The market for non-banking finance should be deepened and broadened. Export finance tools should be developed to help export-oriented SMEs expand into foreign markets. Finally, mechanisms to stabilise lifelong learning partnerships among public, private and civil society should be put in place.

Figure 13.1. **SBA draft scores for Kosovo**



Key findings

Kosovo has made significant progress in its institutional environment for the development of small and medium-sized enterprises (SMEs) since the 2012 assessment, particularly with the establishment of the new Private Sector Development Strategy 2013-2017 and an operational agency providing a wide range of SME support services. Kosovo has also continued to improve the operational environment for businesses with the roll out of its one-stop shop to 26 municipalities and the expansion of e-services. Currently Kosovo does not have a bankruptcy law in place although one is being drafted, which will clearly outline formal procedures and include provisions for the promotion of second chances for entrepreneurs.

Progress has been made in facilitating access to finance for SMEs, in particular in further strengthening the legal and regulatory framework. However, improvements of creditors' rights and strengthened enforcement could support SME access to finance. More generally, lending remains constrained by a challenging economic environment with high levels of informality. Alternative sources of lending remain largely limited to microfinance and require further development. Efforts have been made to improve and assess financial literacy and these could be strengthened further in the future.

Progress in the implementation of the entrepreneurship and skills agenda has mainly been beneficial to higher education. The development of policy frameworks to place entrepreneurship at the heart of growth and jobs generation could benefit greatly from establishing genuine partnerships between the state and the business community. Plenty of good practices (mainly linked to projects led by international donors) are available and could inspire policy makers on the way forward. In line with the EU policies, entrepreneurship could be a key lever to tackling youth unemployment (which stands at 61% among 15-24 year-olds) and female unemployment (41.6% in 2014).

Regarding public procurement, the legislation gives the possibility to cut tenders into lots and this happens in practice, but there is no general obligation to cut tenders into lots above a certain threshold. Information on public procurement opportunities is openly available, centralised and free of charge. The public procurement market is open to economic operators from Central European Free-Trade Area (CEFTA) countries and participation from other countries is possible.

Kosovo has made considerable progress in adopting a more strategic approach to the provision of business support services as well as widening the range of services offered. The sustainability of these programmes is in question, however, due to their dependence on donor funding. Furthermore, Kosovo has yet to adopt a strategy for innovation. Innovation promotion and capacity building should be encouraged to improve the capacity of SMEs to use research and innovation.

The Private Sector Development Strategy and the Ministry of Environment and Spatial Planning promote environmental policies targeting SMEs. However, there are limited resources to provide financial and regulatory incentives to help promote the greening of SMEs.

Kosovo has undertaken positive steps towards enhancing the internationalisation of SMEs. The previous SME strategy for 2012-16 was linked with the export promotion programme and a new export promotion strategy is being developed at the moment. The Kosovar export promotion agency has successfully launched conferences and national SME promotion events. Moreover, it is engaged in market research and the promotion of domestic products in various projects and trade fairs. The efficiency of the agency could be further improved by securing sufficient staff and budget as well as by a careful evaluation of its support programmes. In addition, export finance tools and programmes to help SMEs integrate into global value chains should be introduced in order to support their internationalisation. Kosovo has adopted some European technical standards and signed a co-operation agreement with the Albanian Standards Body to adopt European standards. Kosovo's Standards Agency is not yet consolidated as an institution.

Overview

Economic snapshot

Kosovo is a small, consumption-driven economy dominated by the service sector but with a fairly large agricultural sector (12%) (World Bank, 2015c). Due to its limited international integration, Kosovo was not severely exposed to the global recession, preserving its overall GDP growth at rates above the regional average which have fluctuated at around 3% since 2010, with a peak of 4.4% in 2011 and a minimum of 2.7% in 2014 (Table 13.1).

Still, it remains the poorest economy in the region and is highly dependent on remittances from Kosovars living in Germany, Switzerland and Scandinavian countries (EBRD, 2014a). Despite its positive growth performance, structural weaknesses constrain its long-term development. Its weak international integration and limited foreign direct investment (FDI) are a result of the small size of economy, but also of a challenging business environment and poor infrastructure. Domestic investment is still hampered by difficulties accessing finance and government interference in the private sector.

Kosovo's export basket is one of the least diverse in the region and is dominated mainly by low added-value products such as base metals and mineral products, which make up 65% of total export value. Exports of goods and services are stagnating in Kosovo and stood at 19.6% of GDP in 2014 (World Bank 2015b).

Credit growth has been subdued in the post-crisis period and remains low, with low or negative bank net cash flows. Real interest rates are very high (close to 9%), and close to nominal ones following an almost null inflation rate in 2014 and risk of deflation for 2015 (0.4% and -0.5% respectively). At the same time, collateral requirements are the highest in the region, close to 300% of the loan amount. Thus, because domestic capital markets remain underdeveloped, private investments are severely limited while infrastructure projects depend mostly on foreign funding.

Table 13.1. **Kosovo: Main macroeconomic indicators (2010-15)**

Indicator	Unit of measurement	2010	2011	2012	2013	2014	2015
GDP growth[1]	% year-on-year	3.3	4.4	2.8	3.4	*2.7*	*3.2*
Inflation[1]	% average	3.5	7.3	2.5	1.8	*0.4*	*-0.5*
Government balance[1]	% of GDP	-2.2	-1.8	-2.6	-3.1	*-2.6*	*-2.6*
Current account balance[1]	% of GDP	-11.7	-13.7	-7.5	-6.4	*-8.0*	*-8.0*
Exports of goods and services[2]	% of GDP	19.8	19.6	18.3	17.3	19.6	n.a.
Imports of goods and services[2]	% of GDP	55.4	56.8	52.4	48.9	50.5	n.a.
Net FDI[3]	% of GDP	n.a.	7.9	4.2	4.5	2.3	4.2
External debt[3]	% of GDP	n.a.	29.7	30.0	30.2	32.2	n.a.
Gross reserves[3]	% of GDP	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Credit to private sector[3]	% of GDP	n.a.	36.4	35.9	34.9	n.a.	n.a.
Unemployment[4]	% of total active population	n.a.	n.a.	30.9	30.0	35.5	n.a.
Nominal GDP[1]	USD billion	5.8	6.7	6.5	7.1	*7.3*	*6.3*

Sources: (1) IMF (2015); (2) World Bank (2015b); (3) EBRD (2015); (4) Eurostat (2015). Italics indicate estimates in the original source.

Privatisation has proceeded slowly, although measures to improve the business environment have been put in place. The reduction of bureaucracy, as well as improvements in contract certification and enforcement have contributed to a better business environment. The provision of critical infrastructure, and especially the distribution of electricity to businesses and households, remains one of the key challenges to tackle. In addition, limited implementation of rule of law and the high level of corruption further constrain economic development and investment. The informal economy accounts for 39% of GDP, although regular attempts are made to combat the grey economy.

The fiscal framework deteriorated in 2014 due to slower growth and increased government spending. However, Kosovo still has one of the lowest levels of public debt in the region. Kosovo set a ceiling of 2% of GDP on the general government deficit and a cap of 40% of GDP on the public debt, in order to preserve macroeconomic stability.

Kosovo has one of the highest unemployment rates of the South East Europe (SEE), rising from 30% in 2013 to 35.3% in 2014. The youth unemployment rate reached 61% in 2015 (Eurostat, 2015). At the same time, Kosovo has the youngest population in Europe, with 38% of the population under the age of 19. Combined with Kosovo's weak training capacity and underdeveloped consultancy services, the high unemployment rate suggests that brain drain poses a major threat to its sustainable development, with a high number of Kosovars trying to emigrate for better economic prospects in 2015.

The International Monetary Fund (IMF) approved in 2015 a new 22 month stand-by arrangement with Kosovo worth EUR 185 million. The programme is supposed to consolidate improvements in the economy's competitiveness and productive capacity to enhance growth in the medium term. The programme's funds shall be used to refinance existing IMF loans and to increase deposits. With regard to relations with the European Union, in April 2015 the European Commission adopted the Stabilisation and Association Agreement (SAA) proposal for Kosovo, which is an important step towards EU approximation. The EU Council and the European Parliament have to endorse the agreement before it can enter into force in 2016.

SMEs in Kosovo

Kosovo's legislation distinguishes between micro, small and medium-sized enterprises. The definition is given the Law on Foreign Investment of 2013. The only criterion is employment size, which is in line with the EU definition (Table 13.2).

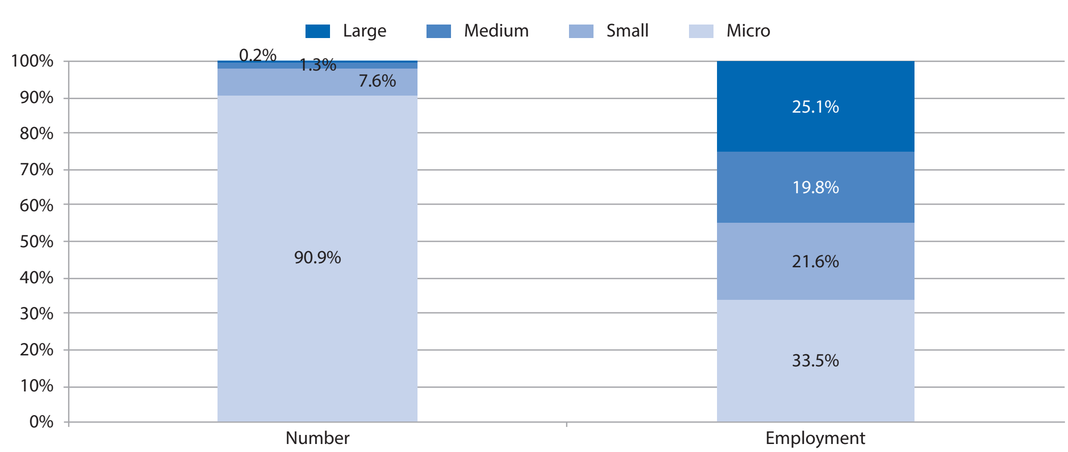
Table 13.2. **Definition of micro, small and medium-sized enterprises in Kosovo**

	EU definition	Law on Foreign Investment 2013
Micro	< 10 employees ≤ EUR 2 million turnover or balance sheet	< 10 employees
Small	< 50 employees ≤ EUR 10 million turnover or balance sheet	< 50 employees
Medium-sized	< 250 employees ≤ EUR 50 million turnover ≤ EUR 43 million balance sheet	< 250 employees

Source: Republic of Kosovo (2013), "Ligj per investimet e huaja" (Law on foreign investment), Law No. 04/L-220, Republic of Kosovo (available at www.kuvendikosoves.org/common/docs/ligjet/04-L-220%20sh.pdf), page 3 paragraph 1.21.

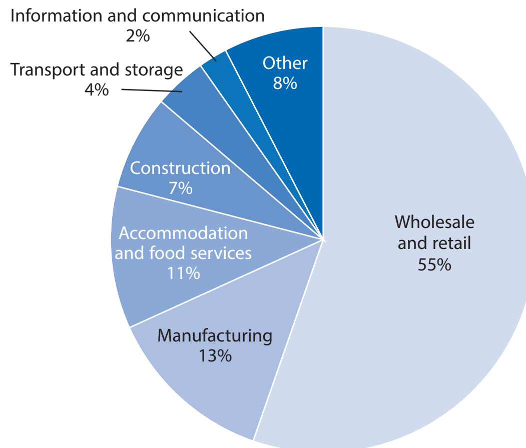
In 2013, SMEs represented 99.78% of all registered enterprises. In the period 2010-13, the number of SMEs increased by 27%, from 15 553 to 19 718. SMEs employed 105 456 people, making up 74.5% of total employment (Figure 13.2). Almost 50% of all SMEs operate in the wholesale and retail trade sector (Figure 13.3).

Figure 13.2. **Business demography indicators in Kosovo (2013)**



Source: SBA assessment questionnaire.

Figure 13.3. **Distribution of SMEs in Kosovo by sector (2012)**



Source: Kosovo Agency of Statistics.

SBA assessment results

Strengthening the institutional, regulatory and operational environment (Dimensions 3, 4 and 2)

Institutional framework

Kosovo hast taken important steps forward since 2012 in building an institutional framework for SME development. The previous SME Strategy 2012–2016 has been replaced by a broader Private Sector Development Strategy 2013-2017. The Ministry of Trade and Industry (MTI) remains in charge of designing policies for small enterprise development. The Kosovo Investment and Enterprise Support Agency (KIESA) is the central institution in charge of policy implementation and the provision of financial and institutional support services to small enterprises. As of March 2014, more than 110 businesses have benefited from counselling by KIESA and 40 SMEs received benefits from its grant schemes. Six business plans have been financed and activities started. Overall, the total public donor budget for SMEs support programmes amounts to EUR 6.78 million.

The Department for European Integration and Policy Co-ordination at the MTI is the main institution monitoring and evaluating the implementation of the strategy, although the strategy itself does not contain any information about monitoring and evaluation.

The Private Sector Development Strategy envisages some measures to tackle the informal economy, which is estimated at 39% of GDP (EBRD, 2014b) but they are mainly carried out by the tax administration, which itself shows continued underperformance in the execution of its tasks. The Ministry of Finance has also introduced the National Strategy of the Republic of Kosovo for Preventing and Competing the Informal Economy, Money Laundering, Terrorist Financing and Financial Crimes for the period of 2014-18, but so far, it has proved to have limited or no results.

Legislative simplification and regulatory impact analysis (RIA)

Kosovo has made some progress since 2012 towards introducing a strategic approach to legislative review. In December 2014, it adopted the Better Regulation Strategy for 2014-2020, which envisages not just the introduction of RIA, but also ex-post analysis of regulatory impacts on regulations, training courses on RIA and a reporting framework for regulatory reforms.

Currently, a review of 11 laws related to SME development is envisaged, however it does not yet apply a systematic regulatory guillotine. RIA is equally at an early stage of development: its application is in a preparatory phase but has not yet been introduced. Kosovo has no SME test.

Public-private consultations (PPCs)

Government regulation 09/2011 established a requirement to conduct public debates, whose provisions are further specified in the Guidelines for the Public-Private Consultation Process. Compared to 2012, Kosovo has made noticeable progress in the institutional framework for consultations: it installed the National Council for Economic Development, which gathers representatives from the private sector and public institutions with the purpose of functioning as a platform for exchange. It is still in an early stage of development and participation only takes place by invitation.

Despite these efforts there is no systematic information about PPCs and no centralised website on all ongoing and past consultations and their outcomes. They are still conducted on an ad hoc basis and there is no detailed information on the number of meetings conducted and participants invited.

Interaction with public services (e-government)

The Strategy for Electronic Governance 2009–2015 adopted by the Ministry of Public Services continues to be the main strategic reference document on e-governance. Since 2012, Kosovo has increased its administrative and operational information technology (IT) capacity and made some progress on expanding e-services. Online tax filing and payment is now available through an online electronic system. The e-Trusti platform of the Kosovo Pension Saving Trust offers contributors access to their pension accounts although contributions cannot yet be filed online. The Kosovo Cadastral Agency has developed an online platform called Geoportal through which users have access to geographical data. However, further e-services, such as the online filing of social security returns or e-procurement are not yet operational.

Online reporting for enterprise statistics has not yet been introduced. A legal basis for the use of electronic signatures was established in 2012 with the Law on Information Society Services but it is not yet functional, impeding the expansion of further e-government services. The interconnection of public databases is also at an early stage: currently only the Civil Registry and KIESA are connected. Limited awareness and use of electronic services remains a challenge in Kosovo. To date SMEs have not been particularly well informed about existing services and no data on usage and demand for e-services have been provided.

Company registration

Kosovo has improved its company registration procedures since 2012, ranking 47th in the World Bank *Doing Business* starting a business indicator in 2015, up from 100th place in 2014 (World Bank, 2015a). In 2014, the procedure to obtain the three company identification numbers, business registration number, fiscal number, and value-added tax (VAT) number, was merged into a single procedure. One-stop shops have been established under the Kosovo Registration Business Agency in 26 municipalities and are now routinely issuing business registrations and fiscal numbers within 24 hours of application in a single procedure. Further, compulsory licences for standard business activities were removed in 2012.

However, SMEs in Kosovo still need to provide these three company identification numbers when dealing with the public administration. A feasibility study for the unification of all business numbers has been started with the help of the United States Agency for International Development (USAID). The lack of an operational electronic signature means online company registration is not yet operational and the silence-is-consent principle has not yet been introduced to business registration.

Business licensing

As mentioned above, standard business licences are no longer required in Kosovo. Specific licences and permits need to be obtained for various activities, such as waste management, import and export of medical products, medical institutions and the import of planting materials. The Office of the Prime Minister of Kosovo functions as a central authority overseeing the granting of licences, which is done in the different ministries. Written guidance on obtaining a license exists for each ministry. No assessment of streamlining potentials for licences and permits has yet taken place and very few initiatives were undertaken on licence procedures. According to World Bank estimates (World Bank, 2013), 4.6% of firms identifying business licensing and permits as a major constraint, which is higher than the Western Balkans and Turkey (WBT) average.

Bankruptcy procedures and second chance

A new insolvency law has been drafted and is expected to be approved in December 2015. Although an existing law was in place during the time of the United Nations administration, this law was not considered to be fully implemented and systematically applied. The new proposed law was drafted in accordance to international standards, with an outline for procedures for formal discharge.

Despite the lack of an insolvency law, historical data in the World Bank *Doing Business* report indicate that it takes two years to undertake bankruptcy procedures, at a cost of 15% of the value of the estate, and that average recovery rates stand at 37.7% (World Bank, 2015a).

Official authorities have yet to conduct a campaign or offer training programmes to promote second chances among entrepreneurs, but it has been indicated that this will be included in the new legislation.

Facilitating SME access to finance (Dimension 6)

Legal and regulatory framework

SMEs in Kosovo benefit from a reasonably well-developed regulatory framework, which supports lending to the sector. Basel core principles have been largely implemented and the central bank is leading further work in this area. The credit registry operated by the central bank now has coverage of 95.2% of the adult population (World Bank, 2015a). A real estate cadastre and a register for pledges of movable goods as collateral are fully operational and available online. Usability could be improved by providing broader online access which is part of the government's strategy to 2017, which envisages making comprehensive data on plots available via the online platform Geoportal within the limits of what is allowed under data protection laws.

A legal framework for creditors' rights is in place, but protection for secured creditors could be improved. In particular, ensuring more consistent enforcement and a swifter legal process in cases of insolvency could help increase the willingness of banks to lend to small companies. Plans by the Ministry of Justice to establish a specialised commercial court system could help in this area. The new insolvency procedures do not envisage any limitations on automatic stays in case of reorganisation, which inhibits the seizing of collateral in such cases. On the other hand, secured creditors are not paid first when a bankrupt firm is liquidated.

Sources of external finance for SMEs (bank financing, non-bank financing and venture capital)

Financial institutions in Kosovo are well capitalised and characterised by relatively high levels of liquidity. The rate of non-performing loans is among the lowest in the region, indicating a relatively high quality of loan portfolios in the banking sector. However, lending to SMEs remains constrained, not least due to high levels of informality, low-quality loan applications by small companies and difficult and lengthy enforcement procedures in case of default. To incentivise lending, Kosovo launched a credit guarantee scheme for agricultural producers and is currently developing a similar scheme to be made available to small businesses from non-agricultural sectors in mid-2016.

Alternative sources of lending exist, but remain largely limited to microfinance institutions. Overall, 14 microfinance institutions operate in Kosovo, some of which cover rural areas. Despite their widespread presence, their capitalisation is relatively low and many of them continue to rely mainly on international donor support. In addition, the current legal framework governing microfinance institutions inhibits the effective transformation of NGO microfinance institutions into corporate entities. Other sources of non-bank finance remain largely underdeveloped and lack diversification. Leasing operations are gradually being developed and a legal framework for leasing exists, but in the absence of data on penetration, it is difficult to ascertain uptake among SMEs. Factoring services are provided, despite the absence of a specific legal framework. To support the future development of these services, it will be important to improve the contract law framework for factoring transactions. Kosovo's venture capital ecosystem is in its infancy, but since the last SBA assessment Kosovo has amended the legal framework to allow for venture capital activities. There are no government-supported venture capital schemes but there is an active private business angel network, as well as individual business angels, often from the Kosovar diaspora. These can offer an alternative to entrepreneurs seeking funding in Kosovo.

Financial literacy

Since the last SBA assessment, Kosovo has made efforts to improve and assess financial literacy. Training has been offered to improve the population's understanding of personal and business finance matters although they are not part of the secondary school curricula. Efforts could be further strengthened, for example by devising a national strategy to promote financial literacy. This would help formalise an action plan designed to achieve long-term improvements in financial literacy.

Promoting skills and entrepreneurship development (Dimensions 1 and 8a)

Lifelong entrepreneurial learning

No major progress has been made in this area since the last assessment in 2012. The national dialogue between public and private stakeholders has not yet produced a regulatory framework to make entrepreneurial learning a key competence to shape future mindsets, although some drafts have been circulated. The National Strategy for SME Development 2012-2016 and the Higher Education Strategy do include the promotion of entrepreneurial learning but the link to primary and secondary education still needs to be put in place. The Ministry of Education is the key player that could ensure that such a link is made.

The European Union's Riga Conclusions' Deliverable 2[1] set as a primary goal the development of quality assurance mechanisms in vocational education and training based on learning outcomes. However, in Kosovo, monitoring and evaluation remains underdeveloped. This is in line with the rest of the region and to some extent the European Union member states.

Nevertheless, promotion of an entrepreneurial paradigm has started across the school environment at ISCED levels 2 and 3 (lower and upper secondary school) with targeted initiatives to ensure sound entrepreneurial learning programmes for students, teachers, school management and teacher training authorities. These initiatives are mainly part of programmes co-ordinated by the South East European Centre for Entrepreneurial Learning (SEECEL) and they will provide a valuable basis for scaling up the implementation of entrepreneurial learning in the economy in the coming years. An example of good practice is the Kosovo Curriculum Framework for Pre-University Education which addresses entrepreneurship as part of its "Work, life and environment" key competence.

In the area of non-formal entrepreneurial learning, Kosovo has good examples of co-operation with all parts of the society, such as the Small Business Days campaign. This is a campaign aimed at increasing citizens' awareness on the role of SMEs in sustainable development and at encouraging public-private dialogue in order to better tailor policies to the needs of SMEs. It would be good if this good practice could be transferred at national level.

Entrepreneurial learning in higher education has improved at all levels. In particular, co-operation with the world of business is well in evidence as part of the implementation of higher education institutions's own development strategy and active involvement in projects funded by donors such as the "Triple Helix" programme. This programme foresees co-operation activities between universities, business and government. Entrepreneurial learning programmes mainly aimed at business faculties should be spread to non-business faculties to help the whole of the higher education system move forward.

Women's entrepreneurship

Support for the development of women entrepreneurs benefits from a structured policy framework including the Gender Equality law, the Kosovo Programme on Gender Equality (2007-2013) and the National Platform for Women Entrepreneurs in Kosovo, established in 2013. A number of dedicated institutions advocate for women entrepreneurs, although their efficacy is somewhat hampered by a lack of co-ordination. Specific training programmes for women entrepreneurs are available, especially through non-governmental organisation (NGO) projects. However, access to these programmes remains critical and a matter for further investigation. A specific training needs analysis has been available since 2012, but unfortunately it is not regularly updated. More information on training attendance and the implementation of monitoring and evaluation of women entrepreneurs' initiatives would help Kosovo progress, bearing in mind the generally recognised high potential of women-run enterprises.

SME skills

The state addresses skills development for SMEs through the Ministry of Trade and Industry and a variety of donors, including the European Commission. The Private Sector Development Strategy 2013-2017 provides a national framework for SME skills intelligence. Solid training needs analyses have been carried out in 2012 and 2015 with the support of international donors.

The public and the private sector act in a complementary fashion throughout the training cycle. Whereas this has its advantages, a true partnership would mean the multiple initiatives carried out in the last few years were more integrated and hence more effective and long lasting. The voucher counselling scheme funded by the state and run by the business community through the Business Consultancy Council (BCC) works well in terms of the training offered. Unfortunately, however, there is no evaluation of the impact of training. Each subsystem (state, private sector and civil society) does its own quality assurance in parallel and it is often only linked to specific projects.

The availability of training for business start-ups has improved since 2012 and includes access to finance. This is a good step towards increasing the number of new enterprises. The supply of training for growth remains at the same level as in the previous assessment. More attention to this kind of training could enormously help micro firms and SMEs with the potential to grow to be more competitive in global markets. Reinforcing the internationalisation of SMEs is a shared priority of the state, in particular KIESA, and business organisations, and as a consequence several training courses are available. Training for SMEs remains quite traditional (in-house) with no use of e-training.

Enhancing SME competitiveness (Dimensions 5a, 5b, 8b and 9)

Business information and services

The Private Sector Development Strategy 2013-2017, which addresses both SME development and investment promotion, includes provision of investment readiness services for SMEs. The strategy is based on the findings from a market analysis on the supply and demand of services and is accompanied by an action plan, measurable targets, a time frame and expected impact. Investment readiness services include: support for business plan development; start-up support through financing, training and consultancy services; and networking, but Kosovo relies on considerable donor support for their provision. KIESA offers a number of business support services and provides information on starting and operating a business through its website. The KIESA website needs proper upgrade and proper translation of the Serbian language platform which remains misleading due to inadequate translation. In addition, KIESA provides co-financing opportunities and business plan competitions. The first steps towards establishing a monitoring system have been established by collecting feedback from SMEs on support services through surveys, and information about beneficiaries is made public through the KIESA website.

Public procurement

The legislation on public procurement allows tenders to be cut into lots and this does happen in practice, but there is no general obligation to cut tenders into lots above a certain threshold. There are provisions in place to ensure that qualification levels and financial requirements are proportionate for SMEs. Contracting authorities can allow companies to bid jointly and to fulfil the financial, technical or professional requirements jointly. Information on public procurement opportunities is openly available, centralised and free of charge. The legislation establishes an independent review body for public procurement, but not all of the members of its board have been appointed. Information collected from companies is stored in a database for future tender procedures.

The Law on Public Procurement has been amended in early 2016, eliminating mandatory preferential treatment for domestic bidders and the public procurement market is now open to foreign economic operators. The Public Procurement Regulatory Commission has issued administrative instructions, providing guidance on the application and interpretation of specific provisions of the Public Procurement Law and Kosovo adopted the National Public Procurement Training Strategy 2014-2018.

Some challenges remain, as the tendering process is not yet carried out fully electronically and the legislation still needs be aligned with the 2014 EU Public Procurement Directives. The capacity of the government bodies responsible for public procurement needs to be strengthened and corruption addressed more effectively.

Innovation policy

The Law on Scientific Research Facility in Kosovo stipulates that domestic gross expenditure on research and development (GERD) should stand at 0.7% of GDP. However, OECD research has estimated the figure to be at the level of 0.1% (OECD, 2013), the lowest in the South East Europe region. Moreover, the lack of reliable data on research and development (R&D) and innovation indicators in Kosovo represents a challenge to analysing the current situation.

At the moment, Kosovo has no innovation strategy. In 2012, the Ministry of Education, Science and Technology (MEST) worked closely with the OECD to develop a draft national strategy for innovation but this is yet to be adopted. The Kosovo National Research Programme is currently the main document facilitating policy making in the area of innovation. The MEST and the MTI are the main institutions responsible for developing the innovation policy framework although the Ministry of Economic Development plays an increasing role. Currently, no inter-governmental body exists to co-ordinate innovation policy and the responsibilities of institutions in innovation policy are yet to be clearly defined. There is no operational separation between SME innovation policy design and implementation. Within the MEST, the Department for Science and Technology is responsible for the creation of support infrastructure, as well as institutional and financial support. Within the MTI, the Industry Department works on issues relevant to innovation, while the Centre for Innovation and Technology Transfer (under the Department for Science and Technology) provides advice to the MEST. The total public budget dedicated to innovation remains limited.

Kosovo has a number of institutional support services programmes for innovation but most of them rely heavily on donor funding. These programmes are focused on the creation and maintenance of supporting infrastructure, such as incubators, special economic zones and clusters, and their activities are internally monitored. There are no science and technology parks in Kosovo but there are business parks in Drenas and Mitrovica, mostly in the form of economic zones. The MTI has plans to create technology parks in Shtime and Skenderaj, as well as three incubators in Drenas, Gjakova and Gracanica, with the latter focusing on social enterprises. The Innovation Centre Kosovo also acts as an incubator. OECD has supported KIESA in organisation of the first Triple Helix Competition in 2015-16 to identify and support the partnerships created between the industry, academia and public sector.

Although Kosovo offers several financial support services for SMEs, there is room for improvement in their support for SME development and growth. Only a few of them are specifically focused on innovation. In 2014, the MEST implemented the first pilot innovation voucher scheme but the results were limited mainly due to limited capacity among firms to make use of research and innovation. Currently a number of awareness-raising activities is taking place. Organised projects include training courses and seminars organised by, among others, USAID and the International Business College in Mitrovica. Other activities include start-up weekends and the Triple Helix Competition mentioned above. The latter seeks to improve collaboration between academia, business and the public sector to promote innovation. KIESA is currently implementing a EUR 4 million SME grant scheme providing direct finance to SMEs. Currently, most of the 36 selected projects deal with innovation. KIESA also implements a voucher grant scheme for technical assistance, which covers up to 20% of the project cost of innovative companies. Other initiatives are implemented by international donors such as the European Bank for Reconstruction and Development (EBRD) as well as private actors but they primarily treat innovation in an ad hoc manner. There are no financial instruments available specifically to promote innovation within SMEs in Kosovo.

Since the 2012 SBA Assessment, Kosovo has made progress in supporting the institutional infrastructure for innovation. Since the last report, the Gjakova Innovation Centre became operational in 2014, an incubator in Gracanica was constructed, and a number of business plan competitions promoting innovation have been organised. There were also attempts by the government to promote financial support-services for innovative SMEs notably through the Innovation Voucher Scheme. However, uptake of this mechanism by SMEs was problematic and only three vouchers were used.

Green economy

Environmental policies are governed by the Kosovo Environmental Strategy, which is a general national strategy not explicitly focusing on SMEs. The Private Sector Development Strategy highlights the need to introduce international standards that promote energy efficiency in SMEs in line with the Intelligent Energy Europe Programme. Efforts are being made by the Ministry of Environment and Spatial Planning to promote and support recycling efforts among SMEs but generally information on environmental issues and tools remains limited. Financial incentives, such as tax incentives, favourable loans/grants, to encourage the greening of SMEs are not in place due to limited budget mobilisation as environmental policy is not considered a budget priority. The Ministry of Environment and Spatial Planning is making information available on how business can improve their environmental performance though environmental management systems (EMSs), but the extent of the uptake remain ambiguous. Kosovo has yet to introduce financial and regulatory incentives to promote environmental investments.

Supporting SME internationalisation (Dimensions 10 and 7)

Trade performance and regulatory barriers to trade

In 2013, SMEs were responsible for 34.2% of Kosovo's exports, which is 10% higher than in the year before. The average value of export per enterprise increased from EUR 16 654 in 2012 to EUR 22 713 in 2013. The World Bank's *Doing Business* indicators for export and import show that Kosovo made significant improvement in reducing costs from 2010 to 2015 (World Bank, 2014). However, the time taken and number of documents needed to import or export still remain very high compared to the OECD average (Table 13.3).

Table 13.3. **Kosovo: Trading across borders (2015)**

	Kosovo	OECD average
Documents to export (number)	8	4
Time to export (days)	15	10.5
Cost to export (USD per container)	1 695	1 080
Documents to import (number)	7	4
Time to import (days)	15	9.6
Cost to import (USD per container)	1 730	1 100

Source: World Bank (2014), *World Bank Doing Business Report 2015.*

Export promotion and global value chains

The Kosovo Investment and Enterprise Support Agency is the main executive agency responsible for export promotion. KIESA has a limited number of staff and funds and only partial operational autonomy as it needs the prior approval of the Minister of Trade and Industry for the realisation of its activities. The agency is currently developing a new strategy for promoting exports, which aims to increase the value of Kosovo's exported goods and services and to improve the legal framework for foreign investors.

Export promotion activities are financed both by public budgets and donors. Although KIESA operates with a limited number of staff, its department for export promotion has continuously organised export promotion conferences and national SME promotion events. It has further supported domestic producers to participate and promote their products in different international trade fairs and is conducting export market research. The export promotion department does not have any projects offering direct financial support for SMEs but supports SMEs indirectly by paying travel expenses for participation in various promotional projects and trade fairs.

KIESA regularly reports to the Minister of Trade and Industry and to the National Council for Economic Development, and all its promotional activities are reported in the annual report of the Ministry of Trade and Industry. Although some implementation monitoring is conducted by KIESA, no specific independent review of the impact of introduced export promotion measures is taking place.

Kosovo has no concrete public programmes in place to support SMEs' integration into global value chains (GVCs). Two indirect programmes for the integration of SMEs into GVCs are: 1) the Micro and SME Grant Scheme project supported by MTI and the EU and implemented by International Organization for Migration (IOM); and 2) the SME Development Strategy for Kosovo (for targeted groups). Furthermore, actions by the EU-funded Instrument for Pre-accession Assistance (IPA) project Enhancing Competitiveness and Export Promotion are expected to help integrate SMEs into the global value chains. This project is expected to start implementation in January 2016.

Standards and technical regulation

Kosovo has adopted some European standards and signed a co-operation agreement with the Albanian Standards Body to adopt European standards. Kosovo's Standards Agency is not yet consolidated as an institution. Kosovo has adopted the regulations and administrative instructions needed in order to put a conformity assessment system in place, and has authorised several conformity assessment bodies. Its General Accreditation Directorate has recently undergone European Cooperation for Accreditation peer evaluation, and is implementing the recommendations. Kosovo is aligned with the Directive on Non-Automatic Weighing Instruments. However, its Agency for Metrology lacks capacity. Some laboratories are not operational due to lack of equipment. On market surveillance, market inspectorates perform inspections and impose corrective measures such as fines and confiscations.

The way forward

Starting from a very low base in 2012, the 2016 SBA assessment shows that Kosovo has made considerable progress in several policy areas. Since 2012, Kosovo has improved its institutional environment for SME development and the operational environment for businesses. It has further improved in the areas of access to finance, internationalisation and environmental policies. However, most improvements have been at the policy design level: while it has put the relevant strategies and laws into place, in most areas, implementation remains at a rather early stage and largely dependent on donor contributions. Collection of SME statistics also remains poor and should be improved to get a better picture of the SME population in Kosovo.

Strengthening the institutional, regulatory and operational environment

In recent years, Kosovo has significantly improved its institutional, regulatory and operational environment. However, it needs to take further steps to enhance this area. Addressing the existing shortcomings in the regulatory framework will be crucial to reducing the compliance costs for SMEs. Creating formal frameworks and structures for legislative review, regulatory impact analysis and public-private consultation would constitute an important step forward in that regard. This includes providing a clear set of rules and guidelines on RIA, and streamlining licences and permits. SME participation in public-private roundtables should be ensured by creating a transparent central register for PPCs under the auspices of the National Council for Economic Development. Kosovo should also start to track the implementation of its Private Sector Development Strategy by establishing a monitoring system for its SME strategy that contains performance indicators and reporting mechanisms.

Regarding the operational environment for SMEs, Kosovo should continue its efforts to expand e-services and raise more awareness among the business community about the e-services on offer. An important milestone will be the operationalisation of electronic signatures, a prerequisite for online company registration. Company identification numbers should also be reduced to a single number to use when dealing with the public administration.

Naturally, Kosovo should continue its efforts to draft and implement an insolvency law as soon as possible, to ensure that there is a legal recourse for insolvent and economically unviable companies. It is encouraging for the sound development of the planned law that Kosovo is making efforts to introduce procedures in line with international standards, as well as including provisions to promote second chances among entrepreneurs.

Facilitating SME access to finance

Since the last SBA assessment in 2012, Kosovo has made some progress in facilitating access to finance for SMEs and has developed its legal and regulatory framework. Further strengthening the legal framework for non-bank financing would both deepen and widen financing opportunities for SMEs. In particular, the revision of the Banking Law to deal with microfinance institutions should allow existing NGO MFIs to efficiently transform into corporate entities while continuing to benefit from the equity capital donated to the NGO structures. Facilitating enforcement in cases of default would also encourage bank lending to SMEs. Kosovo has undertaken measures to assess and increase financial literacy among the business population over the last years. A national strategy aimed at achieving long-term improvements in the population's financial literacy will be crucial for further enhancement.

Developing Entrepreneurial Learning, women's entrepreneurship and SME skills

Kosovo has made several improvements in the area of entrepreneurial learning over the last few years, mostly within the higher education sector. System-wide improvement will require partnerships and leadership. In the medium term, mechanisms to stabilise the existing short-term project-based partnerships between public, private and civil society institutions should be put in place. A national working group should be set up under the lead of the MEST to bring entrepreneurship into the mainstream throughout lifelong learning. Good practice in entrepreneurial learning provision in education, higher education and training for SMEs should be used to inspire policy making. Policy makers and practitioners should set up permanent platforms for the exchange of good practices. Training needs analyses should become nationally owned rather than donor led. They should become systematic exercises to inform constant improvements and the tailoring of the training supplied in response to the evolving needs of the labour market. The business community could take the lead in this initiative. More innovative technology-based training modes such as e-learning should be much better exploited to reach bigger numbers, especially among the young and in rural areas. Support for women entrepreneurs should offer a broader range of training and mentoring, and improve conditions for women so that they can access them. Information on attendance, satisfaction rates and monitoring and evaluation reports etc. should be gathered. In fact, monitoring and evaluation, supported by sound evidence, should be reinforced in all areas to help improve the relevance and impact of Kosovo's entrepreneurship skills development agenda and better align it with recent EU decisions, such as the Riga Conclusions.

Enhancing SME competitiveness

Regarding public procurement for SMEs, the tendering process is not yet carried out fully electronically and the legislation still needs be aligned with the 2014 EU Public Procurement Directives. The Law on Public Procurement has been amended in early 2016 in Kosovo, eliminating the domestic preferences in line with the provisions of the draft Stabilisation and Association Agreement (SAA

Compared to the findings of the SME Policy Index 2012, Kosovo has made considerable progress by adopting a more strategic approach to the provision of business support services as well as widening the range of services offered but their sustainability is in question due to their dependency on donor funding. More efforts should also be made to develop systematic monitoring and evaluation mechanisms for the institutions providing them.

Limited progress has been made in promoting innovation for SMEs, however. Kosovo should adopt a strategy for innovation and a detailed action plan. Further efforts should be made to increase public awareness of the importance of innovation and its role in ensuring the absorptive capacity of SMEs. Although the infrastructure needed is being developed, its financial sustainability and advisory capacity should be improved. Finally, dedicated financial instruments should be developed to promote access by SMEs to finance, incentivise businesses to collaborate with research institutions and enable innovation and R&D activities within SMEs.

With regard to environmental policies, Kosovo has strategies and ministries working to move SMEs towards more environmentally sustainable activities. It is not clear if enough efforts are being made to provide SMEs with the information they need to meet environmental standards. Moreover, Kosovo could benefit from exploring financial sources (public budget or donor based) to fund financial and regulatory incentives to help SMEs towards greening activities.

Supporting SME internationalisation

Although the Kosovo Investment and Enterprise Support Agency (KIESA) is continuously organising SME promotion events, efforts to foster the development of more sophisticated promotion programmes could be intensified, including support for product development and upgrading quality standards. KIESA should be granted full operational autonomy and sufficient staff and funds. Kosovo would benefit from proper independent reviews to assess the effectiveness of its promotion measures. A good first step would be to gather feedback from enterprises participating in export promotion activities. Export finance tools should also be introduced to help SMEs tackle financial obstacles to doing business abroad. The Enterprise Europe Network (EEN) – once established in Kosovo – will provide a key instrument to foster SME internationalisation by providing a platform for SMEs to seize business opportunities in the EU Single Market and beyond.

Note

1. Deliverable 2: “Further develop quality assurance mechanisms in VET in line with the EQAVET recommendation and, as part of quality assurance systems, establish continuous information and feedback loops in Initial VET and Continuous VET systems based on learning outcomes.

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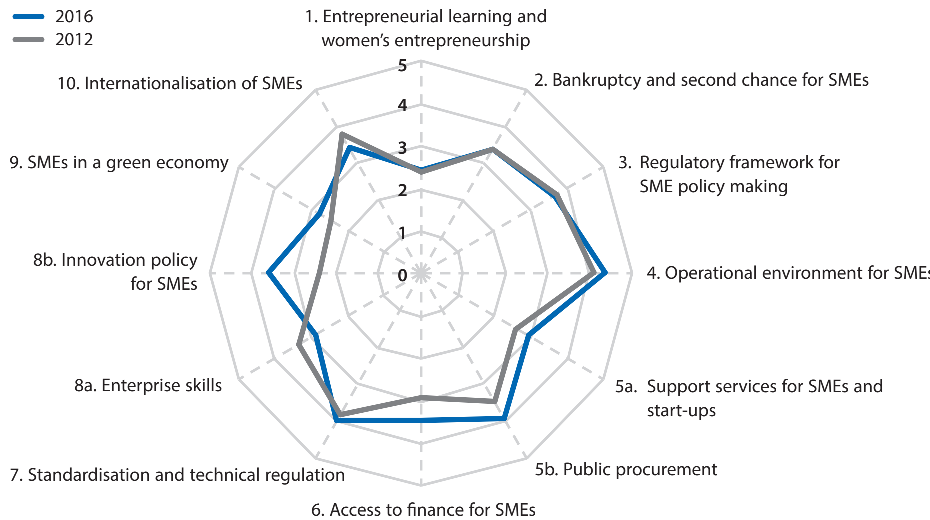
Chapter 14

Former Yugoslav Republic of Macedonia: Small Business Act profile

The Former Yugoslav Republic of Macedonia is one of the most advanced economies in the region in promoting its SME sector. Its institutional framework and operational environment continues to have a high level of EU SME policy convergence. Although it has a fairly solid policy framework in place, it needs to make further efforts to ensure the proper delivery of services meeting the needs of SMEs. Its innovation framework for SMEs has been significantly improved by the introduction of a strategy, law and fund, building the foundations for the promotion of innovation among SMEs. The banking regulatory framework has been further strengthened by aligning it more closely with Basel II principles. Technical standards and regulations are fairly well aligned with the European Union. The e-procurement system has been further developed since 2012 and the entrepreneurship promotion and skills agenda is being successfully implemented.

Moving forward, SME development policy should be anchored in a higher level national strategy, allowing these reforms and programmes to continue to effectively promote SME development. Regular monitoring of activities and light evaluation of support programmes should be encouraged to ensure that the needs of SMEs are met and to justify government funding. Sources of non-banking financing should be encouraged, to diversify the financial base for SMEs and ease their access to finance.

Figure 14.1. **SBA draft scores for the Former Yugoslav Republic of Macedonia**



Key findings

The Former Yugoslav Republic of Macedonia has taken a number of steps to strengthen its institutional, regulatory and operational environment, particularly in the area of easing company registration and developing e-government services. It has also continued its strong performance on regulatory simplification. Institutional support for small and medium-sized enterprises (SMEs) is in place although, since the 2011-13 SME strategy expired, it has not been replaced with a comprehensive SME strategy to address policy fragmentation, improve inter-agency co-ordination, and enhance public-private dialogue. The Former Yugoslav Republic of Macedonia has one of the region's most developed bankruptcy laws, but still has no policies in place to promote second chances among entrepreneurs.

Bank lending is the main source of financing for businesses in the country. While this has increased over the past three years, small and medium-sized businesses continue to perceive access to finance as a major challenge to their operations. Alternative sources of finance are at an early stage of development and could benefit from a strengthening of the legal framework, particularly factoring activities, which can be an important alternative to bank financing for SMEs.

Significant progress has been made in the implementation of the entrepreneurship and skills agenda in the country. A genuine partnership among stakeholders has resulted in a newly adopted policy framework for lifelong entrepreneurial learning. Entrepreneurial learning is particularly strong in secondary education as is the promotion of entrepreneurial learning in higher education. Moreover, the analysis of training needs for small and medium-sized enterprises has been well addressed, helping to improve the quality and relevance of training. Plenty of good practices have been developed in all areas of human capital development. Co-ordination and communication between key stakeholders still need to be improved, however.

The Former Yugoslav Republic of Macedonia has enhanced its competitiveness framework for SMEs since the previous assessment. It has adopted a national strategy for innovation and defined the governance structure and implementation bodies. It has established a range of support services for SMEs. However, the government needs to ensure that the policies it has developed are implemented, and institute regular monitoring of its action plans. Although there are general policies towards environmentally sustainable economic development, none of the laws and strategies which focus on environmental regulation and development target the greening of SMEs.

Regarding public procurement, the e-procurement system has been further developed, enabling contracting authorities and bidders to publish and access tender documents, submit and evaluate bids, and conduct electronic auctions.

The Former Yugoslav Republic of Macedonia continues to have a well-developed export promotion strategy with wide-ranging activities and financing tools in place, executed by its export promotion agency. In the future, improving its monitoring systems and transparency and introducing programmes to support SME integration into global value chains might be crucial. The time needed to trade across borders is close to the OECD average, although the number of relevant documents to comply with the procedures could be reduced. When it comes to standardisation, the Institute of Standardisation continues to adopt standards and has started to issue certifications under ISO 9001 standards and improve co-operation with EU standardisation bodies.

Overview

Economic snapshot

Despite being a small, landlocked economy, the Former Yugoslav Republic of Macedonia has proven to be relatively competitive and dynamic in comparison to its regional competitors. However, the economy remains mainly consumption driven.

Its share of investment has remained relatively constant in the last decade, though net foreign direct investment (FDI) inflows fell in the post-crisis period (Table 14.1). Foreign investment flows mainly into the Technological Industrial Development Zones, which have seen a significant rise in capital inflows and revealed the economy's comparative advantage in a series of new products, particularly chemicals, as well as in traditional sectors such as textiles, beverages, tobacco and food products. There have been several investments in the car components production sector recently and the sector is likely to grow further. Yet, there are additional challenges to be addressed: it is only recently that FDI transactions started to move from simple forms of privatisation to green-field projects. There is still a lack of evidence of positive spillover effects for domestic firms, which could benefit even more from the arrival of foreign enterprises.

Exports of raw materials and low value-added products have fallen as a share of exports overall in favour of higher value-added products in the chemical and allied industries, as well as in the electrical and machinery industry. The most important trade partners are the EU countries and within the region most exports go to Serbia, Bosnia and Herzegovina, and Albania. Exports of goods and services have risen from 43.8% of gross domestic product (GDP) in 2013, to 47.9% in 2014.

Growth has been subdued in the post-crisis period but recovered more strongly over the past two years. It reached 3.8% in 2014, and is expected to slow down to 3.2% in 2015 (Table 14.1). The economy's increased volatility seems largely caused by spillovers from the crisis-afflicted Western European economies rather than reflecting major domestic imbalances. Nonetheless, the economy is expected to strengthen in the short term as a result of positive business environment reforms in recent years: the Former Yugoslav Republic of Macedonia ranks 12th out of 189 countries in the World Bank's *Doing Business*

2016 report which is by far the highest rank in the South East Europe (SEE) region (World Bank, 2015b).

Despite a positive economic performance overall, growth in the country has not significantly affected the job market: unemployment remains high, at 28% in 2014 (IMF, 2015). Youth unemployment is particularly severe, with more than half of all young people without a job.

The government implemented a countercyclical policy in the wake of the crisis, increasing the government deficit to 4.2% in 2014 for capital expenditures. Public debt as percentage of GDP almost doubled between 2008 and 2014, as a consequence of both increased public spending and diminished GDP growth, but the Former Yugoslav Republic of Macedonia still has one of the lowest debt to GDP ratios in the region, at below 40%. This results in a low risk premium and there is no real evidence of government crowding out private-sector lending. Nevertheless, the government introduced a ceiling on the budget deficit and public debt, at 3% and 60% of GDP respectively, in the form of a constitutional debt brake, in order to preserve fiscal sustainability.

In March 2012, a High-Level Accession Dialogue between the European Commission and the Former Yugoslav Republic of Macedonia was initiated, and is still ongoing in order to enhance reforms in five key areas: 1) rule of law; 2) public administration; 3) freedoms; 4) electoral reform; and 5) economic performance. The European Commission recommended opening accession negotiations with the Former Yugoslav Republic of Macedonia in October 2009.

Table 14.1. **The Former Yugoslav Republic of Macedonia: Main macroeconomic indicators (2010-15)**

Indicator	Unit of measurement	2010	2011	2012	2013	2014	2015
GDP growth[1]	% year-on-year	3.4	2.3	-0.5	2.7	3.8	*3.2*
Inflation[1]	% average	1.7	3.9	3.3	2.8	-0.1	*0.1*
Government balance[1]	% of GDP	-2.4	-2.5	-3.8	-3.9	-4.2	*-4.0*
Current account balance[1]	% of GDP	-2.0	-2.5	-3.0	-1.8	-1.3	*-3.2*
Exports of goods and services[2]	% of GDP	39.8	47.1	45.4	43.8	47.9	n.a.
Imports of goods and services[2]	% of GDP	58.1	66.1	66.8	61.9	65.1	n.a.
Net FDI[3]	% of GDP	n.a.	4.6	1.5	3.3	3.3	3.1
External debt[3]	% of GDP	n.a.	64.2	68.2	64.3	69.8	n.a.
Gross reserves[3]	% of GDP	n.a.	27.4	28.9	24.6	28.6	n.a.
Credit to private sector[3]	% of GDP	n.a.	44.5	46.6	46.3	48.4	n.a.
Unemployment[1]	% of total active population	32.1	31.4	31.0	29.0	28.0	*27.3*
Nominal GDP[1]	USD billion	9.4	10.7	9.8	10.8	11.3	*10.1*

Sources: (1) IMF (2015); (2) World Bank (2015a); (3) EBRD (2015). Italics indicate estimates in the original source.

SMEs in the Former Yugoslav Republic of Macedonia

The Former Yugoslav Republic of Macedonia has a single definition for SMEs. Article 470 on Classification of Commercial Entities of the Company Law of 2004 specifies the classification of micro, small and medium-sized enterprises. It is aligned with the EU definition in its thresholds regarding the number of employees but it also specifies further criteria for classifying enterprises (Table 14.2).

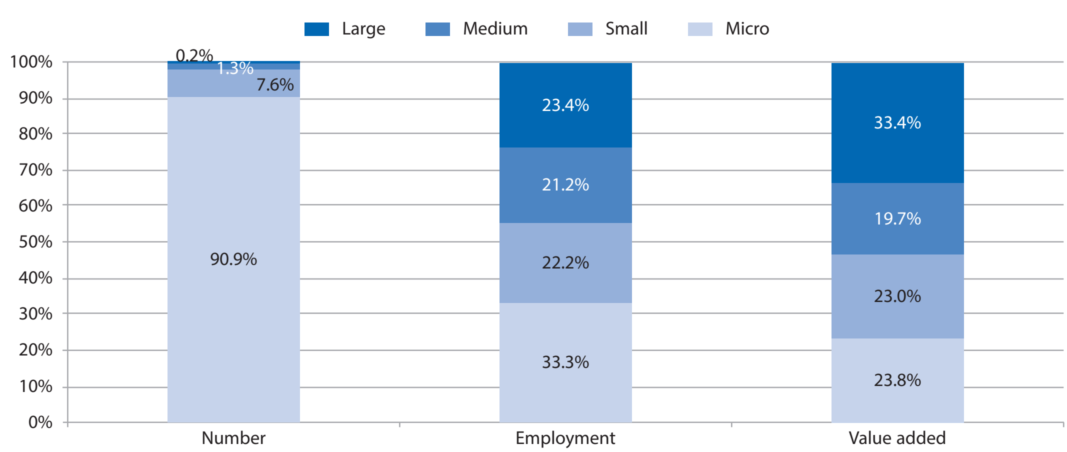
Table 14.2. **Definition of micro, small and medium-sized enterprises in the Former Yugoslav Republic of Macedonia**

	EU definition	Company Law of 2004
Micro	< 10 employees ≤ EUR 2 million turnover or balance sheet	< 10 employees ≤ EUR 50 000 gross annual revenue ≤ 80% of gross income is acquired from a single client/consumer and/ or from an individual who is related to this client/consumer ≤ 2 natural persons who own all rights to participate in the micro-company
Small	< 50 employees ≤ EUR 10 million turnover or balance sheet	< 50 employees < EUR 2 million annual income < EUR 2 million total assets < EUR 2 million total turnover
Medium	< 250 employees ≤ EUR 50 million turnover ≤ EUR 43 million balance sheet	< 250 employees < EUR 10 million annual income <EUR 11 million total assets

Source: Ministry of Economy (2004) Company Law, Ministry of Economy, www.mse.mk/Repository/UserFiles/File/Misev/Regulativa/Zakoni%20ENG/LL_CG_TradeCompanies_Dec_2004_E.pdf, Article 470, Classification of Commercial Entities.

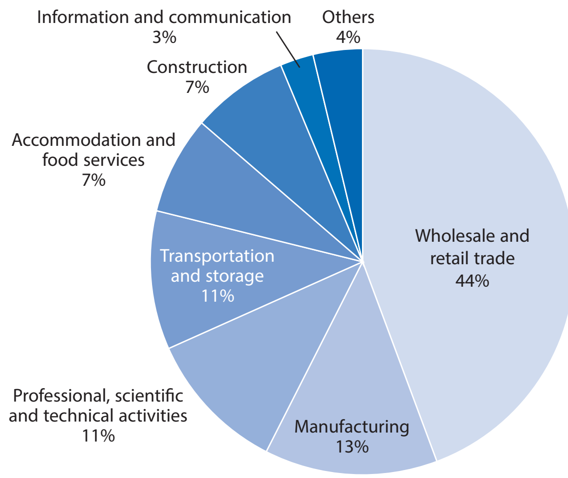
SMEs make up exactly the same share of the total business population as the EU average, 99.8% of all registered enterprises. The number of SMEs fell by 5% from 55 385 in 2009 to 53 137 in 2013. SMEs provided 76.6% of all employment and contributed 66.6% of the total value added in the economy (Figure 14.2). The shares for both employment and value added slightly increased over the period 2009-13. In common with other economies in the region, most SMEs are operating in the wholesale and retail sector (44%), followed by the manufacturing sector (13%) (Figure 14.3).

Figure 14.2. **Business demography indicators in the Former Yugoslav Republic of Macedonia (2013)**



Source: European Commission (DG GROW) and German Institute for Economic Research (DIW ECON).

Figure 14.3. **Distribution of SMEs in the Former Yugoslav Republic of Macedonia by sector (2013)**



Source: European Commission (DG GROW) and German Institute for Economic Research (DIW ECON).

SBA assessment results

Strengthening the institutional, regulatory and operational environment (Dimensions 3, 4 and 2)

Institutional framework

The Former Yugoslav Republic of Macedonia has made limited progress on the institutional framework for SMEs. The previous National Development Strategy for SMEs 2011-2013 has expired and no follow-up strategy has yet been drafted by the Department for Entrepreneurship and Competitiveness at the Ministry of Economy. The Agency for Promotion of Entrepreneurship (APPRM) carries out the implementation of some support programmes, based on an annual action plan developed in accordance with national and EU SME policy priorities.

In general, the budget allocated by the government for APPRM staff and services is not sufficient for full-scale project implementation. APPRM had 11 employees as of June 2015 and an estimated budget of approximately EUR 500 000 for 2015. Awareness of SME policy implementation within the business community is low and consultation mechanisms with the private sector remain weak. Regular initiatives by the government, such as the Learning from the Business Community project, respond to the need to foster dialogue by providing a forum for businesses to exchange with the Office of the Vice President of the Government for Economic Affairs.

The informal economy is addressed to a limited extent with selective initiatives. Recently, a grant scheme was introduced, offering the unemployed and informal entrepreneurs start-up capital of EUR 3 000 contingent upon attending business training and making the transition to the formal economy.

Legislative simplification and regulatory impact analysis (RIA)

A legislative review process for primary and subordinate business-related legislation is continuously taking place. Since 2006 a regulatory guillotine has been regularly applied and it is now in the fourth phase of its development, called Advantage to the Small Ones. In 2014, 64 laws and 681 subordinated regulations were amended based on the guillotine process.

Regulatory impact assessment (RIA) is required for all regulations prior to their adoption. There are written guidelines for the implementation of RIA as well as a formal checklist to cover SME aspects. When the impact of a new regulation is assessed, a formal RIA report is issued, providing an overview of the views and comments made by SMEs plus an explanation of why they were accepted or rejected during the RIA process. The government publishes the RIA report after adoption of the law.

Recently the government introduced ex-post evaluation of the impact of regulations as a tool for monitoring legislative simplification, which is overseen by the Ministry of Information Society.

Public-private consultations (PPCs)

Public debates are required according to the Law on Public Administration. Two government regulations also provide written guidance on how to conduct public-private consultations (PPCs). The consultations are mostly conducted through the National Entrepreneurship and Competitiveness Council, a public body consisting of 17 trade chambers, business associations, academies and banks, but consultations are only organised on an ad hoc basis. Each line ministry holds information on the number of meetings, number of associations represented and the laws commented on. Dialogue with the private sector and civil society could however be further enhanced.

Interaction with government services (e-government)

The government has established a broad e-governance system in recent years and continues to provide a range of advanced e-services to the business community. Under the auspices of the Public Revenue Office, online tax filing and payment is not only in place, but also obligatory for all businesses. E-filing of social security and pension contributions have also been established. Further functioning e-services include various requests for licences and approvals, e-public procurement, e-cadastre services and e-health. The electronic collection of enterprise statistics has been introduced recently through E-stat, a system that collects data from entrepreneurs via e-forms.

Electronic signatures were introduced in 2001 allowing for high-security online transactions and access to some e-services provided by government. It has been integrated with less than half of all e-services offered by the government. The connection of different databases is still at an early stage of development and SMEs are still obliged to provide the same information to different institutions.

Two main web portals provide an overview of all e-services available to SMEs. The website of the Ministry of Information Society provides information about the range of e-services offered while the central government website provides information about e-government policy and the services offered. There are not yet any summarised reports on the use of e-services nor any centralised monitoring of the use and requirements for e-services.

Company registration

The Former Yugoslav Republic of Macedonia continues to be one of the easiest places to open a business, currently ranking 2nd out of 189 economies of the World Bank *Doing Business* starting a business indicator (World Bank, 2015b). Company registration procedures are regulated by the Law on Trade Companies. The Central Register functions as a one-stop shop for registering limited liability companies (LLC) and other forms of trade companies, foreign representative offices, and other entities. This registration process includes registering the company with the Trade Register, providing the LLC statistic number, opening the LLC bank account, registering the company with the Public Revenue Office, and publishing the LLC formation notice on the Central Register's website. The Central Register has 27 branch offices across the country offering services to businesses and the civil community.

The overall registration process currently takes one day and a single procedure. Registration fees are minimal, amounting to 0.1% of income per capita and no paid-in minimum capital is required. Online registration is possible from around the world with the assistance of authorised registration agents. Electronic registration is free.

Business licensing

The granting of business licences and permits is the responsibility of the line ministry in charge of the respective sector. Each ministry has written guidance specifying licensing fees and compliance conditions. However, there is not yet any central register of all licences granted and no single website offers information on the different types of licences. Licence performance and streamlining has not yet been assessed. The percentage of firms who identify permits and license as a major constraint of doing business is however very low, at just 0.3% (World Bank, 2013).

Bankruptcy procedures and second chance

Insolvency law is governed by the bankruptcy law, which has clear provisions for the reorganisation and liquidation of distressed companies. The current law is in line with international standards. The procedures outlined in the law are considered to be transparent, apply to state-owned enterprises and are systematically applied, which has helped to reduce the duration of bankruptcy cases. The law requires that bankruptcy trustees register all bankruptcy procedures electronically, which has helped to establish a transparent and easily accessible electronic insolvency register. However, there is room for improvement as currently there is no early warning system in place to identify financially distressed companies.

Some procedural difficulties remain as, according to the World Bank *Doing Business* report, it takes on average 1.8 years to complete bankruptcy procedures, at a cost of 10% of the estate, with a recovery rate of 44.6% (World Bank, 2015b). Out-of-court settlements are available, governed by the Law on Out of Court Reconciliation, and are considered to be a cheaper alternative to formally filing for bankruptcy. Discharge from bankruptcy, and from insolvency registers, occurs after a final court decision. The government has not undertaken any measures to promote information or provide training programmes about second chances for entrepreneurs.

Facilitating SME access to finance (Dimension 6)

Legal and regulatory framework

Access to finance is supported by a reasonably well-developed regulatory framework. A comprehensive legal framework is in place to protect creditors' rights and insolvency proceedings have improved significantly since the last SBA assessment. A cadastre is now available online, covering 99% of the country's territory. Online availability has been an important step in improving the cadastre's usability. Pledges of movable assets for collateral can also be registered online (e-Pledge), but in this case access is not free of charge. In addition, the detailed description of assets required makes it more difficult to pledge future assets. The private credit bureau has increased its coverage of the adult population to 89.3%, up from 64% since the last SBA assessment (World Bank, 2015b), though it should be noted that most banks rely on the public credit registry, which has a coverage rate of 36.4% and which does not cover non-bank liabilities.

Since the 2012 assessment, the banking regulatory framework has become more closely aligned with Basel II. Implementation of Basel III principles has recently started and is scheduled to be completed by 2019. Deposits and loans in local currency have significantly increased in recent years and have surpassed foreign exchange loans and deposits: 53.5% of the loans and 57.6% of deposits were in the local currency as of December 2015, although this still means around 46.5% of loans are provided in a foreign currency. The supervisory framework puts certain requirements on banks when extending a loan in foreign currency and with the amendments from December 2015 on the Decision on credit risk management (item 29, paragraph 7) there is a formal requirement for banks to disclose exchange rate risks to unhedged borrowers. Combined with a reasonably high awareness of exchange rate risks among borrowers (Beckmann and Stix, 2014), and a long-standing peg to the euro, existing levels of "euroisation" of loans appear less worrying than for some other economies in the region (IMF, 2012).

Sources of external finance for SMEs (bank financing, non-bank financing and venture capital)

The proportion of foreign banks in the Former Yugoslav Republic of Macedonia is relatively high, representing 73% of all banks and 68.9% of assets, as of 30 June 2015. In particular, two Greek subsidiaries, making up around one-quarter of the banking sector, could be a source of vulnerability. However, given the independence of these banks from their parent, there has been no effect so far on the sector. Despite this potential for spillovers, as well as a non-performing loan (NPL) ratio of around 10-11%, the country's financial sector has proven resilient. Only 35% of total private-sector lending goes to SMEs. SMEs cite access to finance as a major obstacle to doing business. Smaller companies especially appear to struggle with accessing loans, which is reflected in the high share of businesses covering their financing needs with internal funds and retained earnings – around 80% according to the Business Environment and Enterprise Performance Survey (BEEPS V; EBRD, 2014b). One factor could be the relatively high collateral requirements (around 150%, in line with many economies in the region) combined with banks' heavy reliance on (immovable) collateral and credit histories for their loan decisions. The government supports lending to SMEs with programmes run by the Macedonian Bank for Development Promotion (MBDP). Credit guarantees could help SMEs struggling to satisfy collateral requirements, but uptake through commercial banks is relatively limited, not least due to relatively complex procedures (ECBI/EIB, 2014). However, a European Investment Bank

(EIB) credit line offered through the MBDP has helped alleviate credit constraints for local SMEs more generally.

Non-bank financing shows little product diversification in the Former Yugoslav Republic of Macedonia. Microfinance is available mainly through savings houses and NGOs. The volume of credit supplied via microfinance has expanded, with a sharp increase in lending from 2010 to 2013. Leasing penetration remains limited and is heavily focused on vehicles rather than a wider range of asset types, such as machinery, information technology and communications equipment or furniture. Factoring activities are limited (offered only by the MBDP and one private company) and there is no specific legal framework in place that could encourage the development of such services by providing more legal certainty and transparency. In theory, the stock exchange offers opportunities for SMEs, but take up is limited as companies still perceive banks as their primary and more secure option for funding. However, the completion of the first phase of the creation of a regional trading platform (SEE Link) linking the Bulgarian, Croatian and Macedonian stock exchanges could lead to more liquidity and opportunities for listed companies. A better-developed and integrated capital market could, over the medium term, also improve funding opportunities for SMEs.

Venture capital activities in the Former Yugoslav Republic of Macedonia are in their infancy but the government has taken important steps to improve the ecosystem for venture capital funds. The relevant legal framework has been put in place to allow for venture capital activities. The government has also endorsed an Innovation Strategy (2012-2020) that includes provisions on venture capital. In 2013, a Fund for Innovation & Technological Development was created with the aim of providing equity and mezzanine financing,[1] but it has only gone into operation very recently. There is still no business angel network, despite the government's plan to establish one with the help of the United States Agency for International Development (USAID) in 2011. Plans to establish a network have been taken up again more recently, but with no tangible results to date.

Financial literacy

To date, no assessment has been made available about the level of financial literacy among the business population in the country. Lack of data thus continues to be a challenge. The government does not currently provide any incentives for training in this area and financial literacy education is not systematically incorporated in the national curriculum for secondary education. An academy of banking and information technology was established in 2014, which seems to be very well accepted and well attended by younger banking staff. However, many smaller and micro companies continue to lack important skills in business planning and financial management which limit their potential to grow and access financing.

Promoting skills and entrepreneurship development (Dimensions 1 and 8a)

Lifelong entrepreneurial learning

With the aim of helping economic growth and providing better employment opportunities, especially for young people (whose unemployment rate was 51.9% in 2013 (Eurostat, 2015) the Former Yugoslav Republic of Macedonia has invested significantly in developing an entrepreneurial culture. The adoption of the Entrepreneurial Strategy of Macedonia 2014-2020 and an associated action plan in December 2014 marked a success for a multi-stakeholder partnership between the public, private and civil society institutions.

However, while entrepreneurial learning is high on the national policy agenda, it does not currently feature prominently in wider national strategies for education, employment or research and development (R&D). Efforts should be made to strengthen policy connections in these areas to ensure the long-term success of this reform initiative. Putting entrepreneurship at the heart of reforms in vocational education and training would be in line with the Deliverable 1 of the Riga Conclusions of the European Union member states.[2]

In line with other economies in the region, monitoring and evaluation do not appear to be priority activities, and are mainly undertaken by international donors for their projects. Strengthening this function, as recommended in the Riga Conclusions, would help the country further improve its policy design and ensure that the innovative decisions included in the new Entrepreneurial Strategy are adapted to practical needs and applied at different education and training levels.

There are a variety of non-formal entrepreneurial learning initiatives, such as regular training for entrepreneurial educators at primary and secondary school level, and training for start-ups and potential entrepreneurs organised directly by the governmental and non-governmental institutions and through grant programmes by non-governmental organisations (NGOs). The Former Yugoslav Republic of Macedonia is the only economy in the region that has a national entrepreneurship education network; this is an excellent platform for continuous dialogue on the promotion of entrepreneurial learning, taking inspiration from the wealth of good practice present in the country.

Entrepreneurial learning stands out clearly as a key competence at ISCED levels 2 and 3 (lower and upper secondary), and is a mandatory part of the curriculum for all students, which should make a great contribution to the development of an entrepreneurial culture among youth in the country. It also aligns the country with the EU key competence framework.

The country stands out as one of the few in the region that has already carried out training on entrepreneurial learning for school leaders and teachers, and plans to increase such training. Further enhancing training on effective approaches to entrepreneurial learning would greatly benefit the implementation speed and scope of reforms. This can be achieved by scaling up existing initiatives and by making use of training resources and good practices, co-ordinated by the South East European Centre for Entrepreneurial Learning (SEECEL) at the regional level.

Progress in higher education is demonstrated by the widespread availability of entrepreneurial subjects both in business and in non-business faculties; the country is one of the few in the region to demonstrate such widespread availability of these subjects. Co-operation between universities and the world of business has also further improved since last assessment. The Innovation Fund (established in 2014 for a period of three years) represents the first concrete example of a regulation which enables the establishment of university spinoff companies and joint ventures between universities and business. The Fund encourages innovation in enterprises and applied scientific research and supports companies with high growth potential.

Women's entrepreneurship

The development of women's entrepreneurship is well supported by a varied supply of training offered by the state, regional authorities, NGOs and international donors as well as a number of networking opportunities such as fairs and meetings. The Association of Businesswomen of Macedonia has been managing a platform since 2013 which could be used to further reinforce partnerships among these different players. This would provide the institutional framework necessary to promote a specific policy agenda for women entrepreneurs, building on the Strategy and Action Plan on Gender Equality 2013-2020 and the Ministry of Economy's annual programme dedicated to developing businesses among women, including how to better support women in rural areas to develop their businesses. In addition, the Agency for Promotion of Entrepreneurship has developed and provided some training to women entrepreneurs. The government needs to introduce data collection and analysis on women entrepreneurs' needs and training attendance to inform more gender-specific analysis and initiatives to improve the performances of female-owned SMEs.

SME skills

Several actions have been taken in the last few years to address SME skills. State-run/funded initiatives are offered in parallel to similar ones from the private sector, NGOs or international donors. Although several mechanisms and tools are in place to deliver training to SMEs, increased co-ordination is needed to ensure greater impact. Analysis of needs is carried out through systematic nationwide and ad hoc surveys, which offer information to inspire training providers.

Various national and international institutions (including the Agency for Promotion of Entrepreneurship) offer training for business start-ups and SME growth and they all offer access to finance as a concrete support Online training could be further explored as an innovative way of supplying training. The internationalisation of SMEs is a major concern of policy makers and the business community, who offer various courses, such as export training through Invest Macedonia as part of the Export Promotion Strategy of Macedonia.

Enhancing SME competitiveness (Dimensions 5a, 5b, 8b and 9)

Business information and services

In the Former Yugoslav Republic of Macedonia, a number of strategic documents cover the provision of business support services: the Innovation Strategy of the Republic of Macedonia (2012-2020), the Industrial Policy of the Republic of Macedonia (2009-2020) and the Revised National Development Strategy for SMEs (2007-2013). The main implementation bodies are the Ministry of Economy and the APPRM. Since the last assessment, progress has been made on the range of support services offered, which now include consultancy, training, mentoring programmes and promotion. These come under the Support Programme for Entrepreneurship, Competitiveness and Innovation of SMEs in 2015. Legal support services are offered through the Information Centre of the State Office of Industrial Property. Few advances have been made in the dissemination of SME-related information. Information about the private business support services available is provided online. Details about starting a business can be obtained through various websites, such as the Central Registry and Public Revenue Office. The launch of an SME-focused portal is planned but is only expected to be completed by 2017. There are two privately funded incubators (IT and SEEUT), science and technology parks, and innovation centres in operation but there is currently no specific grant scheme aimed at supporting incubators and innovation centres.

Public procurement

The legislation allows tenders to be cut into lots and this does happen in practice, although there is no general obligation to cut tenders into lots above a certain threshold. There is a law regulating late payments to contractors with strict deadlines for payments, and penalties for non-compliance. Contracting authorities can allow companies to bid jointly and SMEs participate in joint bids. Information on public procurement opportunities is openly available and centralised at national level but not free of charge. The public procurement market is generally open to international participation. There is an independent review body for public procurement. Training sessions and helpdesks are available for SMEs.

There have been changes in this dimension since 2012 as the e-procurement system has further developed, enabling contracting authorities and bidders to publish and access tender documents, submit and evaluate bids, and conduct electronic auctions. No documentary evidence needs to be supplied if it is available through a registry of bidders, which has reduced bureaucracy and the cost of bidding.

There are nevertheless some challenges remaining. The Former Yugoslav Republic of Macedonia must ensure that its negative reference list does not result in a "blacklisting" of economic operators. Any exclusion from public procurement procedures should be made on a case-by-case basis with due consideration of the principle of proportionality. The use of non-price criteria in the award of contracts should be encouraged. Currently, the Public Procurement Law obliges the "lowest price" criterion to be used in general when awarding contracts. The most economically advantageous tender, i.e. the one offering best value for money for the public buyer based on an assessment of criteria in addition to price such as quality, delivery time and after-sales service, can only be chosen with the approval of the Public Procurement Council. This requirement creates new bureaucratic obstacles and a focus on the lowest price with a detrimental effect on quality, and should be abolished.

Innovation policy

The Former Yugoslav Republic of Macedonia has one of the lowest levels of gross expenditure on R&D (GERD) in the region, at 0.22% of GDP in 2011. Combined with a low number of researchers, this does not provide a solid base for the promotion of innovation. Nevertheless, more recent data on SMEs are more encouraging: 39.2% of SMEs have introduced a product or process innovation each year, compared to 38.4% on average among EU-27 countries (European Commission, 2014). Moreover, 30.8% of SMEs have introduced marketing or organisational innovations compared to the EU-27 average of 40.3%. According to Eurostat, the number of SMEs selling online is growing and reached 5% in 2014 although this is still far below the EU average of 15% (Eurostat, 2015). Additionally, in 2014 only 3% of SMEs were purchasing online compared to 22% on average in the EU. According to the Innovation Scoreboard, international patent applications have declined since 2012 (European Commission, 2014).

Since the 2012 SBA assessment, the Former Yugoslav Republic of Macedonia has made remarkable progress and now ranks among the highest in the region for its governance of innovation policies. It has developed a national innovation strategy with the support of the OECD and adopted a new law on innovation in 2013 covering the period until 2020. An action plan for its implementation covers the period from 2013 to 2015, and clearly outlines the timeframe, activities and responsible institutions for the measures to be taken. The Ministry of Economy and the Ministry of Education and Science are the key institutions responsible for the definition, implementation and monitoring of different policy measures within their respective domains. The Committee for Innovation and Entrepreneurship, chaired by the Prime Minister, is responsible for co-ordination of the innovation policy. The Innovation Strategy places particular emphasis on the establishment of a Fund for Innovation and Technological Development (FITD). The FITD acts as a central implementation body for the innovation strategy in the absence of the Agency for Technology and Innovation.

The operational activities of the FITD are financed through the national budget. Although substantial progress has been made with the policy framework and establishing the governance structure and institutions, the implementation of the strategy should be followed carefully to ensure it contributes to reversing the downward trend in innovation performance since 2012.

The Innovation Strategy envisages the establishment of several institutional support services including technology transfer offices (TTOs) and incubators (to be established by major universities), technology parks (to be established by universities and to liaise with research laboratories) and accelerators (under the FITD). However, these measures have mostly not yet been implemented. A TEMPUS project established four technology transfer centres in different faculties of the Saints Cyril and Methodius University and the Skills Development and Innovation Support Project initiated a national TTO. Currently, there are university-based science and technology parks, innovation centres, and two privately funded incubators (IT and SEEUT) operating. The Ministry of Education and Science's web portal, "nauka.mk" provides an online database of researchers to help businesses to find research partners. There are no specific grant schemes financing institutional support services and further support could be focused on development of soft skills around the innovation infrastructure.

Financial support services for SMEs are addressed in the Innovation Strategy through the FITD. The FITD will have a total of around EUR 10 million to spend through various financing instruments. These instruments encourage private investment in research and development (R&D) and innovation. Four instruments will provide companies with co-financing for the commercialisation of innovations, the creation of spin-offs and the development of technology transfers. Technical assistance to innovative start-ups and SMEs will also be provided through accelerators supported by the FITD. An estimated EUR 1.4 million will be dedicated to co-financing grants for innovative projects in the private sector in 2015 and EUR 2.65 million will be in 2016. In 2015, the first innovation competition selected 26 companies to benefit from the start-up grants (EUR 30 000), and 7 SMEs. The Ministry of Economy also supports cluster projects through the Programme for Competitiveness, Innovation and Entrepreneurship, including projects that promote collaboration between clusters and academia.

Green economy

There is no national policy framework containing any SME-specific environmental policies. Elements of environmental policies are included in a number of tangential strategies and frameworks such as the innovation, FDI, industrial policy and eco-efficiency strategies. For instance, the Strategy for Industrial Policy 2009-2020 prioritises the development of eco-friendly industries. However, none of the policies with environmental provisions explicitly focus on SMEs. The Ministry of Environment and Physical Planning provides information on environmental issues and tools to SMEs, in partnership with municipalities, business associations and civil eco associations. Environmental laws and green certification programmes are developed in collaboration with the business sector and NGOS, especially ecological organisations. There are no financial and regulatory incentives in place to encourage companies to adopt more environmentally friendly practices.

Supporting SME internationalisation (Dimensions 10 and 7)

Trade performance and regulatory barriers to trade

The total trade of goods and services for the Former Yugoslav Republic of Macedonia over the period January-December 2013 amounted to USD 13.4 billion, a 26% increase on the same period in 2010. The trade deficit stands at 18%, of GDP and has decreased since 2010 (ITC, 2014). The World Bank *Doing Business* indicators for export and import show that the Former Yugoslav Republic of Macedonia managed minor improvements in reducing costs from 2009 to 2015 (Table 14.3). When it comes to the time needed to import/export, the Former Yugoslav Republic of Macedonia gets very close to the OECD average. Nevertheless, more efforts are needed to reduce the number of relevant documents.

Table 14.3. **Former Yugoslav Republic of Macedonia: Trading across borders (2015)**

	Former Yugoslav Republic of Macedonia	OECD average
Documents to export (number)	6	4
Time to export (days)	12	10.5
Cost to export (USD per container)	1 376	1 080
Documents to import (number)	8	4
Time to import (days)	11	9.6
Cost to import (USD per container)	1 380	1 100

Source: World Bank (2014), *World Bank Doing Business Report 2015.*

Export promotion and global value chains

Government export promotion programmes targeting SMEs are an integral part of the Export Promotion Strategy adopted in 2011. The main priorities are increasing the value of exports generated by Macedonian companies, strengthening local capacity, export promotion services and diversifying the export structure. The strategy foresees three main areas of support: 1) financial assistance to export-oriented companies through the Macedonian Bank for Development Promotion (MBDP); 2) access to markets, information and networking through the Agency for Foreign Investments and Export Promotion (ASIPIRM); and 3) support for increasing the competitiveness of SMEs through the annual Programme for Competitiveness, Innovation and Entrepreneurship through the Ministry of Economy.

ASIPIRM is responsible for promoting Macedonian companies in foreign markets and supporting them in increasing their exports. It is a separate legal entity with operational autonomy but with a limited number of staff and resources.

Export promotion activities are financed through the government budget and supported by donors such as USAID (e.g. IDEAS project) and the Swiss Import Promotion Programme (SIPPO) through Switzerland Global Enterprise. The export promotion programmes provide various activities for SMEs: trade policy information and commercial intelligence, country representation at major trade fairs, export promotion and marketing, and product development and training. Furthermore, national SME promotion events are organised annually, including Global Entrepreneurship Week, the Entrepreneur of the Year, and European SME Week.

SMEs also benefit from financial support for export promotion activities: the MBDP provides export credit and export insurance, while the Ministry of Economy co-finances

75% of SMEs' costs for CE marking, market research, marketing strategies, training and promotional materials, up to a maximum of EUR 3 000. It also offers 75% co-financing to clusters for export promotion, fairs and events, up to a maximum of EUR 6 500. The Ministry of Economy's support measures are provided through annual competitive calls providing clear guidelines and following defined practices for selection and awarding the funds. However, a list of the beneficiaries is not publicly available.

As the export promotion activities are spread across three different institutions (ASIPIRM, the MBDP and the Ministry of Economy), each institution has its own monitoring mechanism in place. Although ASIPIRM conducts some implementation monitoring, there has not yet been any specific independent review of the impact of the export promotion measures introduced. ASIPIRM reports on its activities to the government on a yearly basis, and has established a monthly Excel report of fulfilled export activities in order to enhance co-ordination with the Ministry of Economy. The information provided includes the number of visits of foreign potential importers organised, and the number of export market research activities that have been made for a specific request.

Currently, there are no specific measures or programmes related to global value chains (GVCs). The importance of integration into value chains and the need for increased competitiveness of clusters is mentioned in some relevant SME documents such as the Export Promotion Strategy and the Industrial Policy Strategy but this has not yet been accompanied by specific measures or promotion or awareness raising.

Standards and technical regulation

The Institute of Standardisation continues to adopt standards, and has started to issue certifications under ISO 9001 standards and improve its co-operation with EU standardisation bodies. Alignment of conformity assessment with the *acquis* is quite advanced, although it has yet to reach a level at which an agreement on conformity assessment acceptance can be negotiated. There are now 130 accredited conformity assessment bodies in the country.

The Bureau of Metrology co-operates with the European Association of National Metrology Institutes on the areas of flow, temperature, electricity and liquid pressure and it has now joined the European Metrology Programme for Innovation and Research.

The way forward

The Former Yugoslav Republic of Macedonia is one of the most advanced economies in the region in promoting its SME sector. It institutional framework and operational environment continue to display high levels of SME policy convergence. However, although it has a fairly solid policy framework in place, it needs to make further efforts to ensure the proper delivery of services which meet the needs of SMEs. Its innovation policy and infrastructure for SMEs have shown significant improvement. It has further strengthened its banking regulatory framework by aligning it more closely with Basel II principles. Technical standards and regulations are fairly well aligned with the EU *acquis*. The e-procurement system has further developed since 2012 and the entrepreneurship promotion and skills agenda is being successfully implemented.

Strengthening the institutional, regulatory and operational environment

Since the last SBA assessment in 2012, the Former Yugoslav Republic of Macedonia has further strengthened the institutional, regulatory and operational environment for SMEs. For instance, measures have been taken to facilitate company registration and provide e-government services. However, since the National Development Strategy for SMEs 2011-2013 expired, no new strategy has been developed and SME policy co-ordination has weakened. Therefore, it should consider the adoption of a new SME development strategy, either as a separate strategic document or as part of a wider private-sector development/ competitiveness strategy, to ensure the continuation of reforms and support programmes for SMEs. The strategy should identify concrete steps for resolving outstanding challenges in the institutional and operational environment, including enhanced SME support services, strengthened consultation mechanisms with the private sector and expanding the breadth and depth of statistic data collection amongst SMEs. Co-operation between the Ministry of Economy and the Statistical Office to use statistical information for policy monitoring and evaluation should be strengthened. The SME community should be involved in the process of designing the strategy. Regulatory simplification efforts should also be continued, with special emphasis on ex-post evaluations of RIA. To improve the public-private consultation process, the transparency and frequency of meetings of the National Entrepreneurship and Competitiveness Council should be ensured.

Although the country has established a sound bankruptcy law, some procedural difficulties remain; the time taken to complete bankruptcy procedures, currently 1.8 years, needs to be reduced. The government could also introduce an early warning system to identify financially distressed companies to help prevent their bankruptcy. Information campaigns should be encouraged to promote second chances for entrepreneurs that have previously failed but gained valuable experience in starting a business.

Facilitating SME access to finance

While progress has been made over the past years, small and medium-sized businesses continue to perceive access to finance an important challenge to their operations. Further steps to support such access should be considered. The usability of movable assets as collateral should be improved by facilitating the process and/or removing the charge for online registration. A specific legal framework for factoring services should be developed to strengthen legal certainty and transparency and consequently to promote their establishment and wider use. The government could consider revising the current credit guarantee scheme, simplifying its procedures, working closer with private banks and generally reforming its design, structure and terms. Education on financial literacy is not incorporated systematically into the national curriculum for secondary education and there are no data on the level of financial literacy among the business population. The level of financial literacy among business owners should be assessed and a national strategy based on the findings might be developed.

Developing Entrepreneurial Learning, women's entrepreneurship and SME skills

The Former Yugoslav Republic of Macedonia has made good progress in encouraging an entrepreneurial culture over the past years. Having adopted the Entrepreneurial Strategy of Macedonia 2012-2020 and placing entrepreneurial learning high on the policy agenda, the new strategy on entrepreneurial learning should be linked to other key strategic orientations such as the Education Strategy 2005-2015, the employment strategy and the SME strategy once it has been developed. This would further affirm entrepreneurship as a key area for growth and jobs. Ongoing initiatives in secondary education in teacher and students' training could easily be scaled up to the system level, to build on the provisions of the legislation available, the good partnerships and the support of external partners. The development of a cross-campus entrepreneurial learning strategy for the "entrepreneurial university" could be the next challenge for the Macedonian higher education system. Good practices in Europe could be a source of inspiration. Reinforcing the co-ordination among the public, private, NGOs and international providers offering training to SMEs and women entrepreneurs could help improve synergies and increase their impact. The business community in particular could take greater ownership of the relaunch of the skills agenda for SMEs. This would improve availability of data and analysis of the needs of SMEs, and create better conditions to enable their participation in training. This is especially the case for women entrepreneurs, who have their own specific needs. It would be good to have a single point for all information regarding training for SMEs and women entrepreneurs. Better-developed monitoring and evaluation would help improve the relevance and quality of training offered by the various players.

Enhancing SME competitiveness

Public procurement has been advancing since the 2012 SBA assessment. The e-procurement system has further developed, enabling contracting authorities and bidders to publish and access tender documents, submit and evaluate bids and conduct electronic auctions.

Monitoring and evaluation of business support programmes and investment readiness services are still in the early stages of development. Some of the investment readiness programmes are monitored, but only few of them are evaluated. Data on SME participation are collected and formal mechanisms for SME feedback are available for some programmes through surveys. Future efforts should focus on enhancing the effectiveness and diversification of the monitoring, evaluation and feedback collection mechanisms.

When it comes to innovation policies, the Former Yugoslav Republic of Macedonia needs to ensure its innovation strategy is implemented and introduce regular monitoring of its action plans as well as develop evaluations in order to better assess the progress made under the actions foreseen. Further attention should be devoted to developing the infrastructure and institutional support services needed to promote innovation through development of soft skills and capacity building activities for SMEs and innovative start-ups as well as support with networking bringing academia and private sector and other actors together. Feasibility studies and needs assessments for the establishment of a science and technology park with the relevant space and labs could help define the need for such infrastructure. Collaboration between academia and the private sector should be encouraged through the provision of financial instruments, such as the innovation vouchers mentioned in the Innovation Strategy. The strategy also mentions the importance of fiscal support for R&D and innovation, as well as demand-side instruments. Nevertheless, practical steps to define the best approach to supporting innovation should be undertaken.

There is no national policy framework for greening the economy although elements of environmental policies are included in strategy frameworks. The Former Yugoslav Republic of Macedonia could do more to more explicitly target SMEs in its environmentally related policies and strategies. This would give clarity on the objectives and measures needed for SMEs to move towards greener practices. The government may benefit from beginning to draft the financial and/or regulatory incentives needed to ease SMEs' transition to environmentally friendly practices.

Supporting SME internationalisation

As in the 2012 SBA assessment, the Former Yugoslav Republic of Macedonia has a solid export promotion strategy and agency undertaking a variety of activities although the agency needs more staff and funds to strengthen its capabilities. Although some monitoring is being conducted and the agency has is a functioning reporting system to the government in place, further simple evaluations of its activities and assessments of feedback could be introduced. SMEs would also benefit from programmes supporting their integration into global value chains. Therefore an analysis of how this could be achieved could be conducted and specific government actions defined accordingly. The Enterprise Europe Network (EEN) in the Former Yugoslav Republic of Macedonia provides a key instrument to foster SME internationalisation by providing a platform for SMEs to seize business opportunities in the EU Single Market and beyond.

Notes

1. Mezzanine financing usually describes a financing instrument structured at a level between senior debt and common equity.
2. Deliverable 1: Promote work-based learning in all its forms, with special attention to apprenticeships, by involving social partners, companies, chambers and VET providers, as well as by stimulating innovation and entrepreneurship.

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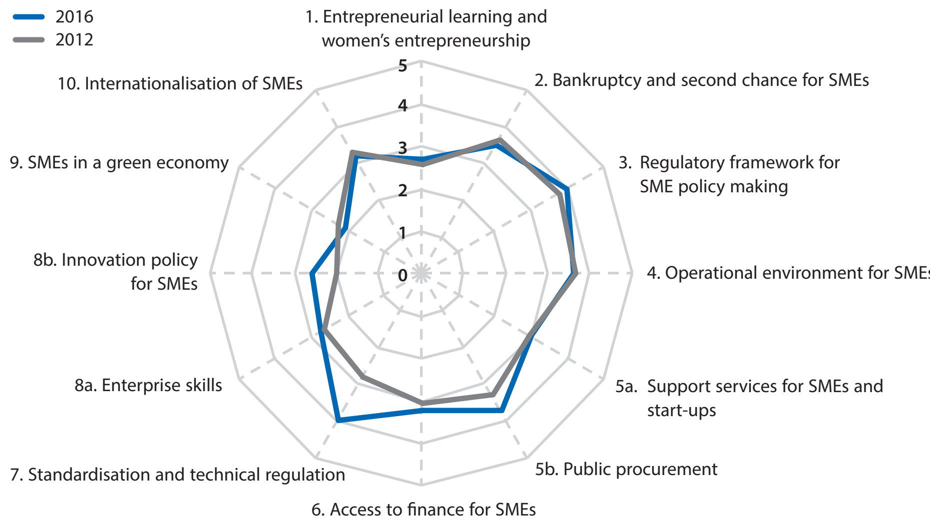
Chapter 15

Montenegro: Small Business Act profile

Montenegro has made some improvements in the institutional, regulatory and operational environment for SMEs since 2012, although SMEs still face challenges resulting from an uneven economic recovery. Its technical standards are now largely harmonised with the EU acquis, business registration requirements have been further eased and e-government services have expanded. Tax payment procedures have further been simplified and made available electronically, with the double benefit of increasing tax compliance and curtailing informal economy activity. The government has also made considerable efforts to harmonise entrepreneurial learning across different national strategies. It has established an institutional infrastructure and financial instruments to promote innovation in SMEs. However, although the country has relatively well-developed microfinance products, access to finance continues to be a major constraint for SMEs.

Montenegro should now consider further steps to enhance access to finance: among them to facilitate the establishment of a private credit bureau and initiatives to enhance financial literacy. The government should increase its efforts to provide horizontal and targeted business support services, particularly in the key areas of supporting SME access to foreign markets and providing financial and non-financial support for innovation. Montenegro might also consider integrating the entrepreneurship key competence into the curricula.

Figure 15.1. **SBA draft scores for Montenegro**



Key findings

Montenegro has made some improvements since 2012 in its institutional, regulatory and operational environment for SMEs. It has developed a solid institutional framework for SME policy and is in the process of implementing its SME Strategy 2011-2015. Regulatory impact assessment was formally introduced in 2012 and is being applied. Business registration requirements have been further simplified and e-services expanded. The Law on Insolvency governs bankruptcy procedures in Montenegro, and is considered to be carried out in a transparent and systematic manner; however the government has still not established a framework to promote second chances for entrepreneurs.

As with other economies in the region, bank finance is the main source of financing for SMEs. Overall lending activity in Montenegro has fallen over the past three years and lack of access to finance is now one of the top three obstacles to doing business in the country (EBRD 2014b). Interest rates and collateral requirements relative to loan values are relatively high, making it difficult to secure a loan, particularly for small businesses. However, a relatively well-developed microfinance offer for the region provides a viable alternative source of funding for SMEs. Other sources of non-bank financing, such as leasing and factoring, require further development, particularly in terms of the supporting legal and regulatory frameworks.

The 2012 SBA assessment recommended Montenegro should address the critical success factors for lifelong entrepreneurial learning, such as leadership, government commitment, ownership and the provision of dedicated resources. Substantial progress has been made since then to address these challenges. There is a strong national effort to harmonise the entrepreneurial learning drive across national strategies addressing national economic development, education, SME development, employment and human resources. Most of the government support measures have been implemented within the legislative and institutional framework supporting the constitutional right to gender equality, as well as the promotion of economic empowerment of women.

Montenegro has made limited progress in developing the business support infrastructure since the 2012 assessment. Although there are basic services for SMEs, start-ups and incubators, the range could be expanded by stimulating the development of private business support providers through co-financing schemes and information on private providers. The main challenges remain in the areas of quality assurance, and monitoring and evaluation. Some progress has been made in supporting institutional infrastructure and financial instruments for innovation but more incentives could be provided to encourage the private sector to engage in innovative activities. The national policy framework for innovation should also be finalised and adopted. Montenegro has a number of strategies to promote environmentally friendly development, with the SME Strategy for Development explicitly promoting sustainable practices among SMEs. When it comes to public procurement, the Public Procurement Law enables tenders to be cut into lots and requires buyers to set proportionate qualification levels. The law allows companies to bid jointly and SMEs effectively participate in joint bids in practice.

Overall Montenegro's performance in supporting SMEs to access foreign markets has been mediocre in recent years. It has introduced strategies for SME development and competitiveness enhancement under a multiannual framework, linked to government export promotion programmes. Even though the Department for Competitiveness Enhancement and Export Promotion offers a range of activities to foster SME internationalisation, the programmes lack funding from the government budget and rely mainly on donor contributions, while the department needs to be more independent. However, Montenegro performs best in the region in facilitating trade across borders and comes close to the OECD average for cost, time and number of documents needed to import and export. With regard to alignment with the EU *acquis*, Montenegro has adopted a strategy and action plan, and has started to implement it. Montenegro is also drafting an action plan to address potential barriers to trade.

Overview

Economic snapshot

Montenegro is a consumption-driven economy dominated by services with a significant tourism sector. Being a very small and open economy, it is vulnerable to external shocks: growth volatility in Montenegro was the highest in the South East Europe (SEE) region over the past ten years (Table 15.1).

There are several barriers to increasing Montenegro's competitiveness, including liquidity problems and difficulty accessing finance for local enterprises, limited links to global value chains, and human capital constraints. Information externalities prevent economic diversification into new industries, and government schemes to support innovation remain scarce. The concept of information externalities was developed by Hausmann and Rodrik (2003), who studied the delay in the introduction of innovative entrepreneurial discoveries in developing economies. The authors compared the low social value gained by the initial entrepreneur who introduces a new product, to that gained by the latecomers who emulate such discoveries, minimising their own entrepreneurial risk, thus diminishing both the degree of innovation and supply differentiation in the country. On the other hand, co-ordination externalities, which arise when activities in one sector need to be co-ordinated with activities in another sector, undermine economies of scale, resulting in limited cluster development with relatively low levels of efficiency and specialisation.

The result of this is a highly concentrated export basket with significant scope for further diversification, particularly into higher value-added products. The structure of exports remains dominated by raw materials like aluminium and low value-added products

(Ministry of Finance of Montenegro, 2015). Foreign direct investment (FDI) is one of the highest in the region, at 10.3% of gross domestic product (GDP) in 2014, mostly directed towards the tourism and real estate sectors.

Montenegro's growth rate has fluctuated since 2010, mostly over 2.5% but with a major setback in 2012, when the economy entered into recession and contracted by 2.5%. In 2013 the economy rebounded with a growth rate of 3.3%, but growth slowed down again in 2014, to 1.5%. The recovery in 2013 was mainly generated by external demand and a successful tourist season. 2015 should mark a significant economic rebound, with growth of 3.2% expected, mostly driven by construction (IMF, 2015).

Montenegro has successfully introduced some reforms to the business environment which were largely beneficial to the real estate sector. These improvements contributed to it being ranked 46th out of 189 in the World Bank *Doing Business 2016* rankings (World Bank, 2015b).

Yet, as elsewhere in the SEE region, GDP growth has barely translated into increasing employment: unemployment in Montenegro is high, over 19% (World Bank, 2015a), with continuing low employment rates of about 45% and an activity rate of 55% (MONSTAT, 2015). The government budget deficit averages around 4%, having peaked at 5.9% in 2012, mainly due to the large contraction in GDP, and retrenched to 3.2% in 2013, and further down to 1.3% in 2014 (IMF, 2015). The government introduced a budget law in 2014 to keep the deficit under a ceiling of 2% by means of higher budget revenues from GDP growth, the so-called "crisis tax", and a freeze on public wages and pensions.

Montenegro started EU accession negotiations in June 2012 and is progressing by negotiating the chapters of the *acquis*. As accession negotiations advance, they might help attract further investment in the country. The privatisation process has progressed over the recent years, although it is often delayed by lack of investor interest.

Table 15.1. **Montenegro: Main macroeconomic indicators (2010-15)**

Indicator	Unit of measurement	2010	2011	2012	2013	2014	2015
GDP growth[1]	% year-on-year	2.5	3.2	-2.5	3.3	1.5	3.2
Inflation[1]	% average	0.7	3.1	3.6	2.2	-0.7	1.7
Government balance[1]	% of GDP	-4.6	-5.3	-5.9	-5.2	-1.3	-10.0
Current account balance[1]	% of GDP	-22.9	-17.7	-18.7	-14.6	-15.4	-17.0
Exports of goods and services[2]	% of GDP	37.0	42.3	43.7	41.3	40.1	n.a.
Imports of goods and services[2]	% of GDP	62.7	64.3	68.1	61.4	60.0	n.a.
Net FDI[3]	% of GDP	n.a.	12.0	14.7	9.7	10.3	11.4
External debt[3]	% of GDP	n.a.	117.6	126.6	128.7	132.9	n.a.
Gross reserves[3]	% of GDP	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Credit to private sector[3]	% of GDP	n.a.	57.9.	57.4	57.0	55.7	n.a.
Unemployment[2]	% of total active population	19.7	19.7	19.6	19.5	19.1	n.a.
Nominal GDP[1]	USD billion	4.1	4.5	4.0	4.4	4.6	4.0

Sources: (1) IMF (2015); (2) World Bank (2015a); (3) EBRD (2015). Italics indicate estimates in the original source.

SMEs in Montenegro

Article 3 of the Law on Accounting and Auditing (Republic of Montenegro, 2005) defines small, medium-sized and large enterprises, based on the number of employees, total annual turnover and total balance sheet (Table 15.2). The employment criterion conforms to the EU definition of SMEs. A draft Law on Accounting of November 2014 aims to introduce a definition of micro enterprises, but it has not yet been adopted. So far, only the Regulation on the Criteria, Conditions and Procedure for Awarding Government Assistance defines micro enterprises, using the criteria of fewer than 10 employees and less than EUR 2 million turnover. However, almost all authorities and official statistics use the definitions in the Law on Accounting and Auditing, covering only small and medium-sized enterprises.

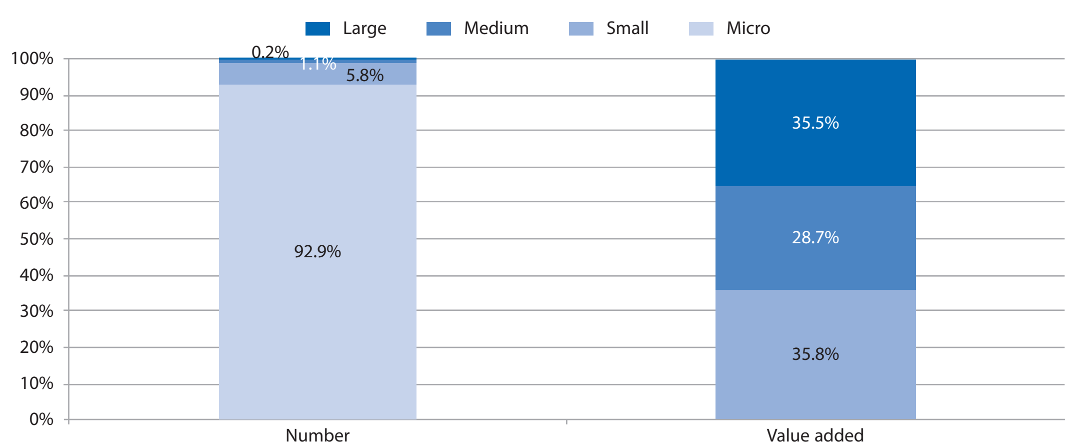
Table 15.2. **Definition of micro, small and medium-sized enterprises in Montenegro**

	EU definition	Law on Accounting and Auditing	Draft Law on Accounting and Auditing of November 2014
Micro	10 employees ≤ EUR 2 million turnover or balance sheet	No definition provided	< 10 employees ≤ EUR 700 000 turnover ≤ EUR 350 000 balance sheet
Small	< 50 employees ≤ EUR 10 million turnover or balance sheet	< 50 employees ≤ EUR 10 million turnover or balance sheet	< 50 employees ≤ EUR 8 million turnover ≤ EUR 4 million balance sheet
Medium-sized	< 250 employees ≤ EUR 50 million turnover ≤ EUR 43 million balance sheet	< 250 employees ≤ EUR 50 million turnover, ≤ EUR 43 million balance sheet	< 250 employees ≤ EUR 40 million turnover ≤ EUR 20 million balance sheet

Sources: Republic of Montenegro (2005), "Law on accounting and auditing", Official Gazette of the Republic of Montenegro, No. 69/05, Republic of Montenegro, Podgorica; Republic of Montenegro (2014), "Draft law on accounting", Republic of Montenegro, www.irrcg.co.me/uploads/08d55f4c39d808832cce9bcedaa955f4b55c1788.doc.

In 2013, SMEs in Montenegro represented 99.8% of the total business population and generated 64.5% of the economy's total value added (Figure 15.2). Since 2010, the number of SMEs in operation has increased by more than 20%. More than half (55%) of SMEs operate in the wholesale and retail sector, followed by construction (16%) and manufacturing (13%) (Figure 15.3).

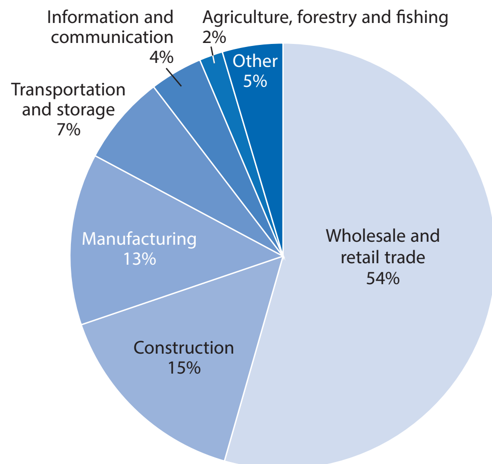
Figure 15.2. **Business demography indicators in Montenegro (2013)**



Note: Data on small enterprises cover both small and micro enterprises.

Source: SBA assessment government questionnaire.

Figure 15.3. **Distribution of SMEs in Montenegro by sector (2013)**



Source: SBA assessment government questionnaire.

SBA assessment results

Strengthening the institutional, regulatory and operational environment (Dimensions 3, 4 and 2)

Institutional framework

The Directorate for SME Development within the Ministry of Economy continues to be the main body responsible for designing and implementing policies in support of small enterprises. A Co-ordination Team of several actors is responsible for the drafting and implementation of the national Strategy for Development of Small and Medium Enterprises 2011-2015. It consists of representatives from the Ministry of Economy, the Chamber of Commerce, Union of Employers, Investment Development Fund, Employment Agency, Business Alliance, and external organisations like GIZ and the European Commission. The main goals of the strategy are to further improve the business environment, develop financial support, strengthen SME competitiveness, and promote women's entrepreneurship and business start-ups.

The budget for the implementation of the SME strategy is approved on an annual basis through the adoption of action plans. The total budget for SME support programmes rose from EUR 43.8 million in 2012 to EUR 87.9 million in 2015, mostly financed through financial contributions from international development funds, complemented by government and private-sector support. Implementation of the action plans for 2013 and 2014 has mostly been in line with planned activities. Annual reports are produced by the Directorate for SME Development and compare the activities foreseen in the action plan with those ultimately achieved. Corrective measures based on these monitoring reports are included in the action plan for the next year. Despite having this monitoring system in place, a lack of timely and quality statistical data on SMEs impedes further analysis of SME performance throughout Montenegro.

Some measures on reducing the informal economy have been included in the 2011-2015 SME strategy. Actions to tackle the informal economy are mostly carried out by the Tax Administration and the Council for Improvement of the Business Environment and Regulatory Reform. Measures undertaken include easier access to online registration systems and simpler procedures for the payment of taxes.

Legislative simplification and regulatory impact analysis (RIA)

Based on the successful regulatory guillotine process initiated in 2009, the Montenegrin government adopted the Regulatory Guillotine Action Plan in May 2012, which contained 1 344 recommendations to improve the regulatory framework although only about half of them had been implemented by the end of 2013. Although further implementation was envisaged for 2014 and 2015, the process has however been criticised by the private sector as being too cumbersome and having little visible effect.

Regulatory impact assessment (RIA) was formally introduced with the new Rules of Procedures of the Montenegrin Government in 2012. Since then, the Ministry of Finance has undertaken over 590 reviews of legislative proposals with particular emphasis on assessing their implications for the business environment and their impact on the state budget. The Ministry of Finance handles quality control for the RIA procedure, scrutinising the overall completeness and quality of the RIA documents and the accuracy of the estimates of fiscal impact. The RIA reports and the Ministry of Finance's opinion are both delivered to the government along with the policy proposal. While the institutional framework for RIA seems well developed, the private sector has criticised the government for not thoroughly implementing follow-ups from RIA recommendations.

Public-private consultations (PPCs)

Montenegro adopted the Decree on the Procedure and Method for Conducting Public Hearings in Drafting Laws in 2012, which provides a legal basis for public-private consultations (PPCs). The decree stipulates a minimum period for consultations conducted with the public, including citizen, business and civil-society organisations. All ongoing consultations are published on the e-government portal. Guidelines on how to conduct PPCs have been developed. In total 12 meetings were held in 2014 by different institutions, including 2 for the national SME Strategy and 6 for the Council for Improvement of the Business Environment,

When PPCs are conducted, they are generally open to the wider public. SMEs are mostly represented through business association such as the Chamber of Commerce, the Montenegro Business Alliance and the Montenegrin Employers' Federation.

Interaction with government services (e-government)

Montenegro has extended its e-government services based on the Strategy for the Development of Information Society and Telecommunications 2012-2016. The strategy's e-government action plan envisaged the introduction of 200 services by the end of 2016. There are currently more than 77 services being offered by 24 institutions through a single e-portal. Online filing of taxes is only available for natural persons, and not yet for legal entities. E-government services in the area of social security area returns and pensions are also not yet operational. E-cadastre was introduced within the scope of the Real Property Management part of the Land Administration and Management Project, with the objective of providing a quick and efficient way of viewing cadastral records in accordance with legislation.

Online reporting of enterprise statistics is partially operational; data can be sent electronically to the reporting units in the Montenegrin National Statistical Office but no electronic forms for data filling can be used yet. Facilities using electronic signatures have been established in key e-services and e-commerce areas, largely within the realm of tax administration, such as tax payment. Currently the high price of a digital certificate (EUR 110 for three years) is one of the main barriers to further use.

Company registration

Montenegro displays a solid performance on company registration, ranking 59th in the World Bank *Doing Business 2016* starting a business indicator (World Bank, 2015b). Registration takes ten days overall on average, with six procedures for companies to follow. Registration fees are below the regional and EU average, amounting to 1.4% of income per capita and no paid-in minimum capital is required. These figures have seen no major changes since 2012. Companies can be partially registered online: a registration request can be submitted through the e-government portal, but payments need to be done in person.

The Central Registry of the Commercial Court was introduced in 2011 as a one-stop shop for businesses with a view to simplifying administrative procedures. Company registration is available in eight regional tax administration units. Montenegro has introduced the Tax Identification Number, which acts as a single identification number when dealing with all the standard public administration functions.

Business licensing

A central e-register of licences was created in Montenegro in 2011, providing detailed information on the requirements and procedures needed to obtain any business-related licence or permit issued by 35 different authorities, as well as a set of templates that can be used in this process. The e-register is maintained by the Chamber of Commerce. Ministries are obliged to provide information on all the licenses granted to the Chamber although in practice the e-register is not always up to date. In a recent survey conducted by the World Bank, 0.3% of firms identify permits and licences as a major constraint of doing business, indicating a rather smooth business licensing system (World Bank, 2013).

Bankruptcy procedures and second chance

The Law on Insolvency governs the procedure for distressed companies in Montenegro. The latest law, introduced in 2011, has brought the procedures in line with international standards as outlined by the United Nations Commission on International Trade Law (UNCITRAL) Guide on Insolvency Law (UNCITRAL, 2005, 2012, 2013). The law is considered to be applied in a systematic and transparent manner and an outline of discharge procedures are in place; final discharge and removal from the court register occur after a final court decision. Montenegrin insolvency law provides for out-of-court settlements, which are often considered less expensive and quicker than formal bankruptcy procedures. Efforts are being undertaken to minimise delays to the bankruptcy process with the establishment of enforcement officers who help to streamline court procedures and the introduction of time limits for proceeding and the recovery of secured creditors' claims.

According to the World Bank *Doing Business 2016* report, the performance of the new insolvency law has ensured that enterprises are in bankruptcy procedures for 1.4 years on average, at a cost of 8% of the estate, with a recovery rate of 48.4% (World Bank, 2015b). The public authorities have yet to initiate an information campaign or training programmes to promote second chances among entrepreneurs.

Facilitating SME access to finance (Dimension 6)

Legal and regulatory framework

Montenegrin SMEs benefit from a well developed and robust legal and regulatory framework, which supports lending to the sector. Creditors' rights are protected by a comprehensive legal framework. A cadastre system and registration system for pledges over movable assets are in place. However, improving online access and coverage of the cadastre would help increase its efficiency and ease of use. A project to make cadastre data available through a map interface and allow the public access to the data is currently underway. Montenegro's public credit registry has been in existence since 2008, but its coverage has stagnated at around 26% of the country's adult population. Since 2013, borrowers have had the right to access their credit information by law. To date, the Basel II recommendations have been partially implemented, while implementation of Basel III is planned in the coming year, which may help with banks' governance and risk management, which currently remain challenging.

Sources of external finance for SMEs (bank financing, non-bank financing and venture capital)

Bank finance is the main source for financing in Montenegro. However, the share of businesses that have been discouraged from applying for a loan has significantly increased to close to 60% in 2013 according the latest round of the Business Environment and Enterprise Performance Survey (BEEPS V; EBRD, 2014b). At the same time, the reliance on bank financing for fixed asset purchases has fallen significantly (EBRD, 2014b). With 14, mainly foreign-owned, banks operating in the country, the banking sector remains vulnerable to external shocks. In addition, the share of non-performing loans remains high at around 17%, further inhibiting credit growth. Incentives for SME lending are limited to subsidised interest rates provided through the Investment & Development Fund (IDF). While such programmes can help SMEs access finance, more commercially based support programmes such as a credit guarantee schemes would prove more sustainable. Shortly after the last assessment, the IDF did offer credit guarantees but they were abolished again in 2013.

Non-bank financing is largely limited to the activities of microfinance institutions which only amount to around 1.6% of total loans. There are no saving and loan associations operating in Montenegro and no legal framework to support their establishment. Montenegro has seen a significant drop in leasing activities with penetration falling from 5.7% of GDP in 2010 to only 0.1% in 2013. A Law on Financial Leasing exists. A 2013 report on the leasing market by the Ministry of Finance led to improvements in leasing regulation but to date no regulatory body supervises leasing activities. Factoring services are offered in Montenegro, although a specific legal framework for factoring still needs to be developed. The Ministry of Finance is currently preparing legislation to this end. There is no venture capital activity in Montenegro and virtually none of the ecosystem needed to support it, including the presence of a business angels network.

Financial literacy

Montenegro does not have a national strategy or initiative to promote financial literacy in the country. Limited and ad hoc training on financial literacy and general business management is provided through the Supporting Entrepreneurship Development programme, co-ordinated by the Directorate for SME Development. The national curriculum does not incorporate financial literacy or awareness of its importance. No specific assessment has been carried out to assess financial literacy, but a strategic document by the banking ombudsman has outlined the need to increase financial awareness amongst the population.

Promoting skills and entrepreneurship development (Dimensions 1 and 8a)

Lifelong entrepreneurial learning

Two previous SBA assessments made creating a policy partnership to promote lifelong entrepreneurial learning in Montenegro a priority recommendation, including the need for national policy leadership, stronger commitment, ownership and the need for dedicated resources. Since then, substantial progress has been made in addressing these challenges. Following co-ordinated efforts by the Ministry of Economy, Ministry of Education and other policy partners, strategies for Lifelong Entrepreneurial Learning for 2008-2013 and 2015-2019 were adopted. The Directorate for SME Development acts as a co-ordinator of the national partnership, and plays a leadership role in strategy implementation. It is responsible for the annual planning and co-ordination of actions, resource allocation, data collection and reporting under the strategy.

A strong national effort has been made to harmonise national policies and laws to support entrepreneurial learning across different areas of national economic and social development, including human resources, education, SME promotion and employment. Entrepreneurial skills are now one of the government’s policy priorities in Montenegro, making them an integral part of key strategic documents, including the National Development Plan 2013-2016. Along with the adoption of the policy framework, a number of individual education strategies have included entrepreneurship, such as the strategies for primary education (2011-17), higher education (2011-20), and adult education (2005-15). The national entrepreneurial learning policy partnership thus benefits from the availability of a structured policy framework, policy support instruments and resources benefiting the promotion of key competences, curricula development and teacher training.

At the same time, national policy makers need to consistently address all areas of skills development and upgrade the national vocational education and training (VET) and research and development (R&D) strategies to ensure the consistent integration of entrepreneurial learning and entrepreneurship key competences. The impressively strong joint efforts and major resources invested into the support of entrepreneurial learning now require a well-structured monitoring and evaluation approach by policy partners to ensure the effective and cost-efficient implementation and improvement of the above policies. Montenegro has made progress in the evaluation of entrepreneurial learning programmes, for example with the launch of national reporting through school inspections to the Bureau for Education Services, and the preparation of post-implementation reports on entrepreneurship under the Bruges process (European Union, 2010). Monitoring and evaluation should be placed in a lifelong perspective, and ensure due emphasis on data quality and availability.

Montenegro stands out in the region in the area of exchange good practice on entrepreneurial learning. It has embedded the “Training Firms” initiative as an obligatory element of formal education practice and there are consistent efforts to link good practice exchange, networking and capacity building measures like teacher training. It was active in the South East European Centre for Entrepreneurial Learning (SEECEL) regional good practice initiatives and contributed to piloting the key competence approach. Now it is time to spread the good practice exchange across all forms and levels of education and non-formal learning, especially given that major part of higher education institutions remain outside of the scope of these efforts.

In its practical implementation of the key competence approach, Montenegro is in a good position in the region due to its good results in lower and upper secondary education. After preparatory steps in the curricula, and teachers' and principals' training, in 2014 all lower secondary schools adopted a cross-curricular approach to the development of entrepreneurship competence. This is the first phase of a step-by-step reform, which envisages similar measures at the upper secondary level from the next academic year.

This integrated approach to the introduction of the entrepreneurship key competence into the school curricula was supported by the collaboration of Montenegrin education authorities with regional support programmes, including the adoption of SEECEL's entrepreneurship competence framework, and in-service teacher training programme.

The integration of practical entrepreneurial experience into the learning process further enhanced the reform effort and is supported by the Strategy for Development of Vocational Education 2015-2020, and Strategy for Lifelong Entrepreneurial Learning 2015-2019. Next, the national policy partners should strengthen the link between entrepreneurial learning and career guidance, and ensure effective tracking of VET graduates.

In higher education, achievements in promoting entrepreneurship have been more modest, except for the faster developments in the adoption of a co-operation framework between higher education and business. The SME Strategy Action Plan and the Science and Technology Strategy both aim to strengthen the links between SMEs, universities and centres of excellence. Although higher education autonomy presents challenges for the government in reaching out to individual institutions, promotion of the entrepreneurship key competence and good practice exchanges at the national level could facilitate change within higher education network.

Women's entrepreneurship

While the share of women business owners in Montenegro is one of the lowest in Europe, government support measures are targeting the legislative and institutional support framework needed to promote the constitutional right of gender equality and economic empowerment of women. The Law on Gender Equality and the Law on Anti-Discrimination provide a legislative basis for these efforts. The institutional mechanisms to implement these policies are triggered by the Department for Gender Equality of the Ministry for Human and Minority Rights and the Committee for Gender Equality of the Parliament of Montenegro. An important step forward was publication of the report *Assessment of the Environment for Women's Entrepreneurship in Montenegro* (MEF, 2013) by the Montenegrin Employers Federation with support from the International Labour Organization (ILO). In the absence of a women's entrepreneurship strategy, dedicated measures are required to ensure effective training, support for women entrepreneurs, and monitoring and evaluation of public and private programmes. Inter-agency co-ordination mechanism at the governmental level should be considered.

SME Skills

Training needs analyses (TNAs) for SMEs are well developed in Montenegro, being a priority of both the Strategy for Lifelong Entrepreneurial Learning 2015-2019 and the SME Strategy. Among respondents to the annual Employers' Survey – which covers skills and knowledge – 95% are SMEs. Furthermore, the Directorate for SME Development, Montenegrin Employers' Federation and regional partners, led by SEECEL, jointly helped to consolidate Montenegro's approach to training needs analysis for micro and small enterprises. Quality assurance of SME training by the public and private sectors involves accreditation of entrepreneurship trainings programmes by the National Council for Education as well a special measures for individual parts of education system, such as quality assurance in VET. The government provides pre-start-up and start-up training programmes through dedicated institutional structures such as the Employment Agency, Business Start up Centre Bar and Directorate for SME Development. Training and support for enterprise growth and internationalisation has been increasing and is an integral element of the SME strategy, reinforced by annual action plans and implementation of the Voucher Scheme under the regional Competitiveness Initiative. The Strategy for Enhancing Competitiveness at the Micro Level 2011-2015 promotes strengthened export performance among SMEs. The Montenegrin government co-operates with the Enterprise Europe Network and works closely with the Chamber of Commerce. It is important to further consolidate these collective efforts and invest in new means of training delivery, such as e-training, in order to increase the accessibility, flexibility and quality of training and support services, and ensure the link to the TNAs.

Enhancing SME competitiveness (Dimensions 5a, 5b, 8b and 9)

Business information and services

SME support services are included in the SME Strategy 2011-2014 and the Strategy for Sustainable Growth Through the Introduction of Clusters 2012-2016. The services offered are based on the findings of market research and analysis. Montenegro has only marginally enhanced the range of SME support services available due to budgetary constraints. Many financing, consultancy and mentoring services are developed and supported by donor agencies, such as the Japan International Cooperation Agency (JICA). The Centre for Vocational Training organises business plan competitions. Start-up support is only provided in the form of subsidised credit through the Entrepreneurship Development Programme and entrepreneurship training by the Employment Agency. There are business incubators in Podgorica and Bar, the former being not fully operational due to funding constraints. Information on starting and operating a business, as well as about the projects and opportunities related to SMEs is available online and through various brochures, although it is not exhaustive.

Given the budgetary constraints, the Montenegrin government should start to stimulate the development of the private business support infrastructure, for example by mapping the existing business development services (BDSs) provided by private actors, assessing whether the services address SMEs' needs and developing co-financing schemes. Through the introduction of co-financing schemes, the range of services accessible for SMEs could be widened. The quality of services could be enhanced through increased competition in the private market as well as through certification of the private BDS providers.

Public procurement

The Public Procurement Law enables tenders to be cut into lots and requires buyers to set proportionate qualification levels. The law allows companies to bid jointly and SMEs effectively participate in joint bids in practice. National and foreign companies are treated equally and there is a relatively high level of foreign participation (9.92% in 2013). Information on public procurement is centralised at national level through a dedicated web portal which is free to use.

Since the last assessment in 2012, Montenegro has adopted the Late Payment Act, which entered into force on 12 July 2014 and sets deadlines for the settlement of monetary obligations between undertakings and the public sector and foresees fines for late payments. The Public Procurement Law was amended on 16 December 2014 to allow tenderers to submit copies of documents, with only the winning tenderer required to supply original documents. In October 2014, Montenegro was admitted to the World Trade Organization Government Procurement Agreement which further increases the openness of its public procurement market.

Challenges remain for Montenegro, as the Public Procurement Law allows contracting authorities to set financial requirements for bidders without requiring that these should be proportionate. Although contracting authorities may select the most economically advantageous tender, i.e. the one offering best value for money for the public buyer,, in practice tenders are most commonly selected on the basis of the lowest price offered. Montenegro still has to align its legislation with the revised EU Public Procurement Directives.

Innovation policy

Gross expenditure on R&D (GERD) in Montenegro has almost tripled since 2009. In 2012, it was 0.43% of GDP, much lower than the EU average of 2.01%. Montenegro puts a strong emphasis on international collaboration and has the highest share of GERD coming from international sources in the region (15%). Ranked 58th out of 142 countries in the World Economic Forum reports (2014), Montenegro is among the most innovative in the region.

Montenegro has no separate strategy devoted to innovation but is in the process of preparing an innovation policy framework and the development of an innovation strategy is planned for 2016. Innovation policies are included in several other government documents, such as the Strategy for Scientific Research Activity, the 2011-2015 SME Strategy, and the 2012-2016 Strategy for Sustainable Economic Growth in Montenegro Through the Introduction of Clusters. Moreover, there is no dedicated body to co-ordinate innovation policy. The Ministry of Science and the Ministry of Economy, as well as various councils are involved in developing policies. There is also no dedicated agency responsible for implementing strategies related to innovation. The Ministry of Economy and Ministry of Science seek to promote innovation and SME collaboration with academia through initiatives like cluster development and the EUREKA ones.

Since the 2012 assessment, Montenegro has made progress in supporting the institutional infrastructure for innovation and in developing financial instruments focused on collaboration between business and academia. National strategies emphasise a number of institutional support services and infrastructure. As well as the two incubators in Bar and Podgorica, a new one is planned in Berane. There is a plan to establish a science and technology park with headquarters in Podgorica and three decentralised units – the "impulse centres" – in Nikšić, Bar and Pljevlja. The first impulse centre, Technopolis (Nikšić), is currently in progress. The Centre of Excellence in Bioinformatics was established in Podgorica as part of the Higher Education and Research for Innovation and Competitiveness (HERIC) project. There are six pilot clusters, which are currently being developed under the Ministry of Economy. Finally, the government established a scientific research portal, Naucnamreza.me, with the contact details of researchers and members of the diaspora. It is meant to facilitate contact between business and industry within and outside Montenegro. Although many initiatives are planned, resources to support the existing infrastructure are still limited.

Financial support services for innovative SMEs are emphasised in the Law on Scientific Research Activity and the draft Law on Amendments to the Law on Scientific Research, from September 2014. Even though the government is making ad hoc efforts to promote innovation to companies and SMEs in particular, there are limited funding opportunities for businesses focused on RDI activities. The existing grant schemes predominantly focus on joint business-academia projects. This includes the Transfer of Knowledge between Sectors of Higher Education, Research and Industry grant scheme, which has a total budget of EUR 750 000, provided under the HERIC project. By August 2015, it had concluded 7 grant agreements for R&D subprojects, which involved 15 industrial partners. SMEs can also apply under the EUREKA programme to get support promoting market-oriented research but only two companies have benefited from it so far. Other than value-added tax (VAT) exemptions for purchasing scientific equipment, there are no tax incentives to stimulate private-sector R&D expenditures. The Voucher Scheme for Innovative SMEs, supported by the OECD, provided support to 16 companies in 2012, but it did not continue due to lack of resources.

Green economy

Montenegro has made efforts to include environmental policies for SMEs into national policies. The Action Plan for Energy Efficiency (2013-2015) highlights a series of planned measures to promote and increase energy efficiency in the transport sector, albeit without clearly stated targets. The SME Strategy for Development of Small and Medium Enterprises (2011-2015) stresses the need to improve energy efficiency and sustainability with the use of renewable energy sources, but also does not outline concrete actions or targets. The Chamber of Commerce, under the framework "Cleaner Production Programme in Montenegro", has begun introducing certification for cleaner production. The programme is based on an UNIDO programme that established national cleaner production centres in 50 countries. Montenegro's programme has thus far issued eleven certificates in the agriculture sector, two in the tourism sector, and fifteen to national consultants. Moreover, the Certification Body of Montenegro is developing a national certification programme for the tourism sector, for companies demonstrating a commitment to environmental issues. The Environmental Protection Agency and Ministry of Sustainable Development and Tourism provide information and recommendations on environmental policies and tools. The National Council for Sustainable Development and Climate Change was established in 2007 by the Government of Montenegro, as a high-level advisory body for the implementation of sustainable development, including measures concerning SMEs.

Supporting SME internationalisation (Dimensions 10 and 7)

Trade performance and regulatory barriers to trade

Montenegro's total trade in goods and services amounted to USD 4.6 billion for the period January-December 2013, a 12% increase over the same period in 2010. The trade deficit stands at 22% of GDP, and has significantly decreased since 2010, when it amounted to 28% (ITC, 2014). SMEs' share of exports amounted to 34.2% in 2013, which is 10% higher than in the year before. The average value of each enterprise's exports increased from EUR 16 654 in 2012 to EUR 22 713 in 2013. The World Bank *Doing Business* indicators for export and import show that Montenegro has made a significant improvement in reducing costs between 2009 and 2015 and is now below the OECD average (Table 15.3). Although the time and number of documents needed to export/ import remained the same, Montenegro is not far from reaching the OECD average on this measure and is the best performer in the region.

Table 15.3. **Montenegro: Trading across borders (2015)**

	Montenegro	OECD average
Documents to export (number)	6	4
Time to export (days)	14	10.5
Cost to export (USD per container)	985	1 080
Documents to import (number)	5	4
Time to import (days)	14	9.6
Cost to import (USD per container)	985	1 100

Source: World Bank (2014), *World Bank Doing Business Report 2015.*

Export promotion and global value chains

Government export promotion programmes targeting SMEs are linked to the Strategy for SME Development 2011-2015 and the Strategy for Competitiveness Enhancement at Micro Level 2011-2015.

The Department for Competitiveness Enhancement and Export Promotion was established in 2006 within the SME Directorate of the Ministry of Economy. It is the main body responsible for export promotion. It provides expert assistance developing programmes to improve the quality of export products, programmes to enhance competition, support for the creation of marketing plans and training programmes for exporters, as well as informing companies about export markets. Its activities further include trade policy information and commercial intelligence, country representation at major trade fairs, market research, product development and training (on export regulations, standards, and intellectual property rights), organisation of national exhibitions, and support for the development of existing and new Montenegrin branding. Since its capacity is limited, only some of its targets (mainly measures regarding promotional activities and education of exporters) have been fully achieved. National SME promotion events are organised on an ad hoc basis by the SME Directorate, Ministry of Agriculture and the Ministry of Sustainable Development and Tourism.

The government budget for export promotion programmes is limited; programmes are mainly funded by donor contributions. Funding for the implementation of the export promotion programme within the Action Plan for SME Development consisted of EUR 1.17 million from donors, EUR 227 400 in public support and EUR 1 500 from private institutions. Furthermore, the Department for Export Promotion lacks the budget and staff to create innovative support for export-oriented SMEs. As a sub-body of the SME Directorate, it has no independent status and no control over the use of its budget or the hiring of its staff.

Since the programme is an integral part of the SME Strategy, it is supervised by the SME Directorate which publishes an annual report on its work, detailing all completed activities, including export promotion activities. In March 2013, Montenegro, together with the Central European Initiative and the OECD, evaluated the implementation of specific support measures for small and medium-sized enterprises. The initiative evaluated the impact of the Montenegrin Trade Show Scheme which supported the participation of SMEs in a trade show and found that enterprises benefited in terms of increased sales, exports and organisational learning.

There are no government programmes in place to support SME integration into global value chains (GVCs) and no related activities are currently implemented.

Standards and technical regulation

Montenegro has adopted a strategy and action plan for alignment to the EU legislation, and has started to implement it. Montenegro is also drafting an action plan to address potential barriers to trade. The Institute for Standardization of Montenegro is an affiliate member of European Committee for Standardization (CEN), and the European Committee for Electrotechnical Standardization (CENELEC). It is adopting standards aligned to the EU, but its capacity remains weak. The Accreditation Body of Montenegro is a full member of the European co-operation for Accreditation (EA), and has adopted the Strategy for the Development of Accreditation for the Period 2015-2018, but its resources remain weak. The regulatory framework for conformity assessment is partially harmonised with EU legislation. The number of accredited conformity assessment bodies has increased, and a couple more are in the process of being accredited. Legislation on metrology is in place and in line with the EU *acquis*, several laboratories have been accredited, and several more are in the process. The overall programme of market surveillance is made on an annual basis and amendments to the law on market surveillance have been adopted.

The way forward

Montenegro has made some progress since the last SBA assessment in harmonising its SME policy with the SBA principles. In the area of entrepreneurial learning in particular, Montenegro has successfully undertaken positive steps. Improvements have been made in Montenegro's institutional infrastructure and financial instruments for innovation, and established a solid institutional framework for SMEs. It has made slight progress in supporting access to foreign markets among SMEs and the provision of business support services since the 2012 assessment. Access to finance continues to be a major constraint for SMEs.

Strengthening the institutional, regulatory and operational environment

Montenegro has established a solid institutional framework for SME policy, including a functioning policy co-ordination mechanism for policy design and implementation through the Co-ordinating Team composed of government, private sector and donor representatives. Montenegro now needs to deepen its efforts to establish a sound monitoring and evaluation system for its SME strategy, going beyond simply tracking the implementation of its actions and instead looking at the actual effects of its policies. In the short term, this could include a systematic and objective assessment of an ongoing or completed SME policy programme or policy, its design, implementation and results. Enhancing the collection of SME statistics will be a prerequisite for improved policy making.

While Montenegro has created a formal framework and structures for legislative simplification and RIA, it has only assessed its actual effect on the business population to a limited extent. More emphasis should be placed on engaging with the business community to prioritise the most burdensome legislation and keeping track of the actual effects of the work conducted on the ground. Montenegro should further strengthen its business environment by continuing to expand the provision of e-services. Important steps in this area would be the introduction of online filing of taxes for legal entities and full implementation of the electronic signature.

Facilitating SME access to finance

Although Montenegro has established a solid legal and regulatory framework for access to finance, it is a major obstacle to doing business for SMEs. Therefore, some important steps should be considered to move forward. Montenegro should consider facilitating the inclusion of information from retailers and utility companies in the credit information system, either by expanding the credit registry or by encouraging the establishment of a private credit bureau. This should, in turn, increase coverage and help facilitate access to finance for smaller companies with limited credit histories. In addition, the approval and implementation of the planned legal reforms for leasing and factoring should help encourage the use of such non-bank financing options. Finally, the recommendations by the banking ombudsmen to raise financial awareness should be followed with an action plan to systematically increase financial literacy amongst the population. Improved financial management and business planning skills would also increase SME's ability to present bankable projects.

Developing Entrepreneurial Learning, women's entrepreneurship and SME skills

Montenegro has made significant progress in addressing the priority recommendations of the last SBA assessment in 2012 on entrepreneurial learning. In order to further enhance this policy area, Montenegro could focus on the integration of entrepreneurship key competence into the curricula and learning process to make them consistent with the lifelong learning approach and support promotion of good practice exchange. It should implement national measures for the comprehensive monitoring and evaluation of entrepreneurial learning policies and development of the entrepreneurship key competence, focusing on the quality and relevance of the data collected, including sex-disaggregated statistics, data on SME training needs and data from tracer studies. Setting up an inter-agency co-ordination mechanism and adopting dedicated policies will be important for supporting women's entrepreneurship. Montenegro should also implement measures to link the training on offer with the results of training needs analyses. It should also consider new forms of training for various target groups of entrepreneurs, with specific focus on SME growth, internationalisation and trade promotion, starting with e-training.

Enhancing SME competitiveness

Montenegro still has to align its legislation with the revised EU Public Procurement Directives. Further, the Public Procurement Law allows contracting authorities to set financial requirements for bidders, without requiring that these should be proportionate.

The main challenges for the promotion of SME services in Montenegro are still ensuring that the services provided have a greater scope and better quality, improving the currently underdeveloped monitoring and evaluation, and the collection of feedback from SMEs. The majority of investment readiness programmes are monitored but only some of them are evaluated. It is unclear how monitoring and evaluation results are used and whether the processes are conducted independently. Mechanisms for SME feedback are only selectively available, while data on SME participation in different programmes are collected regularly.

Given that its current R&D strategy expires in 2016, the government should focus on adopting a dedicated strategy for innovation. Moreover, it should establish an inter-governmental body, such as a national innovation council in order to co-ordinate the activities of the different ministries involved. Although there have been improvements in the offer of institutional services and business-academia collaboration, the private sector in Montenegro does not have sufficient incentives to engage in innovative activities. The government could consider implementing financial instruments to directly support innovative companies. It could also consider additional measures to incentivise private sector R&D spending such as tax incentives and demand-side measures.

Montenegro has established an effective set of laws which govern environmental policy throughout the country, with the SME strategy explicitly focusing on how SMEs can more effectively transition towards energy efficiency and the use of renewable energy. However, it is not clear how effectively information on meeting environmental standards, is being disseminated to businesses and thus such activity could be better promoted. Furthermore, the government might start reviewing the possibility of implementing regulatory/financial incentives to help SMEs towards greening activities.

Supporting SME internationalisation

Montenegro has taken some positive steps on internationalisation, such as the implementation of a strategy for SME development and competitiveness under a multi-annual framework. Increasing the government budget for export promotion activities and the export promotion agency could help to make the programmes more fruitful and innovative, as the evaluation of the Montenegrin Trade Show Scheme showed in 2013. Further evaluations assessing the impact of government programmes with questionnaires, might help to improve the efficiency of export promotion programmes and the use of public funding. SMEs might also benefit from the implementation of dedicated export finance tools and from regularly held national SME events. Montenegro could also start to analyse how SMEs can be integrated into global value chains, since there are no programmes in place in this area yet. The Enterprise Europe Network (EEN) in Montenegro provides a key instrument to foster SME internationalisation by providing a platform for SMEs to seize business opportunities in the EU Single Market and beyond.

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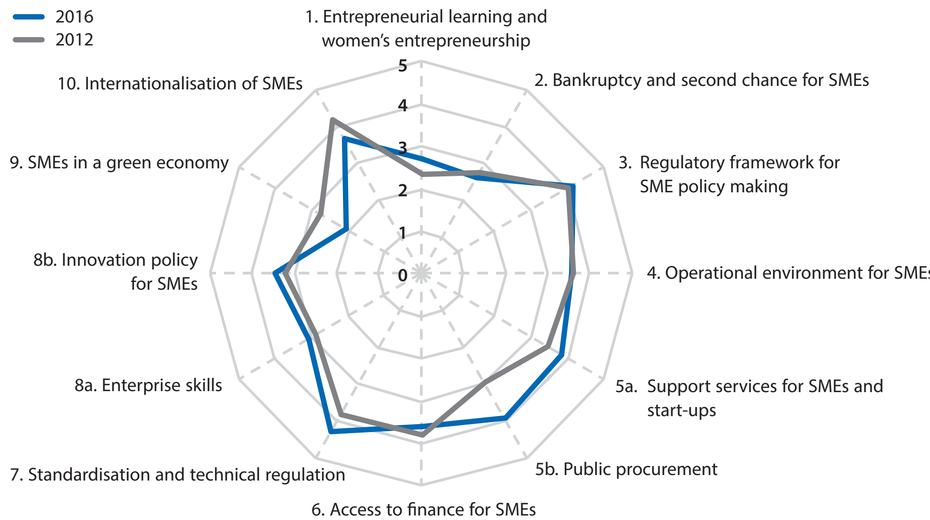
Chapter 16

Serbia: Small Business Act profile

With its small internal market dominated by services and a still intrinsically consumption-driven economy, Serbia's key policy priorities are economic competitiveness and export-led growth. Building on a well-developed institutional framework for SME policy with a forward-looking SME development strategy, Serbia has improved its operational environment for SMEs, particularly on company registration and e-government services. Serbia's strong focus on SME training needs analysis represents a further major step forward. It has further progressed in promoting innovation within SMEs, allowing entrepreneurs being more actively involved in international collaboration programmes.

Going forward, a key medium-term priority should be the establishment of a monitoring system tracking progress in the implementation of its SME policies and measuring their effectiveness on the ground. Access to finance for SMEs should be strengthened by broadening options for non-bank financing. The government further needs to address burdensome regulations in key areas such as permits and licences. Environmental policies for SMEs have not been implemented yet and SME policy is not yet considered as an integral part of environmental policies.

Figure 16.1. **SBA draft scores for Serbia**



Key findings

Serbia continues to have a proactive and very well-developed approach to SME policy, with a forward-looking SME development strategy and a wide range of support services in place. The legislative review process is well advanced and regulatory impact assessment continues to take place and take SME aspects into consideration. Progress has been made in the areas of company registration and e-government services although there is still room for improvement. The Law on Bankruptcy governs formal insolvency procedures in a systematic and transparent manner although implementation of the law could be improved and a framework for the promotion of second chances among entrepreneurs established.

Access to finance remains a key obstacle to the development of the SME sector. High levels of non-performing loans (NPLs) constitute a drag on lending activities and have weakened financial intermediation in recent years. The euroisation of the banking sector and the economy more widely continues to persist. Bank finance remains the dominant source of lending for SMEs, and the availability of alternative financial instruments needs to be broadened.

Serbia has made a major step forward since the 2012 SBA assessment with a strong focus on SME training needs analyses. It has also achieved a more structured approach to supporting women's entrepreneurship and has made progress in the development of entrepreneurial learning policies since 2012. The development of entrepreneurial skills is currently one of the priorities for education and overall human resource development in Serbia and entrepreneurial learning is featured in national strategy documents.

Serbia has made significant progress in the geographical expansion of SME-related services included in the SME Strategy 2015-2020, provided by a growing number of Regional Development Agencies. Challenges remain in the area of evaluation, which remains limited for both investment-readiness services and initiatives aiming at stimulating the development of private business support services.

Some progress has been made in the area of innovation but Serbia needs to develop a new strategy for innovation, placing more focus on SMEs and ensuring better implementation through a co-ordinated approach among the relevant governmental institutions.

There is a potential disconnect between environmental protection and the development of SMEs, as Serbia has no national strategy which targets environmental policy towards SMEs. There is no evidence of any financial or regulatory incentives to promote the greening of SMEs.

The public procurement market is open to economic operators from Central European Free-Trade Area (CEFTA) countries and EU companies will enjoy national treatment by September 2018 at the latest, until which date Serbia has to gradually reduce its existing price preferences. The legislation gives contracting authorities the possibility to request subcontracting by SMEs for tenders above certain thresholds.

Serbia's policy framework to strengthen SMEs internationalisation is well advanced with the Strategy for Entrepreneurship Development and Competitiveness for 2014-2020 and a range of government export promotion programmes. However, one of the main programmes has been discontinued and the export promotion agency is currently under reorganisation. Serbia has a range of export finance tools in place. The new Strategy for the Entrepreneurship Development and Competitiveness mentions integrating SMEs within global value chains, but no concrete measures to achieve this have yet been introduced. With regard to quality infrastructure, Serbia is currently drafting an action plan to address potential barriers to trade, but has not yet adopted a quality infrastructure strategy for the coming period.

Overview

Economic snapshot

Serbia is a small, open economy, dominated by services and still intrinsically driven by consumption. Given the small size of the Serbian domestic market, in order to achieve sustainable growth it needs to transform its economic structure into an export-led model, favouring investment by domestic and foreign companies. And yet, external competitiveness has been decreasing over the years, despite Serbian governments' efforts to attract foreign direct investment (FDI). The wage-productivity gap has widened over the past 15 years, manufacturing unit labour costs have increased and the real effective exchange rate has moderately increased as well, compared to the pre-crisis period (World Bank, 2015a).

The Serbian economy was severely hit by the financial crisis, resulting in the second-weakest post-crisis gross domestic product (GDP) growth rate in the region (Table 16.1). As a result of monetary measures and stronger exports, growth recovered in 2011. An upsurge in the car industry, a good harvest and exports contributed to economic growth of 2.6% in 2013, but then severe flood damage in mid-2014 caused a further setback to the performance of the Serbian economy, with GDP declining by 1.8% in 2014 and 0.5% in 2015. The floods harmed the energy, mining and agricultural sector and caused damage amounting to about 5% of GDP (EBRD, 2014a). Overall, export and import rates have grown solidly in recent years as a result of the recovery of Serbia's main trading partners: exports rose steadily from 32.9% of GDP in 2010 to 44.3% in 2014. Imports also increased steadily from 47.9% of GDP in 2010 to 54.3% in 2014.

The main structural constraints to economic growth in Serbia are above all the high administrative and regulatory burden, and the high degree of uncertainty about its implementation. At the same time, firms, especially SMEs, find it hard to access finance. Serbia's business environment remains poor, ranking 59th out of 189 countries on the World Bank *Doing Business 2016* report for ease of doing business, lagging behind much of the region (World Bank, 2015b). To improve the business environment, the Serbian government has passed several laws in recent years. A newly adopted labour law in June 2014 should provide incentives for companies to hire people, while the 2014 privatisation law will foster the privatisation of 502 state or socially-owned companies and reduce government costs.

Table 16.1. **Serbia: Main macroeconomic indicators (2010-15)**

Indicator	Unit of measurement	2010	2011	2012	2013	2014	2015
GDP growth[1]	% year-on-year	0.6	1.4	-1.0	2.6	-1.8	*0.5*
Inflation[1]	% average	6.1	11.1	7.3	7.7	2.1	*1.6*
Government balance[1]	% of GDP	-3.7	-4.1	-6.8	-5.3	-6.3	*-3.9*
Current account balance[1]	% of GDP	-6.4	-8.6	-11.5	-6.1	-6.0	*-4.0*
Exports of goods and services[2]	% of GDP	32.9	34.0	36.9	41.2	44.3	n.a.
Imports of goods and services[2]	% of GDP	47.9	49.4	53.6	51.9	54.3	n.a.
Net FDI[3]	% of GDP	n.a.	9.9	2.4	3.8	3.7	3.5
External debt[3]	% of GDP	n.a.	76.5	92.6	88.0	82.7	n.a.
Gross reserves[3]	% of GDP	n.a.	33.5	35.4	33.9	27.5	n.a.
Credit to private sector[3]	% of GDP	n.a.	47.6	49.5	43.6	43.8	n.a.
Unemployment[1]	% of total active population	20.0	23.6	24.6	23.0	19.7	*20.6*
Nominal GDP[1]	USD billion	39.0	46.5	40.7	45.5	43.9	*36.6*

Sources: (1) IMF (2015); (2) World Bank (2015a); (3) EBRD (2015). Italics indicate estimates in the original source.

Despite a recent decreasing trend, persistent unemployment remains a major issue, even during periods of stronger economic expansion. The unemployment rate has been constantly falling since 2012 and now ranks around the regional average. Youth unemployment poses a major challenge: 47.1% of 15-24 year-olds were unemployed in 2014, down from 49.4% in 2013 (World Bank, 2015a). Some of the newly-created jobs were in the state sector, but private employment has also increased. However, the new jobs were mostly lower-paid positions in low-productivity sectors.

Inflation fell from 7.7% in 2013 to 2.1% in 2014 and is projected to remain at 2.7% in 2015 (IMF, 2015), below the target of 4.5% set by the National Bank of Serbia. Weak domestic demand, low prices of primary commodities on the global market and exchange rate stability were the major drivers of the decline in inflation. The conditions of the public finances remain precarious, but efforts to contain public expenditure led to a strong reduction of the public deficit from 11.5% of GDP in 2012 to 6% in 2014. A further decrease to 4.1% is expected for 2015 according to the International Monetary Fund (IMF, 2015). In order to improve public finances, the government adopted several measures, cutting pensions and public-sector wages. Nevertheless these actions have so far proved insufficient to reduce the deficit.

In January 2014 the European Union and Serbia formally started accession negotiations. The examination and negotiation of the EU *acquis* is proceeding. Serbia's progress towards EU accession largely depends on the implementation of reforms and the normalisation of its relations with Kosovo.

SMEs in Serbia

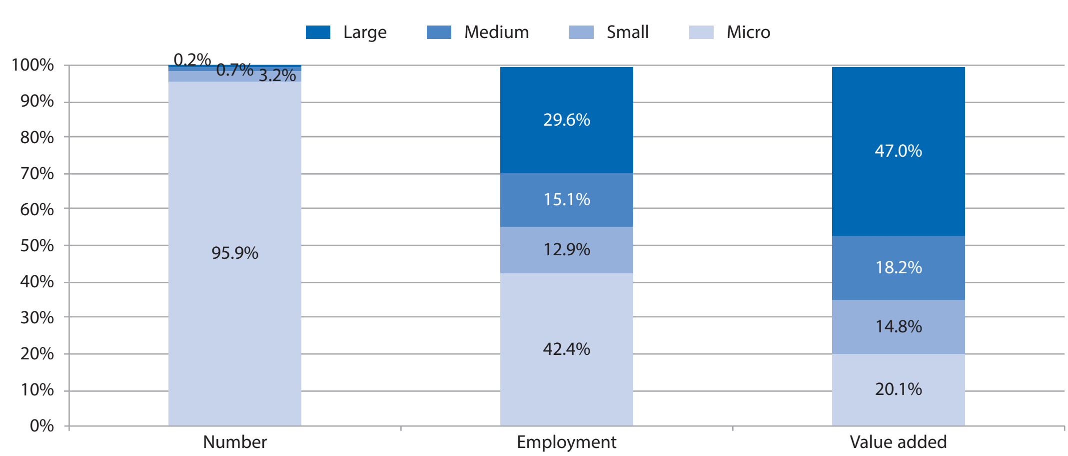
Serbia has two definitions of small and medium-sized enterprises (SMEs) in law. One is used for accounting purposes and the other for granting state aid. The definition in the Regulation on Rules for State Aid Granting conforms to the EU definition for small and medium-sized enterprises but unlike the EU definition, does not include micro enterprises (Table 16.2). Harmonisation is intended in the future.

Table 16.2. **Definition of micro, small and medium-sized enterprises in Serbia**

	EU definition	Law on Accounting and Auditing	Regulation on rules for state aid granting
Micro	< 10 employees ≤ EUR 2 million turnover or balance sheet	< 10 employees < EUR 0.7 million operating revenues < EUR 0.35 million circulating assets	n.a.
Small	< 50 employees ≤ EUR 10 million turnover or balance sheet	< 50 employees < EUR 8.8 million operating revenues < EUR 4.4 million circulating assets	< 50 employees ≤ EUR 10 million turnover or balance sheet
Medium-sized	< 250 employees ≤ EUR 50 million turnover ≤ EUR 43 million balance sheet	< 250 employees < EUR 35 million operating revenues < EUR 17.5 million circulating assets	< 250 employees ≤ EUR 50 million turnover ≤ EUR 43 million balance sheet

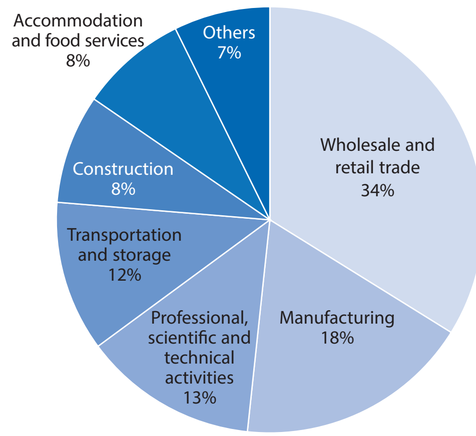
SMEs represent the majority of enterprises in Serbia. In terms of their contribution to employment and total value-added, the structure of the business sector in Serbia is closer to the average for the 28 member states of the European Union (EU-28) than its regional peers. Employment in SMEs fell slightly in the period 2009-13, to 70.4% of total employment in 2013 (Figure 16.2). The SME sector generated 57% of total value-added generated by Serbian business in 2013. Compared to its regional peers, SMEs in Serbia are less concentrated in the wholesale and retail sector; 34% of the total SME population are in this sector and 18% in the manufacturing sector (Figure 16.3).

Figure 16.2. **Business demography indicators in Serbia (2013)**



Source: European Commission (DG GROW) and German Institute for Economic Research (DIW ECON); European Commission (2015a), *2015 SBA Fact Sheet*, http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/files/countries-sheets/2015/serbia_en.pdf.

Figure 16.3. **Distribution of SMEs in Serbia by sector (2013)**



Source: European Commission (DG GROW) and German Institute for Economic Research (DIW ECON); European Commission (2015a), *2015 SBA Fact Sheet*, http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/files/countries-sheets/2015/serbia_en.pdf.

SBA assessment results

Strengthening the institutional, regulatory and operational environment (Dimensions 3, 4 and 2)

Institutional framework

The Department for the Development of Small and Medium Enterprises and Entrepreneurship within the Ministry of Economy continues to be responsible for SME policy design, elaboration and co-ordination. The implementation of the recently adopted Strategy to Support Development of SMEs, Entrepreneurship and Competitiveness for the Period 2015-2020 is co-ordinated by the Ministry of Economy and the SME Council. Several institutions are responsible for implementation, among them the Development Fund and the Serbian Investment and Export Promotion Agency (SIEPA).

The new SME strategy mostly conforms with the EU SBA principles and defines six pillars covering the business environment, access to finance, human capital, competitiveness and innovation, export promotion, and women's entrepreneurship. A bi-annual action plan has been prepared for 2015-16. The strategy builds on the previous 2008-13 SME strategy, but further improved co-ordination and monitoring mechanisms by aligning strategic objectives over several ministries for the first time. The Council for SMEs and Competitiveness, composed of experts from different ministries as well as private-sector representatives, is expected to co-ordinate the implementation of the strategy. The government adopted the decision to establish the Council in May 2015 and the first constitutive meeting was held in July 2015. An expert group supporting the Council has subsequently been established. Public consultations were held prior to the establishment of the strategy.

Together with the regional agencies, the National Agency for Regional Development (NARD) provides financial and non-financial support to SMEs. In 2014, NARD implemented a support programme to strengthen SME competitiveness with a total budget of RSD 21.5 million (Serbian dinar, approximately EUR 180 000), a cluster development support programme with a total budget of RSD 8.345 million (EUR 70 000), a support programme for women's entrepreneurship with a total budget of RSD 7 million (EUR 58 000) and a mentoring programme with a total budget of RSD 6.786 million (EUR 57 000).

Serbia has adopted several measures to tackle the informal economy, easing the payment of taxes and the registration of companies. It has established a co-ordinating body to direct activities to combat the grey economy, which will prepare a national action plan to combat the grey economy.

Legislative simplification and regulatory impact analysis (RIA)

Most actions envisaged under the first pillar of the current SME strategy are dedicated towards legislative review and simplification. Primary and subordinate business-related legislation has been identified as part of the legislative review process and SME aspects have been examined in over 75% of the laws. RIA is provided through the Republic Secretariat for Public Policies (RSPP), which co-ordinates and ensures the quality of RIAs in all ministries. In 2014 the RSPP received 134 laws to review, which represents 77.4% of all the proposals adopted by the government. There is a formal requirement to conduct RIA for all regulations and the legislation rulebook provides a manual for its implementation but in practice RIA is conducted for major regulations only. According to the legislation, SME aspects have to be considered in the RIA. A list of reviewed legislation relevant to businesses is made publicly available online by the RSPP but there is no list of regulations to be reviewed in the future.

Public-private consultations (PPCs)

The Law on Public Administration requires public debate to be conducted for all major regulations. The procedures are laid out in the Government Guidelines (*Poslovnik Vlade*) and specified in the Government Regulation on Internal Regulation and Systematization. Compared to 2012, there are now clear criteria on how to conduct public-private consultations (PPCs). Ongoing consultations are typically listed on the website of the respective line ministry, including a list of regulations it proposes to adopt during the calendar year, and on the e-government portal.

Public-private consultations are generally open to all interested participants. The interests of SMEs are mostly represented through different business associations, such as the chambers of commerce. The private sector can call for exceptional PPCs and formally comment on draft SME-related legislation. However, PPCs seem still to take place sporadically depending on the respective line ministry. Overall, 30 meetings were held in 2014 with the participation of the chambers of commerce, where the majority of draft laws were discussed.

Interaction with government services (e-government)

Serbian SMEs benefit from a range of e-government services, which are accessible at the e-government portal, eUPRAVA. Online filing of tax returns can be done through the e-tax portal of the Serbian Tax Administration. Electronic value-added tax (VAT) reporting was introduced in 2011 and is now fully operational. Firms have been able to make electronic submission of reports for annual income taxes and excise duty declarations since March 2013. Online filing of social security returns was introduced in March 2014. Online reporting of enterprise statistics is not yet possible.

Good progress has been made on electronic cadastres, which are now publicly available and cover the whole territory of Serbia. The Republic Geodetic Authority has further initiated the "GeoSerbia", which provides a digital space for the exchange of spatial data and services between the competent institutions and provides citizens with public access to the digital real-estate cadastre.

Electronic signatures are in use and four providers have been established, which have issued about 22 600 qualified certificates so far. There is only limited integration of the electronic signature with other services. A national interoperability framework was introduced in January 2014, but connecting the different databases still remains to be done. The information on e-services offered to the business community is incomplete and no surveys on usage and satisfaction with e-services have been conducted yet.

Company registration

Serbia marginally improved its company registration process since 2012 by eliminating the paid-in minimum capital requirement in 2013. Globally, Serbia ranks 65th in the World Bank *Doing Business* starting a business indicator, which is close to the average for the Western Balkan region (World Bank, 2015b). The Serbian Business Registers Agency, which started operation in 2005, has operated as a well-functioning one-stop shop for company registration since May 2009. All the necessary registration and notification procedures can be completed at one window. It provides its services through 13 regional offices covering the whole territory.

The overall new business registration process currently takes 12 days and requires 6 procedures, of which the company registration procedure with the Serbian Business Registers Agency takes 1 day. Registration fees are above the EU and OECD average and amount to 6.6% of income per capita, although no paid-in minimum capital is now required. Online company registration is not yet operational but its introduction is foreseen in the near future, although it will depend on the full implementation of electronic signatures, which forms a prerequisite for online payments.

Business licensing

Specific licences and permits need to be obtained for various activities, such as tourism, trade, veterinary activities or food production. The average time taken to obtain an operating licence is 35.6 days, which is above the regional average (World Bank, 2013). The percentage of firms who identify permits and licences as a major constraint to doing business is however very low with 3.7% (World Bank, 2013). Licenses are granted at different levels of government and there is no overall register of all licences and permits issued. Serbia performs particularly poorly on the amount of time it takes and the cost of obtaining a construction permit, ranking 186th out of 189 (World Bank, 2015b). However, with the adoption of a new law on planning and construction in December 2014 and amendments to the Law on Planning and Construction, issuing of construction permits should be considerably accelerated.

Bankruptcy procedures and second chance

The law on bankruptcy governs the formal procedures on distressed companies, receivership and bankruptcy. In July 2014, the government implemented new changes to the bankruptcy law, which will reduce the deadlines for bankruptcy procedures, reducing the associated costs of restructuring and sale of assets, establishing an electronic registry, and reducing administrative procedures for bankruptcy proceedings. The law is considered to be in line with international standards, incorporating elements from the EU evaluation of the law on bankruptcy. The procedures outlined in the law are considered to be applied in a transparent and systematic manner. Serbia has established a centralised electronic formal insolvency register, the Bankruptcy Estate Register.

Bankruptcy procedures could be further improved. Bankruptcy proceedings take approximately two years, at a cost of 20% of the estate's value and with a recovery rate of 30.3% (World Bank, 2015b). Discharge from bankruptcy is decided by a final court decision, typically after all debts have been repaid. Distressed firms or creditors can use out-of-court settlements, often considered a cheaper alternative to bankruptcy. Serbian policy makers have yet to initiate a strategy to promote or provide training for second chances among entrepreneurs.

Facilitating SME access to finance (Dimension 6)

Legal and regulatory framework

Serbia has a well-developed legal framework for secured creditors, including out-of-court settlements. Reforms over recent years have aimed at further improving insolvency processes and facilitating restructuring in cases of default. However, these reforms have seen limited success as effective enforcement remains problematic and lengthy, partly due to the ability of minority creditors or debtors to stall the enforcement process.

A cadastre and a registration system for pledges over movable assets are both in place and largely functional. Despite improvements in the coverage of the cadastre, some data remain cumbersome to access and the process of registering land or property can be complex. A privately run credit information bureau has been in place since 2004, covering 100% of the Serbian adult population. However, it does not include information from retailers or utility companies, which would make it easier for individuals and smaller companies without a bank credit history to build a record.

Progress has been made in strengthening capital market supervision. A new Capital Markets Law was implemented during 2012 and 2013 which significantly improved legislation to tackle market manipulation, established an Investors' Protection Fund and tightened reporting requirements. Serbian banking regulations are in line with Basel II recommendations and the government has committed to adopting Basel III. While requirements are strictly applied across all credit institutions, SME lending can be exempted from some of the regulations. Banks are required to disclose exchange rate risks to borrowers and there are special regulatory requirements for foreign exchange lending. Nevertheless, euroisation[1] levels remain high which can pose a particular problem for SMEs, which tend to be predominantly unhedged for foreign exchange risks. The authorities have recognised this danger and have signed a memorandum with the National Bank of Serbia (NBS) on the Strategy of Dinarisation in April 2012 which envisages a number of measures to encourage dinar lending.

Sources of external finance for SMEs (bank financing, non-bank financing and venture capital)

Bank financing remains the dominant source of lending, despite a decrease in private-sector credit in recent years. The share of loans to SMEs in particular has fallen since the onset of the global financial crisis, suggesting that this segment has been disproportionally affected by the downturn. Levels of non-performing loans (NPLs) above 20%, which is high even in regional comparison, are a drag on bank lending to small businesses.

The Serbian government also provides SMEs with loans at favourable terms and other financial support mechanisms through the Serbian Development Fund, the Export Credit Insurance Agency and the Serbian Investment and Export Promotion Agency (SIEPA). However, these are largely not commercially viable and have a narrow focus. An earlier credit guarantee scheme, operated through the Serbian Development Fund, has been abolished and ongoing institutional restructuring is likely to further reduce the scope and impact of these state-run SME support programmes in the medium term. However, the government is currently planning to reintroduce a credit guarantee scheme under the EU Instrument for Pre-accession Assistance (IPA).

Alternative, non-bank financing opportunities are partly available in Serbia but their usage remains far below potential. Microfinance activities remain limited to a few donor-supported pilot projects, not least due to an unfavourable legal framework that does not effectively allow for the operation of lending and deposit-taking microfinance institutions. There are no savings and loan associations. An initiative to create a legal framework for non-deposit taking institutions is ongoing with donor support and could enable increased microfinance activities. The leasing framework for factoring has improved with the passing of a specific law in June 2013 although factoring and leasing activities account for less than 1% and 2.2% of GDP, respectively. Heavily affected by the crisis, leasing activities in particular have declined in recent years. Venture capital (VC) activities remain at an early stage, although efforts made under the umbrella of the Western Balkans Enterprise Development & Innovation Facility (WB EDIF) and the adoption of a draft law on VC may help growth in this area.

Financial literacy

Progress has been in made in tackling inadequate levels of financial literacy amongst SMEs, which has been recognised and addressed in the NBS’s Financial Education Strategy 2012-2015. A standardised set of training courses that include some small-scale programmes on financial management are publically available through the Regional Development Agencies and the newly adopted SME strategy envisages further activities in this field.

Promoting skills and entrepreneurship development (Dimensions 1 and 8a)

Lifelong entrepreneurial learning

Since the last SBA assessment, entrepreneurial learning has become one of the priorities for human resource development in Serbia, featured in national strategy documents. Both EU support and a strong drive by national stakeholders made entrepreneurship one of the goals of the Industrial Policy of Serbia 2011-2020, as well as the new Strategy for Entrepreneurship and Competitiveness approved in 2015. The National Programme for the Adoption of the EU Acquis (2014-2018) aims at synergy between 13 policies including education and entrepreneurship. While Serbia has no separate strategy for entrepreneurial learning, it is a cross-cutting element of specific strategies for education from primary to tertiary levels and adult learning. A framework education strategy puts a strong emphasis on the entrepreneurship key competence, and the employment strategy promotes cross-sectoral support measures for the development of entrepreneurship.

Since the signing in 2011 of a memorandum of understanding between the Ministry of Education, Science and Technological Development (MESTD) and the Ministry of Economy and Regional Development, the Policy Partnership for the Development and Implementation of the Policy of Lifelong Entrepreneurial Learning has lost its momentum. In the new institutional setting, the recently established Council for SMEs, Entrepreneurship and Competitiveness has a co-ordination role with the aim of boosting policy partnership. Substantial progress has been demonstrated with the adoption of the National Youth Strategy 2015-2025 (Republic of Serbia, 2015) which places entrepreneurship among the strategic goals linked to youth employment and features practical entrepreneurial experience and competences for young people. The strategy was born out of a well-structured policy consultation process. In this rich context, the Policy Partnership for Entrepreneurial Learning needs a new impetus to consolidate and structure policy initiatives and give them an "institutional home". Clear leadership from the MESTD will be essential to promote entrepreneurial learning, with provisions for systematic monitoring and evaluation and a balance across all policy areas. Entrepreneurial learning should cover a lifelong learning perspective, across formal and non-formal learning, with an adequate governance structure, resource base, procedures and action plans, as well as quality data for decision making.

The formation of a national inter-sectoral working group within the Student Companies in Serbia project (2013-14) was an important step forward for non-formal entrepreneurial learning. It encouraged stakeholder co-operation among the MESTD and the Ministry of Economy, Ministry of Finance, National Agency for Regional Development, Chamber of Commerce and others.

Good practice exchange on entrepreneurial learning should go beyond national networks exchanging practices, and set up a mechanism to identify and adapt successful experiences. The South East European Centre for Entrepreneurial Learning (SEECEL) pilot schools initiative and Junior Achievement programme both triggered good practice exchange on entrepreneurial learning across different education levels.

Serbia can boast the introduction of new entrepreneurial learning curricula, as well as training for teachers and principals. Serbia's Standards of General Cross-Curricular Competences for the End of Secondary Education (2013), defines entrepreneurships as one of those competences. Entrepreneurship courses have been introduced in vocational education and training (VET) schools, and the subject of entrepreneurship is taught in about 200 secondary schools, 50% of the total. In line with EU approaches, Serbia's National Youth Strategy explicitly mentions practical entrepreneurial experience, linked to both education and entrepreneurship objectives. Student companies are operational in a large number of schools. Serbia participates in regional and international initiatives (such as SEECEL schools, Junior Achievement) and implements national programmes (such as Real Encounters and Student Companies in Serbia).

Since 2011, Local Professional Orientation Teams have enabled young people to gain experience of the world of work. The Ministry of Youth and Sport oversees the Centre for Career Guidance and Counselling of Young Talents, which provides youth career counselling, information and supports workshops for professional development and "job shadowing" to promote youth mentoring.

Entrepreneurial learning in higher education remains a challenge and requires greater focus from policy makers. While Serbia has a regulatory framework for education and business co-operation, and examples of entrepreneurship courses in non-business faculties, a broader national discussion is needed to trigger changes at a system level.

Women's entrepreneurship

Support for women's entrepreneurship has become more structured since 2012 and is featured in various government documents including a memorandum of understanding between the ABW and the Serbian Parliament on a Women's Parliament Network. The SME Strategy 2015-2020 includes a pillar on the development and promotion of entrepreneurial spirit and fostering entrepreneurship of women, youth and social entrepreneurship. Government programmes target women's entrepreneurship: NARD and other partners offer training, mentoring and support programmes, and since 2013 there has been an awards programme recognising business success among women. NARD monitors women's entrepreneurship and sex-disaggregated statistics are available and inform the publication of annual reports. Following co-operation with SEECEL to develop a women's entrepreneurship training needs analysis, there are plans to introduce it as a regular feature under the new SME Strategy.

SME skills

Serbia now has a strong focus on SME training needs analyses, representing a major step forward since the previous SBA assessment in 2012. Training needs analysis is included as a regular activity in the SME strategy, implemented on an annual basis and financed out of the state budget.

Serbia stands out among pre-accession economies in the region for its quality assurance of SME training, which has been on the policy radar over the assessment period. It includes the training of trainers under the Programme of Standardised Set of Services for SMEs and regular quality monitoring by NARD under the Supervision and Control Plan of the Ministry of Economy. Providers of SME business support are certified, ensuring a consistent quality for state-supported training provision across the regions and NARD has an online database of SME service providers.

The Programme of Standardised Set of Services for SMEs covers training for beginners in business, including access to finance, and dedicated training is available to special target groups. For example, Youth Business Serbia, by the Ministry of Youth and Sports, covers training for young entrepreneurs, support for business plan development, mentoring, etc. Annual planning and reporting includes statistics on start-up training. During the assessment period, a number of training programmes for growth and internationalisation were delivered, with both state funding and with support from the EU via the European Bank for Reconstruction and Development (EBRD) and the Innovation Fund. Various training programmes for the internationalisation of SMEs established during the last period are now an integral part of the SME Strategy. The Programme for Innovative and Growing Gazelles, a training programme for high-growth enterprises, which ended in 2013, stands out as a success story.

Enhancing SME competitiveness (Dimensions 5a, 5b, 8b and 9)

Business information and services

Business development support services are included in the SME Strategy 2015-2020. The strategy is based on market research and analysis of service demand and supply, and associated with a relevant action plan, targets, timeframe and expected impacts. The geographical scope of the service provision has expanded: 14 Regional Development Agencies have been certified and provide SME services, a significant increase from 2 in 2012. They provide information, training, consulting and promotions to local entrepreneurs. The implementation of the action plan is funded by both state budget and donor contributions. Business support services are co-financed by NARD and EBRD programmes, which contribute 50% or more, depending on the project. NARD and the Entrepreneur Service portals provide information about how to launch and operate a business, as well as about the support services available. Start-ups can benefit from a number of tailored training courses and services but their provision relies heavily on financial support from donors. The MESTD also organises business plan competitions in order to raise awareness and increase the competitiveness of SMEs and start-ups.

Public procurement

The public procurement market is open to economic operators from the Central European Free-Trade Area (CEFTA) countries and EU companies will enjoy the same treatment as domestic ones by September 2018 at the latest, by which date Serbia will have to have eliminated its existing price preferences. The legislation provides allows tenders to be divided into lots and although there is no general obligation to do so above a certain threshold this happens regularly in practice. Centralised purchasing bodies are obliged to structure their procedures in such a way as to ensure the participation of SMEs and tenders for centralised purchasing for government bodies and organisations must be cut into lots whenever possible. There is an independent review body for public procurement.

The legislation allows contracting authorities to request subcontracting by SMEs for tenders above certain thresholds. No documentary evidence must be provided for documents which are available publicly or through a registry of bidders. The public procurement law imposes strict deadlines for payments and penalties in case of non-compliance, but late payments remain a problem. Contracting authorities can allow companies to bid jointly and SMEs can participate in joint bids. Information on public procurement opportunities is centrally available free of charge on the Public Procurement Portal. Serbia addresses SMEs through training sessions and provides some legal assistance through helpdesks.

Serbia achieved further progress in this dimension as a new public procurement law became effective in April 2013 and was amended twice in 2015. It constitutes an important step in the right direction, as the law is partly aligned with the latest EU directives. It further reduces obstacles for SME participation in public contracts, notably by limiting the requirement for bidders' minimum yearly turnover to twice the estimated contract value and allowing for self-declarations in all procedures. Serbia also decreased the preferences applied to domestic tenderers in public procurement procedures to 5% as of February 2015, ahead of the SAA schedule. The share of negotiated procedures fell significantly from 24% of the total value of public procurement in the first half of 2013 to around 5% at the end of 2014, and is now comparable to the share for EU member states.

Innovation policy

Gross expenditure on research and development (GERD) in Serbia has been steadily growing and reached 0.96% of GDP in 2012. Only 9% of Serbia's investment comes from the private sector, compared with an average of 55% for the EU-28. According to the 2015 Innovation Scoreboard, 28.6% of SMEs in Serbia introduce a product or process innovation every year, which is slightly lower than the average of 30.6% in the EU-28 countries (European Commission, 2015b). Moreover, 40.6% of SMEs have introduced marketing or organisational innovations, which is over 36.23% average of EU-28.

Since the 2012 SME Policy Index assessment, Serbia has made progress in promoting innovation within SMEs. It signed the Regional R&D Strategy for Innovation covering the Western Balkans region, allowing Serbian companies to be more actively involved in international collaboration programmes. It has a relatively well-developed framework for innovation even though it does not have a dedicated national innovation strategy. The 2010-2015 Law on Innovation Activities and the Strategy for Scientific and Technological Development fill the gap through the provision of information on innovation development, particularly in the private sector. Action plans for the strategy are regularly developed and updated. It is supervised by the MESTD in co-operation with other ministries, as well as the National Council for Science and Technological Development, the National Council for Higher Education, the Serbian Academy of Sciences and Arts, and other advisory domestic and international authorities and experts. There is a plan to develop a National Innovation Strategy. Currently, the ministry has formed a working group to draft a new law on innovative activities aimed at establishing a more efficient national innovation system. Serbia does not have an inter-governmental body for innovation policy co-ordination. The Innovation Fund established under the law on Innovation Activity acts as an innovation agency ensuring the implementation of innovation policies.

The Strategy for Scientific and Technological Development envisages investments in infrastructure and innovation support organisations. Institutional support for innovation has been improved with the opening of several new technology transfer offices, incubators and the construction of science parks in Belgrade and Novi Sad. There are now at least 11 formally registered organisations providing infrastructure support for innovation (incubators, technology centres, technology transfer offices and innovation centres).

Currently, three organisations provide finance to SMEs: the Innovation Fund, the MESTD and NARD. The Innovation Fund and the MESTD focus on supporting technological innovation, while funds distributed through NARD provide financial backing to non-technological innovation activities. The MESTD provides co-financing for institutional support for innovation (approximately EUR 16 000 per grant), knowledge infrastructure, human capacity building, and equipment, through regular public calls. Initially, the Innovation Fund was used to conduct the pilot Serbia Innovation project supported by the 2011 EU IPA funds, amounting to EUR 8.4 million. Due to its successful operation, in 2015 the Innovation Fund secured additional funding of USD 11 million through a loan agreement with the World Bank. So far, the Innovation Fund has provided financial assistance to 53 SMEs (including 38 start-ups). The MESTD has supported 56 SMEs under 5 calls, for a total of EUR 800 000. The MESTD is also organising the Best Technological Innovation Competition aiming to promote the entrepreneurial climate in Serbia, which has proved successful in increasing awareness and interest in innovation. The MESTD also provides assistance to potential and existing high-tech entrepreneurs through direct financial contributions to developing their projects.

Green economy

Currently no environmental policies for SMEs are included in any national policy framework. The SME strategy does not include provisions on eco-efficiency, suggesting a potential disconnect between environmental protection and SME development. The Strategy for Scientific and Technological Development of Serbia (2010-2015) highlights the general need to develop and increase energy efficiency, but not within the SME sector specifically. The National Agency for Regional Development, in partnership with the Ministry of Agriculture and Environmental Protection, provide a training programme to enterprises (including SMEs) on environmental protections and standards. At the moment, there are no direct financial and regulatory incentives to promote greening of SMEs in Serbia. Although, Serbia's Green Fund is supporting financial institutions to increase their lending capacity to business (including SMES) and households, that are focusing on energy efficiency and reducing energy consumption and carbon dioxide emissions.

Supporting SME internationalisation (Dimensions 10 and 7)

Trade performance and regulatory barriers to trade

Serbia's total trade in goods and services over the period January-December 2013 amounted to USD 43.8 billion, a 31% increase on the same period in 2010. The trade deficit stands at 12% of GDP and has fallen by 6% since 2010 (ITC, 2014). SMEs were responsible for 43.3% of exports in 2013, lower than their share in 2010 which was 46.4%. The average value of each enterprise's exports has increased from EUR 265 845 in 2010 to EUR 339 577 in 2013. The World Bank *Doing Business* indicators for export and import show that Serbia reduced the costs between 2009 and 2015 (World Bank, 2014). The time needed to export (12 days) is close to the OECD average of 10.5 days. However, the time taken to import (15 days) and the number of documents needed for import/export (7 and 6) are still too high (Table 16.3).

Table 16.3. **Serbia: Trading across borders (2015)**

	Serbia	OECD average
Documents to export (number)	6	4
Time to export (days)	12	10.5
Cost to export (USD per container)	1 635	1 080
Documents to import (number)	7	4
Time to import (days)	15	9.6
Cost to import (USD per container)	1 910	1 100

Source: World Bank (2014), *World Bank Doing Business Report 2015.*

Export promotion and global value chains

Serbia has an export promotion programme targeting SMEs which is directly linked to the new Strategy for Entrepreneurship Development and Competitiveness for 2014-2020. Until the end of 2015 the Serbian Investment and Export Promotion Agency (SIEPA) was the main public body responsible for export promotion, supported by the activities of the Serbian Chamber of Commerce and the National Agency for regional Development (NARD). SIEPA had run two main export related programmes: 1) financing and organising exhibitions of domestic companies at international fairs; and 2) administrating a cost-sharing development grant programme which enhanced the competitiveness of Serbian companies.

The two agencies SIEPA and NARD were dissolved and replaced by the new Development Agency of Serbia (DAS) with the Law on Investments in November 2015. DAS formally started operations in January 2016. The new agency will be in charge of investment and export promotion and should serve as one stop shop for both foreign and national investors. DAS took over 125 projects that were previously under SIEPA and NARD, but none of the employees from the former agencies were kept. Financial resources allocated during 2015 to finance the work of the two former agencies were reallocated to DAS. Initial capital for operations is planned to be RSD 8 billion (EUR 65 million). The new structure foresees Serbian enterprises becoming eligible to benefit from the facilities and subsidies.

Export promotion programmes are financed by both the government budget and donor support and provide a range of activities to SMEs: trade policy information, assistance in promoting domestic products at international fairs, delivering sector analysis and studies, export promotion and marketing, and product development and training. SMEs also benefit from financial support for export promotion activities. The Serbian Export Credit and Insurance Agency provides export credit insurance, guarantees, export factoring and business financing for Serbian export-oriented companies including direct financing, co-financing and loan refinancing through the exporter's commercial bank.

SMEs promotion events take place regularly. SIEPA and the Serbian Chamber of Commerce organised visits to SME fairs, while NARD organised a yearly SME fair in Belgrade. In 2014 and 2015 they supported participation at a total of five international fairs, with both companies and clusters eligible to take part.

There is currently no government programme in place to support the integration of SMEs into global value chains (GVCs). No strategy for it has been formally defined, but the fifth pillar of the new Strategy for the Entrepreneurship Development and Competitiveness defines some measures that will increase access to the new markets: 1) support for outreach to external markets; and 2) connecting SMEs into supply chains. The government is working to achieve a link between foreign and domestic companies and is also currently promoting connections between local suppliers and foreign investors, such as the "meet the buyer" days organised by SIEPA.

Standards and technical regulation

Serbia is currently drafting an action plan to address potential barriers to trade, but has not yet adopted a quality infrastructure strategy for the coming period. The administrative capacity for co-ordination in this area remains weak. The Institute for Standardisation of Serbia has adopted approximately 96% of all European standards and harmonisation documents, and has met the technical criteria for full membership of the European Committee for Standardization (CEN) and the European Committee for Electrotechnical Standardization (CENELEC). A total of 37 conformity assessment bodies have been designated. The accreditation process continues steadily but staffing levels at the Accreditation Body of Serbia remain insufficient. The Serbian Directorate for Measures and Precious Metals has upgraded its market surveillance capacity, particularly for the supervision of the implementation of EU directives on standards and non-automatic scales. In market surveillance, a law on general inspection oversight was adopted in April 2015. Administrative capacity has been upgraded, but remains insufficient. Serbia has continued to align its legislation to the EU *acquis* in the areas of "Old Approach" and "New and Global Approach" product legislation. It has also continued to align its legislation in the area of procedural matters.

The way forward

Since the last assessment in 2012, Serbia has made further progress in implementing the principles of the SBA. As in previous years, Serbia has performed above the regional average with a well-developed institutional framework and various business support services in place. It has taken positive steps towards improving the operational environment, promoting skills and entrepreneurship development, and enhancing SME competitiveness. Despite its strong performance in these areas, access to finance for SMEs remains weak and no environmental policies for SMEs have been implemented yet.

Strengthening the institutional, regulatory and operational environment

Serbia has established a solid institutional framework for supporting small and medium-sized enterprises with a well-elaborated SME strategy and implementation capacities. Going forward, it should place more emphasis on monitoring and evaluation of its SME policy. In the short term, the envisaged Council for SMEs and Competitiveness composed of government representatives from different ministries and the private sector should be put into operation. A key medium-term priority should be to establish a monitoring system tracking progress in implementation and measuring the effectiveness of SME policy on the ground. SME participation in public-private consultations should be further ensured and transparency and frequency of PPCs further strengthened. The implementation of RIA should be expanded and the regulatory simplification processes continued. Serbia should continue its expansion of key e-government services which are not yet available, such as online filing of social security statistics and reporting enterprise statistics online. The national interoperability framework should be further defined and connections between different databases strengthened in order to simplify and streamline business procedures. Another milestone would be the introduction of online company registration as envisaged.

Facilitating SME access to finance

SME access to finance has improved only marginally over the last years and the financial sector remains vulnerable due to high levels of non-performing loans (NPLs) and exposure to Greek banks. Financial intermediation has been weakened and currency exchange risks persist due to continuing euroisation of loans. The banking sector continues to be the main source of finance and the use of alternative sources of funding is moderate. Therefore, the legal framework for non-bank financing should be strengthened in order to deepen and broaden financing opportunities for SMEs. In addition, legislative changes should be introduced that allow and regulate lending (and deposit taking) by microfinance institutions. The share of local currency lending should be increased through the implementation of dinar-supporting measures in line with the Dinarisation Strategy.

Developing Entrepreneurial Learning, women's entrepreneurship and SME skills

Serbia has made the development of entrepreneurial skills a key priority for education and overall human resource development. Entrepreneurial learning is now featured in national strategy documents. Progress has been made in SME training needs analysis and approaches to women's entrepreneurship. Serbia now needs to consolidate the policy process and institutional setting in which entrepreneurial learning policies are developed, implemented and monitored. Key competence development should be an integrated element of all parts of the education curricula and the focus should be on teachers and school managers, starting with in-service teacher training. Training for the growth and internationalisation of SMEs needs to be given primary strategic importance. It should be linked, first of all, to the key economic sectors and designed with quality, accessibility and sustainability in mind. Training needs analyses should be seen as an instrument for ensuring the quality and relevance of training and support. E-training would contribute to the creation of a more accessible, flexible and state-of-the-art SME training offer. Although women's entrepreneurship has been made a national priority, there is a need to ensure that the national policy partnership for women's entrepreneurship has clear goals, action steps and distribution of roles. A monitoring and evaluation mechanism should be set up on a permanent basis for the constant improvement of women's entrepreneurship policies and measures within the broader national policy context.

Enhancing SME competitiveness

Serbia achieved some progress on public procurement as the new public procurement law became effective in April 2013. It constitutes an important step to the right direction, as the law is partly aligned with EU directives. Nevertheless, challenges remain as Serbia still needs to align its legislation with the revised EU Public Procurement Directives, not least to provide for the electronic submission of tenders.

Although investment readiness programmes are monitored and formal mechanisms for SME feedback are available, Serbia's evaluation mechanisms are still in the early stages of development. The beneficiaries of the co-financing are made public and feedback from SMEs on private business support services is collected regularly. However more efforts should be made to facilitate the evaluation instruments for both investment-readiness services and initiatives to stimulate the development of private business support services.

Serbia has improved its performance in the area of innovation policy and has undertaken positive steps towards implementation. Although the framework for innovation is relatively well developed, Serbia will need to develop a new strategy for innovation ensuring better focus on SMEs, and improved co-ordination between the relevant governmental institutions. The availability of finance to promote SMEs has been enhanced, and there are several mechanisms for the direct financial support of SMEs but none of the relevant ministries provide innovation vouchers promoting collaboration between various actors. Further financial support could be considered to further promote SME-related R&D and support the international patenting of innovations.

Serbia still lacks any connection between SME development and environmental protection and the national policy framework does not include environmental policies. There are no financial incentives in place to promote the greening of SMEs. The Serbian government could work to better incorporate SMEs as a specific target in environmental policies, to help them transition towards environmentally friendly practices. It may also be helpful to begin reviewing the potential promotion of financial and regulatory incentives to help with the greening of SMEs.

Supporting SME internationalisation

Serbia needs to ensure that its newly established development agency, DAS, fulfils its twin role of attracting investment and promoting exports and is properly staffed and funded. Serbia could further introduce independent evaluations of its export promotion activities, with reports on the activities of the agency made accessible to the public and not just the responsible ministries. With a variety of financial support tools already in place, Serbia might also evaluate whether its public funding has been properly used, for instance through feedback evaluations. The new Strategy for the Entrepreneurship Development and Competitiveness already mentions connecting SMEs into supply chains, and the government should now define and implement concrete government actions to foster SMEs integration into global value chains. To enhance trade, the number of documents needed for import and export, as well as the time required to comply with all procedures need to be reduced. The Enterprise Europe Network (EEN) in Serbia provides a key instrument to foster SME internationalisation by providing a platform for SMEs to seize business opportunities in the EU Single Market and beyond.

Note

1. Exposure to foreign currency risks denominated in euros.

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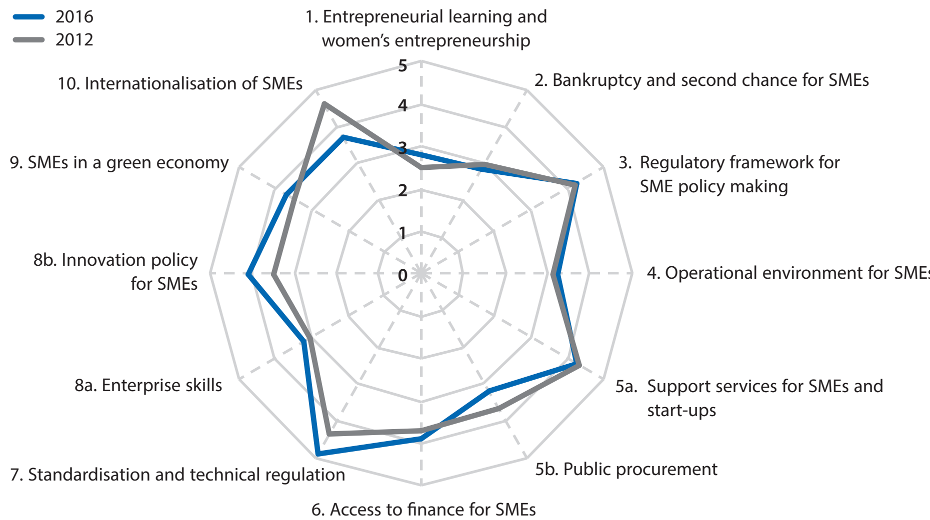
Chapter 17

Turkey: Small Business Act profile

Building on a solid track record and starting from a high base, Turkey has strengthened its SME-related policies since 2012, and provides an extensive range of support services. Despite an initial slowdown in GDP growth after the global financial crisis, Turkey has recovered and its businesses have proven fairly resilient to the crisis. Turkey has made noticeable efforts to implement its innovation strategy, putting in place substantial financial instruments and schemes to directly support innovative SMEs. Currently, Turkey is attempting to reduce delays in its bankruptcy system by introducing streamlining reforms such as eliminating multiple enforcement offices in the same location. The promotion of lifelong entrepreneurial learning has been supported by the establishment of a National Entrepreneurship Strategy and Action Plan.

Despite encouraging signs of continued progress, Turkey still has cumbersome and costly registration procedures for businesses. Informal market activity remains high in part due to the burdensome bureaucratic system and the Action Plan of Strategy for Fight against Informal Economy 2011-2013 has yet to be renewed. Although access to finance has generally improved, Turkey still needs to establish a legal microfinance framework and to help improve the capacity of financial institutions to offer the sort of long-term funding options to SMEs which are currently often only available to large corporations.

Figure 17.1. **SBA draft scores for Turkey**



Key findings

Turkey continues to take a proactive approach towards small and medium-sized enterprise (SME) policies. It has a well-elaborated SME strategy and an extensive range of support services co-ordinated by its implementation agency, the Small and Medium Enterprises Development Organisation (KOSGEB). The development of e-services by the government has improved the operational environment for SMEs but company registration procedures remain cumbersome and business registration fees have increased recently. Turkey's bankruptcy law governs the formal procedures for financially distressed companies in a transparent and systematic manner but there are no efforts in place to promote second chances among entrepreneurs.

Access to finance for SMEs in Turkey has improved since the last SBA assessment. This is also reflected in BEEPS data which shows lower shares of credit constrained firms than anywhere else in the region. A new law on leasing and factoring was passed in December 2012 helping to improve the availability of non-bank financing. However, access to finance for SMEs has not yet reached its full potential in Turkey. It will be important to support the acceptance of movable assets as collateral and improve the capacity of financial institutions to offer long-term financing solutions to SMEs.

Turkey's efforts to promote lifelong entrepreneurial learning have been reinforced by the approval of a National Entrepreneurship Strategy and Action Plan (2015-2018) which pays particular attention to promoting entrepreneurship across the education system. This is an important development in Turkey's wider bid to build a more developed entrepreneurship culture in the country. Policy support for women's entrepreneurship is well developed although monitoring and evaluation of policy implementation should be improved. A stakeholder forum established by KOSGEB advises on women's entrepreneurship while a series of roundtables involving government and other stakeholders specifically designed to reinforce policy on women's entrepreneurship represent good practice (SEECEL, 2013). A primary factor in building a high-skills economy is sound intelligence that allows for improved policy making and more effective targeting of resources.

Turkey remains the most advanced economy in the region in terms of the variety and scope of its business development services and their providers. Having already achieved a high level of policy convergence with EU good practices, progress has been incremental over the past three years. The biggest challenges remain in the independent evaluation of existing services. Furthermore, the large number of actors and programmes raises questions about efficient co-ordination, quality and complementarity, which need to be addressed in the future. Turkey has made considerable progress with the implementation of an innovation strategy. In collaboration with regional authorities and institutions, it put in place substantial financial instruments and schemes to directly support innovative SMEs. Environmental policies are incorporated into a number of documents in Turkey with the SME Strategy and Action Plan 2011-2013, defining some limited environmental policies for SMEs. Furthermore, Turkey has established financial incentives to help SMEs move towards greener practices. The Turkish legislation allows tenders to be cut into lots, although the legislation does not specify this for tenders above a certain value. Contracting authorities may allow companies to bid jointly and SME take advantage of this opportunity.

Turkey has a good variety of export promotion programmes and advanced export finance tools in place, stimulating SMEs to operate internationally. Its export promotion activities are implemented by several bodies and financed through the government budget. However, regulatory burdens on trade remain problematic, in particular the time and number of documents required. Moreover, there are no government programmes in place to support the integration of SMEs into global value chains. Turkey has aligned much of its legislation to the EU *acquis* in the areas of "Old Approach" and "New and Global Approach" product legislation.

Overview

Economic snapshot

Turkey is an emerging market and the 18th largest economy in the world in terms of nominal gross domestic product (GDP). Since the economic crisis that hit the country in 2001, Turkey has embarked on a structural transformation process aiming at the consolidation of its public finances. It decreased ts inflation rate to below 10%, improved the business climate and strengthened the financial sector, almost tripling its GDP per capita over the last decade.

Turkey was one of the countries that coped better with the 2008 global financial crisis. After a recession in 2009, when GDP contracted by 4.8%, the economy recovered strongly in 2010 with a 9.2% growth rate that more than offset the negative performance of the previous year (Table 17.1). This was triggered by higher domestic demand and a good export performance. Growth slowed down again to 2.1% in 2012 as a consequence of measures meant to rebalance the economy, reducing domestic demand and imports, and increasing exports. In 2013 the GDP growth rate swung back up to 4.2%, driven by public investment and capital expenditure. Higher private consumption, government spending and credit growth led to economic growth in 2013, but they also contributed to a higher current account deficit of 7.9%. The depreciation of the Turkish lira and other measures to rebalance the financial system undertaken at the end of that year helped to recover the current account deficit and to decrease the impact of domestic demand on growth. These developments and a strong export performance helped to reduce the current account deficit to 5.7% in 2014, but stalled GDP growth again at 2.9%. Although the economy is expected to strongly recover in the years to come (EBRD, 2014a), it still remains vulnerable, because of external instabilities and domestic political uncertainty.

Table 17.1. **Turkey: Main macroeconomic indicators (2010-15)**

Indicator	Unit of measurement	2010	2011	2012	2013	2014	2015
GDP growth[1]	% year-on-year	9.2	8.8	2.1	4.2	2.9	*3.0*
Inflation[1]	% average	8.6	6.5	8.9	7.5	8.9	*7.4*
Government balance[1]	% of GDP	-3.4	-0.6	-1.7	-1.3	-1.0	*-0.8*
Current account balance[1]	% of GDP	-6.2	-9.7	-6.2	-7.9	-5.8	*-4.5*
Exports of goods and services[2]	% of GDP	21.2	24.0	26.3	25.6	27.7	n.a.
Imports of goods and services[2]	% of GDP	26.8	32.6	31.5	32.2	32.2	n.a.
Net FDI[3]	% of GDP	n.a.	1.8	1.2	1.1	0.7	*0.9*
External debt[3]	% of GDP	n.a.	39.2	43.0	47.3	50.4	n.a.
Gross reserves[3]	% of GDP	n.a.	11.4	15.1	15.9	15.9	n.a.
Credit to private sector[3]	% of GDP	n.a.	53.1	57.9	70.1	74.5	n.a.
Unemployment[1]	% of total active population	11.1	9.1	8.4	9.0	9.9	*10.8*
Nominal GDP[1]	USD billion	731.5	774.7	788.6	823.0	798.3	*722.2*

Sources: (1) IMF (2015); (2) World Bank (2015a); (3) EBRD (2015a). Italics indicate estimates in the original source.

Turkey has improved its placement in the World Bank *Doing Business 2016* report and ranks 55th out of 189 countries (World Bank, 2015b). Its deficiencies are mainly in the area of construction permits and the handling of insolvency procedures. Turkey has had mixed success in implementing structural reforms to improve the business climate and access to the labour market. However, it has made advances in the liberalisation of the energy, transport and infrastructure sector.

Exports of goods and services rose from 25.6% of GDP in 2013 to 27.7% in 2014, while imports remained relatively stable at 32.2% in 2013 and 2014. Turkey's most important trading partner is the EU (Eurostat, 2015). Its most important export product group is the automotive sector, and particularly vehicles other than railway or tramway rolling-stock. Foreign direct investment stood at 0.7% of GDP in 2014, mostly into the intermediation and manufacturing sectors (EBRD, 2015a).

The unemployment rate fell to 9% in 2013 but according to IMF estimates rose to 9.9% in 2014 which is close to the EU average of 9.6% (IMF, 2015; Eurostat, 2015). The Turkish labour market is strongly regulated, but the government, aiming to enhance employment and the flexibility of the labour market, adopted a new national employment strategy in May 2014 which should foster further economic growth and increase labour-market activity.

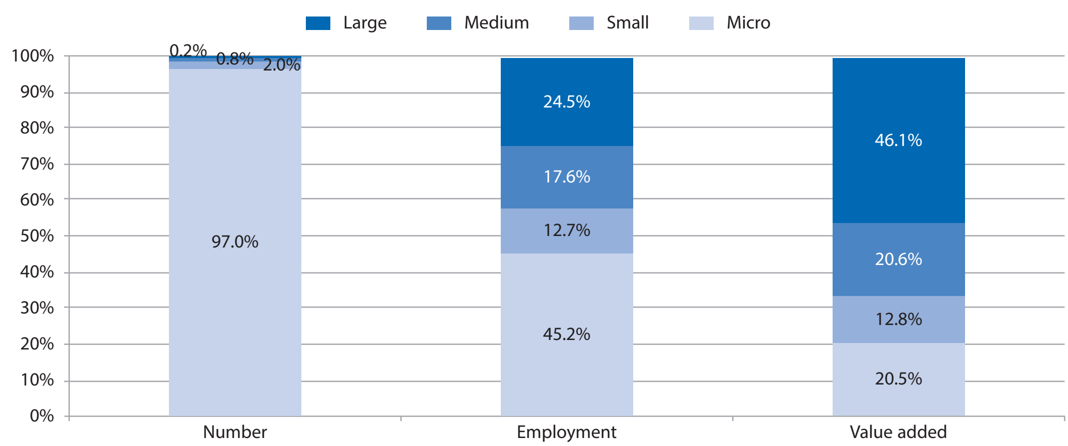
SMEs in Turkey

The Turkish definition of SMEs distinguishes between micro, small and medium-sized enterprises on the basis of balance sheets, employment and turnover. As with the EU definition, the enterprise has to meet the staff headcount thresholds, but it can choose to meet either the turnover or balance sheet ceiling. The employment criterion conforms to the EU definition (Table 17.2). Turkey uses a single SME definition throughout its legislation, but in a number of studies the Turkish Statistical Institute defines micro firms as those with less than 20 employees; small enterprises are defined as firms with more than 19 but less than 50 employees and medium-sized firms as those with between 50 and 200 employees. Because of this discrepancy, comparisons with EU statistics may be misleading.

Table 17.2. **Definition of micro, small and medium-sized enterprises in Turkey**

	EU definition	Law on the SME definition 4 November 2012
Micro	< 10 employees ≤ EUR 2 million turnover or balance sheet	< 10 employees ≤ TRY 1 million (Turkish lira; equivalent to EUR 313 000) turnover or balance sheet
Small	< 50 employees ≤ EUR 10 million turnover or balance sheet	< 50 employees ≤ TRY 8 million (EUR 2.5 million) turnover or balance sheet
Medium-sized	< 250 employees ≤ EUR 50 million turnover ≤ EUR 43 million balance sheet	< 250 employees ≤ TRY 40 million (EUR 12.5 million) turnover or balance sheet

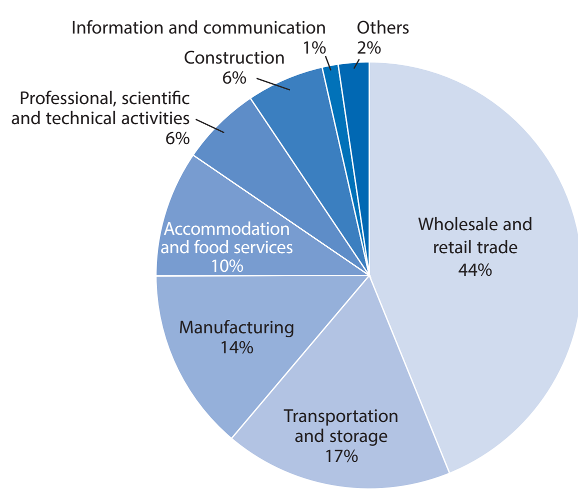
Figure 17.2. **Business demography indicators in Turkey (2012)**



Note: Micro enterprises are defined as those with less than 20 employees.

Source: European Commission (DG GROW) and German Institute for Economic Research (DIW ECON).

Figure 17.3. **Distribution of SMEs in Turkey by sector (2012)**



Source: European Commission (DG GROW) and German Institute for Economic Research (DIW ECON).

In 2012, SMEs made up 99.8 % of Turkey's total business population and the number of SMEs increased by 5% over the period 2009-12. Employment by SMEs increased relatively strongly, growing 28% in 2009-12, with SMEs contributing 75.5% to total employment in 2012 (Figure 17.2). The SME sector in Turkey contributes relatively less to total value added than Western Balkans economies, at just 53.9%. The most important sector for SMEs is the wholesale and retail trade sector (44% of SMEs), followed by transportation and storage at 17% and manufacturing at 14% (Figure 17.3).

SBA assessment results

Strengthening the institutional, regulatory and operational environment (Dimensions 3, 4 and 2)

Institutional framework

The Small and Medium Enterprises Development Organisation (KOSGEB) is the main body responsible for SME policy development, co-ordination and implementation. It is affiliated to the Ministry of Science, Industry and Technology (MoSIT) and operates through its headquarters in Ankara and 88 regional offices in the country, covering all the cities in Turkey. Its General Assembly is chaired by the Prime Minister with representation from other ministries and the private sector. While KOSGEB co-ordinates activities geared towards SME development, their implementation is monitored by the different implementation bodies. The policy elaboration and co-ordination process uses consultations to include the main stakeholders.

Turkey recently approved its national SME Strategy and Action Plan (SSAP) 2015-18 (High Planning Board decision from 21 August 2015). This builds upon the 2011-2013 SME Strategy and Action Plan, from which 72 out of 82 actions were implemented. A Steering Committee was created to evaluate the activity reports prepared bi-annually by each implementing body. Members of the Steering Committee include large business associations such as the Union of Chamber and Commodity Exchanges (TOBB) and the Confederation of Turkish Tradesman and Craftsmen (TESK) which represent the vast majority of SMEs operating in Turkey. An independent evaluation of the strategy is foreseen after it expires.

Turkey's informal economy continues to be fairly large. It is estimated at 31%, compared to the OECD average of 18% (EBRD, 2014b). However the SSAP does not outline explicit actions to tackle the informal economy and the Action Plan of Strategy for Fight Against Informal Economy 2011-2013 has not been renewed. Instead, the Primary Transformation Programme of Reducing the Informal Economy has been developed in accordance with the 10th Turkish national development plan. Further, an EU-funded project has been launched in January 2016 with the objective of measuring the magnitude and identifying the main sectors of the informal economy as well as providing policy recommendations from various EU practices.

Legislative simplification and regulatory impact analysis (RIA)

The SSAP identifies actions to review and simplify business related legislation with an impact on SMEs. Primary and subordinate business-related legislation with an impact on SMEs was identified as part of the legislative review by the SME Committee of the Coordination Council for the Improvement of Investment Environment (YOIKK). YOIKK defines actions to simplify and improve legislation for SMEs and conducts its work programmes together with its ten technical committees, representing public and private institutions. Even though the YOIKK Technical Committee Action Plans foresee the elimination of redundant business legislation, this elimination is not yet taking place on a systematic basis.

In 2006, Turkey introduced a formal requirement to conduct a regulatory impact assessment (RIA) for some business-related legislation, including a checklist of SME aspects to consider. The Regulation for the Preparation of Legislation requires RIAs to be conducted for all laws whose impact is estimated to be more than TRY 10 million (EUR 2.9 million). In practice, however, RIAs are rarely conducted to inform the development of regulations.

Public-private consultations (PPCs)

The interests of SMEs operating in Turkey are represented by a large range of organisations; including the TESK and TOBB.

Conducting public-private consultations is not legally required, only recommended in the RIA guide. It is performed by most government bodies, even though consultations mostly take place in an ad hoc manner. Establishing a regular policy dialogue platform at national level and a central website could complement existing consultation mechanisms and to increase interactions between state and regional levels.

Companies, chambers of commerce and non-governmental organisations (NGOs) in charge of SME and private-sector development are invited to participate in the consultations but it is unclear whether PPCs are open to all interested participants. The private sector is able to bring its own contributions and initiatives to the meeting's agenda to some extent.

Interaction with government services (e-government)

Turkey has made considerable progress in developing its e-governance structures and e-services since the 2012 assessment. It has established a system of online filing of tax returns and e-filing for value-added tax (VAT). More than half of all enterprises (59%) declared their VAT online and 62% their social security returns online (TurkSTAT, 2014). Pension contributions can be filed through the online payment system for the social security funds and cadastre-related processes are carried out through the online system of the Land Registry and Cadastre. Turkey has also made progress in reporting enterprise statistics online, now available through the official statistics portal, TurkSTAT.

Electronic signatures are in use and have been integrated with other e-government services through the e-Government Gateway, which offers a single point of access to all public services. The government uses surveys to collect information about usage, satisfaction and the effectiveness of e-government services. The results of a recently launched survey, which assesses the satisfaction and expectations of the private sector under the 2015-2019 National e-Government Strategy and Action Plan Project, will be used by the new e-government strategy to improve and adjust the services offered.

Company registration

Turkey has only marginally improved its company registration processes since 2012, by eliminating certain notarisation fees. Globally, Turkey ranks 94th out of 189 economies in the World Bank *Doing Business* ranking on starting a company (World Bank, 2015b), which is slightly below the average for the Western Balkans and Turkey (WBT). The overall registration process takes 7.5 days and requires 8 procedures. Registration fees are comparatively high, amounting to 16.6% of income per capita and a paid-in minimum capital of 12.1% is required, up from 7.2% in 2013.

In 2012 the Central Registry Recording System (MERSIS) was introduced as a pilot. It is now fully operational and covers the entire geographical territory of Turkey. It functions as a one-stop shop for electronic company registration, amendments or company liquidation. Within MERSIS, all companies get a unique identification number with the objective of unifying the previous three identification numbers although this process is still ongoing. To finalise the registration process started with MERSIS, companies still need to follow up the procedures manually with trade registers and chambers of commerce.

Business licensing

Business licences are issued at multiple levels of government. The Regulation on Business Licensing (approved by the Council of Minister No: 2005/9207 and issued in the Official Gazette of 08/10/2005) serves as a written guidance on how to obtain a licence and how to comply with the standards needed. The Union of Municipalities of Turkey oversees all licences granted at local level. It raises awareness and answers questions through a dedicated TV channel informing citizens about municipality services, including a special channel on regulations related to business registration and operating licences.

Bankruptcy procedures and second chance

Turkey's bankruptcy law governs the formal procedures on distressed companies, receivership and bankruptcy procedures, under the jurisdiction of the Ministry of Justice. The procedures are considered to be increasingly in line with international standards, as assessed by the EBRD in 2012, although there is a medium level of compliance with international standards. Bankruptcy procedures apply to state-owned enterprises if the public enterprise was established according the Turkish Commercial Code. Bankruptcy decisions are published in the Trade Registry Gazette, which thus acts as the nation's insolvency register. Although Turkey has no formal early-warning system, there is a system to assign credit risk to companies and procedures are in place to oblige firms identified as insolvent to call a general board meeting and submit proposals for reformative measures.

The insolvency law has formal discharge procedures in place, with a maximum time for full discharge standing at five years (including all extensions). There is some room for improvement in the process as, according to the World Bank *Doing Business* report, carrying out bankruptcy takes approximately 4.5 years, at a cost of 14.5% of the estate, with a low recovery rate of 18.7% (World Bank, 2015b). Turkey is currently making efforts to restructure the enforcement of the bankruptcy system, by establishing a single enforcement office (currently being piloted in some courts) and abolishing the historical practice of multiple enforcement offices in the same location. There is no national strategy to promote second chances among honest entrepreneurs, although the government has indicated that is preparing a potential strategy for the near future.

Facilitating SME access to finance (Dimension 6)

Legal and regulatory framework

A comprehensive legal framework for the protection of creditors' rights is in place, but insolvencies continue to be cumbersome. According to the World Bank's *Doing Business* report (World Bank, 2015b), insolvency proceedings take 4.5 years in Turkey, longer than in Europe and Central Asian countries (2.3 years on average) or in OECD countries (1.7 years on average), and are relatively costly at 14.5% of the estate.

Turkey has a well-functioning cadastre covering the quantity, value and ownership of land and real estate, which covers 99% of land and is fully available online. However, there is no central, unified registry for secured interests over movable assets. Instead, movable assets are pledged by transferring possession to the creditor, which can be cumbersome. As a result, banks are reluctant to accept movable collateral as security, which in turn is a particular obstacle for small businesses, which may not have any fixed assets.

Both public and private credit information bureaus exist and provide information on the credit status of approximately 23% and 72% of active borrowers respectively. However, there are no legal provisions to ensure the accuracy of the information collected, or liability in case of inaccuracy. In addition, information can be shared without the consent of the data subject. Basel core principles have been implemented for the banking sector, including both Basel II and Basel III recommendations.

Sources of external finance for SMEs (bank financing, non-bank financing and venture capital)

On the supply side, banks in Turkey have expanded their product offering for SMEs on the back of government interest rate subsidies and credit guarantees. The Turkish Credit Guarantee Fund (KGF) is the main source of guarantees with an increase in volumes from TL 1.12 bln in 2011 to TL 1.39 bln in 2014. However, banks continue to heavily rely on (fixed assets as) collateral which the guarantee schemes would not be able to fully compensate as they only cover a fraction of SME lending. On the demand side, SMEs receive a greater share of total lending since the last SBA assessment in 2012. These figures suggest a return to pre-crisis levels, even though a more challenging environment over the last 1-2 years may have hampered further progress. Since only 50% of bank branches are situated outside of Turkey's three largest cities and 70% of the population lives outside these cities, many less developed and rural areas remain under-served. Given the short-term deposit base, loans often cover only the short to medium-term. Access to long-term finance remains challenging for small businesses.

Non-bank financing options provide a viable alternative to bank lending, with leasing and factoring services being supported by specific legal frameworks. Leasing operations are relatively well-developed, representing the second most important source of financing after bank loans. Leasing is particularly important for SMEs, which make up 40% of leasing clients. Unlike many countries in Central and Eastern Europe, the Turkish leasing sector focuses on equipment leasing rather than vehicle leasing. With 31 leasing companies operating in the market, many of which are owned by banks, competition is relatively high. Factoring services exist and are an important financing source for SMEs, but costs are significantly higher than traditional lending rates. Private equity is offered, but is mainly available to larger companies and overall activity remains below the potential suggested by the size of the market. Microfinance in Turkey is at an early stage, not least due to an inadequate legal framework.

Turkey has a number of public programmes to support innovative companies and start-ups. Since the last SBA assessment, the government has carried out a review of the regulatory framework affecting venture capital. In addition, crowdfunding is emerging as a financing option with the government considering the introduction of appropriate legislation. Turkey also has several business angel networks, as well as a business angel association (TBAA) which promotes activities to potential investors. In addition, the government provides financial incentives for business angel activities by making contributions from business angels 75% tax deductible. Other support for start-ups includes public and private incubator programmes, such as Technology Development Centres, the Scientific and Technological Research Council of Turkey's (TÜBİTAK) start-up programme, start-up programmes by banks such as TEB or Garanti and the Bogazici University Business Angels, and financial support programmes by KOSGEB.

Financial literacy

Turkey offers some programmes to improve financial literacy, such as the public training provided through KOSGEB's financial literacy programme. The government has also launched a public information campaign to improve public understanding of financial products and has put in place a website explaining different products and their cost. However, financial literacy is not covered in the general secondary school curriculum, only in vocational high schools. Broader education could help improve business planning and reporting skills for SMEs which in turn helps them present more bankable projects..

Promoting skills and entrepreneurship development (Dimensions 1 and 8a)

Lifelong entrepreneurial learning

The Entrepreneurship Strategy and Action Plan of Turkey, agreed by the Entrepreneurship Council, provides important leverage for the development of lifelong entrepreneurial learning. The Council comprises 8 ministries (including the Ministry of National Education and the Higher Education Council) and 32 support organisations. The main challenge is to ensure that entrepreneurship is addressed across the learning system as a key competence. An Entrepreneurship Development Protocol signed between the education and science, industry and technology ministries and the Scientific and Technological Research Council provides the opportunity to move forward, with teacher training an important area for development.

Entrepreneurship in vocational education and training (VET) in Turkey is the most developed in the EU pre-accession region. The VET Strategy 2014-2018 features elements of the entrepreneurship key competence, such as creativity, as well as more developed start-up skills. This chimes well with the Riga recommendations for key competence promotion in VET (European Union, 2015). Vocational internships within enterprises could be extended beyond occupation-specific skills to include business skills such as business planning or finance.

Turkey has made progress since 2012 in entrepreneurial learning in higher education. An agreement between KOSGEB and the Council of Higher Education (YÖK) underpins university-business co-operation and a dedicated platform (USIMP) on university-business co-operation demonstrates good practice. Entrepreneurship in higher education, however, remains primarily confined to business schools and technical faculties. TÜBİTAK's Innovation and Entrepreneurship Programme and the SANTEZ provide important opportunities for technical faculties and universities to develop student entrepreneurship potential. An equivalent support scheme for the wider higher education sector could be considered. Know-how developed through KOSGEB and YÖK university start-up training could be harnessed for the wider higher education network. TÜBİTAK's Entrepreneurial and Innovative Universities Index is an excellent example of how universities benchmark performance on entrepreneurship promotion.

Turkey requires a more co-ordinated approach to sharing good practice in entrepreneurial learning at all education levels. This is important to support policy makers in determining what works well, and at what cost.

Women's entrepreneurship

Policy support for women's entrepreneurship is well developed although policy monitoring and evaluation could be improved. A stakeholder forum established by KOSGEB advises on women's entrepreneurship while a series of roundtables involving government and other stakeholders dedicated to women's entrepreneurship policy demonstrates good practice (SEECEL, 2013). As with wider data issues (see below), statistics on women's entrepreneurship held by key organisations (e.g. KOSGEB, TOBB, İŞKUR, KAGİDER) could be brought together to maximise the value of the intelligence available.

Training for women entrepreneurs spans a range of public and private/non-profit organisations. Some 45% of all KOSGEB SME training is taken by women. Sharing of good practice is well developed through events like conference and fairs. A dedicated good-practice platform would facilitate access by policy makers and training providers to the know-how available.

SME skills

A primary factor in building a high-skills economy is sound intelligence that allows for improved policy making and more effective targeting of resources. The current assessment highlights a number of excellent sources of intelligence about SME skills. These include national agencies (e.g. KOSGEB, TÜBİTAK) and regional development organisations. Data available from business interest groups (such as the Turkish Enterprise and Business Confederation) and specialist organisations such as the Turkish Exporters Assembly (TIM) and TAIDER also provides valuable intelligence. An İŞKUR initiative on training intelligence for female-owned businesses will provide an important gender-specific dimension to data developments. The next step will be to co-ordinate the available data for policy-making purposes. Sector-support organisations should ensure that quality assurance mechanisms for training are continuously reviewed and upgraded.

Start-up training is well developed. Legislation on the development of technology zones is an important factor in supporting tech start-ups, with TÜBİTAK particularly supporting innovation training for SMEs. Its online training and mentoring is an excellent example of blended learning services for SMEs. Further, KOSGEB's SME Campus provides online training modules in areas such as marketing, sales and innovation techniques.

The banking sector also supports SME e-training. The TEB SME Academy trains SMEs in areas such as sales and foreign trade. TEB's training includes modules for businesses with growth potential (e.g. strategic management and marketing). Other excellent initiatives include Özyeğin University's Centre for Entrepreneurship which collaborates with the Kauffman Foundation's Growth Venture Programme to provide training for growing businesses.

Turkey performs well on training for SME internationalisation. KOSGEB and TURQUALITY are important training providers for SMEs in the context of their mandates to support SMEs with an interest in working internationally. Sector-specific export training is provided by the TIM in 13 sectors. If a co-ordinated tracking system on SME training could be established, it would assure the data needed to satisfy the demands of the upper reaches of the SME growth and SME internationalisation indicators.

Enhancing SME competitiveness (Dimensions 5a, 5b, 8b and 9)

Business information and services

Business development support services are covered in the SME Strategy and Action Plan, 2015-2018 as well as in the draft Entrepreneurship Strategy and Action Plan 2015-2018. The SME strategy includes a plan of activities, timeline, targets and expected impact. The government has partially conducted market research and analysis to assess the demand and supply of investment-readiness services for SMEs. Funds have been mobilised through the government budget, which also provides investment readiness services and organises business competitions. Turkey remains the most advanced economy in the region for the variety and scope of the investment-readiness services offered to SMEs. These include initiatives to increase SME investment willingness (KOSGEB), SME investability (KOSGEB), presentation and networking services (TÜBİTAK) and legal support (KOSGEB and TÜBİTAK). Turkey has 15 operational and active business development centres and 29 technology development centres. Furthermore, KOSGEB, TÜBİTAK and MoSIT provide tailored assistance measures to start-ups. Information about starting and operating a business along with all relevant links are available online through the SME portal and the YOIKK's portal. Given the large number of actors and programmes, efficiency of co-ordination, quality and complementarity will need to be assured in the future.

Public procurement

The Turkish legislation allows tenders to be cut into lots, although the legislation does not require that tenders above a certain value have to be cut into lots. Contracting authorities may allow companies to bid jointly and SMEs take advantage of this opportunity. Information on public procurement opportunities is openly available, centralised and free of charge and SMEs are offered a helpdesk and training on the public procurement process. Information collected from companies is stored in a database for future tender procedures.

Turkey has made some progress in this dimension by extending e-procurement and publishing all tender notices and some other documents electronically. The Public Procurement Authority and KOSGEB signed a protocol in 2013 to increase the share of SMEs participating in public procurement through effective interaction between the two organisations' information systems.

Nevertheless, some challenges remain. The Public Procurement Authority is in charge of advisory and review functions, which creates a potential conflict of interest. There is no law to regulate late payments to contractors. A price preference of up to 15% may be granted to domestic tenderers and in February 2014 a new law made this previously optional preference compulsory for "medium and high-technology industrial products". The legislation contains the possibility of civilian commercial offsets for high-technology products, research and development (R&D) and certain other sectors, whereby compensatory deals are required from foreign suppliers when procuring from abroad. The public procurement thresholds (above which procurement procedures cannot be closed to foreign economic operators) are twice that of the EU.

Innovation policy

The Innovation Index of the Innovation Scoreboard suggests that Turkey has improved overall since 2006 (European Commission, 2015). Turkey's gross expenditure on research and development (GERD) has been constantly growing since 2005, and in 2014 it reached 1.01% of GDP. GERD has been predominately concentrated in a few medium to high-technology manufacturing industries and knowledge sectors, and could be improved in terms of business R&D. According to the 2015 Innovation Scoreboard, 24.0% of SMEs in Turkey have introduced a product or process innovation each year, lower than the average of 30.6% among EU-28. However, 43.2% of Turkish SMEs introduced marketing or organisational innovations, compared to 36.2% in the EU-28 (European Commission, 2015).

Since the 2012 SME Policy Index, Turkey has made considerable progress in the implementation of its innovation strategy and is a top performer in the region. The National

Science, Technology and Innovation Strategy (2011-2016) was adopted in 2010 and aims to strengthen national R&D and innovation capacities. Its predominant goal is to upgrade the industrial structure towards high-technology industries and enhance Turkey's research capacity. The strategy devoted particular attention to SME innovation. The Turkish Industrial Strategy Document and Action Plan (2015-2018) and several sector-centred plans reinforce this targeted approach and emphasise the priority of the business sector. Its implementation is monitored through biannual reports. On 18 June 2015, the High Planning Board adopted two new strategic plans, which foster links with SMEs through the formation of working groups: the Public Sector-University-Industry Collaboration Strategy and the Biotechnology Strategy. The Public Sector-University-Industry Collaboration Action Plan (2015-2018) foresees actions linking academia with innovative SMEs. Moreover, a new strategic plan on nanotechnology and the software sector is currently under preparation.

The Ministry of Science, Industry and Technology (MoSIT) is the main body responsible for the development of innovation policies. Co-ordination of the policy-making process is supported by TÜBİTAK. Policy consultations with stakeholders take place at the Supreme Council of Science and Technology, chaired by the Prime Minister. TÜBİTAK is mainly responsible for the implementation of innovation policies and strategies, which also include SME innovation policies. Other relevant implementation agencies for SME innovation are KOSGEB, the Technology Development Foundation of Turkey, the Turkish Patent Institute and the Chambers of Commerce and Industry. All organisations are operational and well-staffed.

The government provides support services linking universities and research centres with innovative SMEs. Examples include MoSIT's Industrial Thesis (SAN-TEZ) Projects Support Programme and TÜBİTAK's University-Industry Collaboration Support Programme. Institutional support services, such as incubators, science and technology parks, technology transfer offices (TTOs) and technology development zones (TDZs) are either emphasised in the National Innovation Strategy or defined by relevant laws. There are plans for 63 TDZs, and at least 49 of them became operational in 2015. TDZs host thousands of innovative SMEs, and since 2011 have been legally obliged to provide technology transfer and incubation services, with 35 TTOs established under TDZs so far. Numerous incubators were established at provincial and regional levels and a thematic technology park is being launched in Istanbul with the aim of initiating efforts to support innovate technologies for the finance sector. TÜBİTAK, MoSIT, KOSGEB, and regional development agencies (RDAs) provide support and grant schemes to finance TTOs (TÜBİTAK), technology parks (MoSIT), and incubators (KOSGEB, MoSIT and TÜBİTAK). The government mobilises substantial budgets to achieve this aim. In 2013 TÜBİTAK provided grants amounting to TRY 17.8 million (EUR 6.35 million) to 20 TTOs through its Support Programme for Technology Transfer Offices. Following a recent cabinet decision of 2014, private R&D centres can benefit from the tax incentives available. TÜBİTAK has launched a Technology Transfer Support Programme to help academic institutions commercialise their research The Technology Transfer Accelerator initiative consists of several funds, for example for the commercialisation of investment opportunities coming from universities or research centres. It also has an Advisory Service and Networking Component, which includes the TTOs.

The National Innovation Strategy clearly underlines the important role of SMEs within the national innovation system. The strategy suggests a number of incentives, such as corporate tax exemptions and income tax exemptions for personnel working in SMEs established at the TDZs until the end of 2023. Furthermore, KOSGEB and TÜBİTAK implemented specific funding programmes for SMEs' R&D and innovation activities. Funding programmes implemented include the R&D, Innovation and Industrial Application

Support Programme and the R&D Start-up Funding Programme for SMEs. Turkish SMEs can also benefit from the funding provided under TÜBİTAK's Industrial R&D Projects Grant Programme and MoSIT's R&D and Innovation Finance Programmes. The European Investment Fund (EIF) and KOSGEB have also established a new fund to stimulate growth and innovation in Turkey based on the iVCi initiative which is operating since 2007. It has a target size of EUR 250 million, and seeks to facilitate access to finance to innovative companies, including SMEs. Finally, substantial financial instruments and schemes were put in place to support innovative SMEs directly, for example through dedicated incentive programmes.

Green economy

Turkey has made efforts to incorporate policies to promote green growth into its national policy frameworks. One of the three strategic objectives of the New Industrial Strategy (2015-2018) is to achieve a green and competitive industrial structure with resource efficiency. The SME Strategy and Action Plan 2011-2013 defined environmental policies for SMEs by assessing their environmental impact. The National Climate Change Action plan serves as Turkey's general strategy to promote environmental friendly development policy, and includes provisions on increasing energy efficiency among SMEs. KOSGEB provides information, through printed guides and through their website, on environmental issues and tools for SMEs. Turkey offers financial incentives, such reduced costs of environmental certifications and loans, to help SMEs access finance for environmental investments.

Supporting SME internationalisation (Dimensions 10 and 7)

Trade performance and regulatory barriers to trade

Turkey's total trade in goods and services of Turkey amounted to USD 474.9 billion in 2013, a 33% increase over the same period in 2010. The trade deficit amounted to 9% of GDP in 2013, a slight increased since 2010, when it was 8% (ITC, 2014). SMEs were responsible for 96.8% of exports in 2013, up from 95.3% in 2010. The average value of export per enterprise was EUR 1.176 million in 2013, which is slightly more than in 2010 (EUR 1.118 million). The World Bank *Doing Business* indicators for export and import show that Turkey made a significant reduction in the costs of importing and exporting (World Bank, 2014). It is now below the OECD average although the time and number of documents needed remains higher (Table 17.3).

Table 17.3. **Turkey: Trading across borders (2015)**

	Turkey	OECD average
Documents to export (number)	7	4
Time to export (days)	13	10.5
Cost to export (USD per container)	990	1 080
Documents to import (number)	8	4
Time to import (days)	14	9.6
Cost to import (USD per container)	1 235	1 100

Source: World Bank (2014), *World Bank Doing Business Report 2015.*

Export promotion and global value chains

Government export promotion programmes targeting SMEs are in place and implemented by the the Ministry of Economy, TIM, KOSGEB and Turk Eximbank. The Ministry of Economy is the main government body responsible for export promotion, and itself and TIM are fully staffed and funded. The new SME Strategy and Action Plan (2015-2018) identified targets for exports by SMEs but the main export strategy document is the Turkey's 2023 Export Strategy and Sectoral Breakdown which was prepared by the TIM and published in the Official Gazette.

Turkey's export promotion activities are financed through the government budget. In 2015 it dedicated EUR 6 million to supporting the export promotion activities and business trips abroad of a large number of SMEs. KOSGEB supports SMEs' international business trips and promotional activities under its General Support Programme, with an upper limit of EUR 3 500 per sub-programme. The Ministry of Economy has a variety of support programmes to stimulate exports, classified under three categories: preparation (enhancing the capacity of SMEs for better export performances), marketing and branding. Another significant tool to support the internationalisation of SMEs is the Project on Supporting the Development of International Competitiveness (UR-GE Projects) implemented by the Ministry of Economy with a clustering and sectoral approach. In particular, UR-GE Projects are conducting needs analyses, providing training and consultancy services, and organising foreign marketing and procurement activities, thereby fostering the international competitiveness of Turkish companies in international markets.

Overall, export promotion programmes provide a range of services to SMEs: trade policy information and commercial intelligence, country representation at major trade fairs, export promotion and marketing, market research and access, product development and training, and the branding of Turkish products abroad.

An advanced financial support programme is in place for the export promotion activities among SMEs (i.e. obtaining product certificates, publishing promotional materials, participating in trade fairs, and export credit and export insurance). Turk Eximbank (a fully state-owned export credit agency) provides two credit lines under its Short-Term Export Credits segment: Pre-Export Credit Programme for SMEs and Pre-Shipment Export Credits for SMEs, with lower interest rates. A formal structure for financial support is in place, with clear guidelines on how to qualify for financial support as well as a transparent selection process. Moreover, a list of beneficiaries of the financial support is publicly available. The Ministry of Economy publishes an annual report that includes export promotion activities. Its 2015 Performance Programme Document includes the number of companies supported per year under export promotion programmes, but the financial support provided for export promotion is not fully monitored.

There are some government programmes in place to support SME integration into global value chains (GVCs). The Ministry of Economy has an International Competitiveness Enhancement Programme that provides export mobilisation based on project management and a clustering approach. The overall objective of the programme is to support SME integration into GVCs. The SME Strategy mentions the need to integrate SMEs into GVCs but defines no specific actions for this purpose. The Investment Support and Promotion Agency of Turkey is planning to start a study on GVCs. The Regulation on Industrial Collaboration Programme, issued on 15 February 2015, is also expected to contribute to the integration of SMEs in GVCs in high-tech sectors under public procurement projects. Finally, Turkish SMEs are encouraged to integrate into GVCs through European Business Network and COSME projects.

Standards and technical regulation

Turkey's risk-based electronic import control system, TAREKS, grants free circulation to goods coming from the EU unless a specific risk profile is attributed to them. Technical barriers to trade continue to exist in areas such as textiles, second-hand goods and alcoholic beverages, and, in some areas, additional testing and conformity assessment requirements are applied at the border. The adoption of a new Consumer Product Safety Regulation to achieve full alignment with the General Product Safety Directive is still pending. In the area of standardisation Turkey's overall rate of harmonisation with European standards is 97%. On conformity assessment, there are currently 36 notified bodies and 1 technical approval body. A three-year national metrology strategy and action plan was adopted in 2015 and a market surveillance strategy was adopted setting out strategic objectives for 2015-2017. Turkey has aligned much of its legislation to the EU *acquis* in the areas of "Old Approach" and "New and Global Approach" product legislation, and it continues to align. However legislation on chemicals aiming at alignment with regulation concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) still needs to be adopted.

The way forward

The 2016 SBA assessment shows that Turkey already has a high level of policy convergence with the principles of the SBA. Since Turkey only participated in the SBA assessment for the first time in 2012, this round provides the first comparison over time. Essentially, Turkey shows some slight improvements compared to 2012 across some policy dimensions, but progress has been incremental. Turkey remains strong in the areas where it was already strong in 2012, such as the institutional framework for SMEs, the adoption of technical standards and internationalisation. On the other hand, its operational environment remains relatively weak in the areas of company registration processes, legislative simplification and the introduction of RIA, and the expansion of e-government services.

Strengthening the institutional, regulatory and operational environment

Strengthening the operational environment for SMEs by addressing shortcomings in the regulatory framework will be crucial to reducing the compliance costs for SMEs. This includes the creation of formal frameworks and structures for legislative simplification. Clear rules and guidelines for the use of RIA should be established, accompanied by an enhanced focus on regulatory simplification for small businesses. Further, Turkey should continue to streamline its company registration procedures and to make them less costly. The MERSIS project has proved successful and should lead to the abolition of multiple identification numbers in dealing with public administration.

Turkey has established a well-advanced institutional framework for SME policy design and implementation. Going forward, it should place more emphasis on establishing a monitoring and evaluation system for SME policies that goes beyond tracking the status of policy implementation and looks at the effects of the policies on the business population. KOSGEB could carry out a pilot evaluation in the form of a systematic and objective assessment of an ongoing or completed SME policy programme or policy, having the institutional capacities at its disposal.

Turkey has a well-developed insolvency law, with clearly defined provisions for distressed companies but the implementation of the law could be more effective, as the formal procedures are relatively time-consuming and costly. Continued efforts to reduce these costs are being undertaken and should result in positive effects. Furthermore, the government should continue preparing a strategy to promote second chances among entrepreneurs.

Facilitating SME access to finance

Access to finance for SMEs in Turkey has improved since the last SBA assessment but some important steps should be considered for the future. While Turkey has a well-functioning cadastre of land and real estate in place, it has not yet established a central unified registry to secure interests over movable assets. In order to improve banks' reluctance to accept movable assets, it should consider such a registry, which should be made available online in order to improve its reliability and ease of use. Improved skills in financial management and business planning could help small firms present more bankable projects and incentivise banks to move from heavy reliance on collateral to more cash-flow based lending decisions. In addition, access to long-term funding remains challenging for SMEs and should be strengthened. Finally, supporting the sustainable development of crowdfunding activities could provide a valuable alternative funding source for small businesses.

Developing Entrepreneurial Learning, women's entrepreneurship and SME skills

Turkey's efforts to promote lifelong entrepreneurial learning have been reinforced by the approval of a National Entrepreneurship Strategy and Action Plan (2015-2018) by the Entrepreneurship Council. This gives particular attention to promoting entrepreneurship across the learning system. The National Education Ministry's role in the Entrepreneurship Council and its co-operation with other partners in the business ecosystem will be important in building an entrepreneurial economy. The recognition of entrepreneurship as a key competence by the National Education Ministry should be supported through further curriculum reforms and teacher training.

A joined-up support package for young, innovative, high-potential entrepreneurs could be considered. This would involve start-up training and early-phase support in key sectors (such as digital or energy) involving mentoring, backed up with more diverse financing options (such as grants, guarantees, crowdfunding or business angels) to meet the specific circumstances and constraints faced by young people who are considered risky in terms of lending. Given the range of information sources available on SME skills, more policy capital could be generated by bringing together all the intelligence, allowing for a comprehensive picture. This would support the development of human capital in the SME environment as well as decision making on resource allocation to support training. Start-up training for women and backed up by more developed finance lines to support women entrepreneurs.

Enhancing SME competitiveness

Turkey achieved some progress on the public procurement dimension as e-procurement has been extended and all tender notices and certain other documents are published electronically. There is however no law in place to regulate late payments to contractors. Public procurement thresholds (above which procurement procedures cannot be closed to foreign economic operators) are twice that of the EU and should thus be reduced.

Investment readiness programmes are monitored and there are selected formal mechanisms to provide feedback on them but there is no independent evaluation of the government-provided SME support services. The provision of support services provision entails numerous actors and programmes. Future efforts should concentrate on enhancing monitoring and evaluation and co-ordinating between agencies in order to ensure the complementarity and quality of the services available.

When it comes to innovation, Turkey is a top performing economy in the region. Since the 2012 SBA Assessment, Turkey has made considerable progress in the implementation of its innovation strategy by strengthening links with SMEs in different sectors and establishing various institutional and financial support measures. Moving forward, Turkey could consider adjusting its industrial strategy and action plan and putting further emphasis on business R&D. It would be beneficial to improve the co-ordination and integration of its instruments into a comprehensive framework of measures for innovative SMEs. Finally, it should enhance the involvement of private sector in innovation, and provide further incentives to promote the establishment of a venture-capital market.

Turkey has a relatively well-developed policy framework to promote environmental policies in the general economy, with some specific provisions for SME environmental policies. It has put financial incentives in place to help the greening of SMEs although efforts could be made to also introduce regulatory incentives for greening. At this stage, Turkey could benefit by implementing more effective government and independent review mechanisms to monitor the effectiveness of its environmentally related policies.

Supporting SME internationalisation

Government export promotion programmes targeting SMEs are in place and implemented by the DG Exports of the Ministry of Economy, TIM, KOSGEB and Turk Eximbank. Given the wide range of export promotion activities, improved monitoring mechanisms would strengthen Turkey's financial support programmes for export promotion. An impact assessment of the activities of the export promotion agencies would be beneficial to measure the effect of their work on the ground. The government could develop specific actions to support the integration of SMEs into global value chains, since there are none in place at the moment. The European Business Network and COSME projects might be particularly suitable to enable SMEs to integrate into GVCs. Turkey should also make efforts to facilitate exporting and importing by reducing the number of documents required and shortening the time needed to comply with all procedures. The Enterprise Europe Network (EEN) in Turkey provides a key instrument to foster SME internationalisation by providing a platform for SMEs to seize business opportunities in the EU Single Market and beyond.

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Annex A

Methodology for the Small Business Act assessment: Technical annex

The SME Policy Index 2016 uses two separate scoring methodologies depending on the dimensions being assessed: one for the human capital dimensions (Dimensions 1 and 8a), and the other for all other dimensions. Both are described below.

Scoring methodology for Dimensions 1 and 8a

While the methodology for the 2016 assessment has been altered since the 2012 assessment (see Box A.1), the human capital dimensions (Dimensions 1 and 8a) are assessed using a different methodology.

The indicators used to asses Entrepreneurial learning (Dimension 1) and Enterprise skills (Dimension 8a) follow the model employed in earlier assessments i.e. a five-step incremental policy model. This involved the use of a framework of 22 qualitative indicators to give a score based on the level of policy development in a certain policy area, where level 1 is the weakest policy framework and level 5 the strongest (Box 0.1). The five-step structure of each indicator provides economies with a ladder of policy steps to build policies and delivery arrangements for lifelong entrepreneurial learning and enterprise skills.

The levels are assigned to each indicator through a participatory and analytical process, conducted through: 1) self-assessments by national SBA human capital experts; 2) dedicated multi-stakeholder focus groups in each economy led by ETF and SEECEL to peer-review evidence; 3) cross-economy peer reviews between national expert teams; and 4) follow-up bilateral exchanges. The approach is described in greater detail in *Building Capacities: Entrepreneurial Learning and SME Skills* (SEECEL, 2016).

The assessment of Women's Entrepreneurship (a sub-dimension within Dimension 1) applied a pilot methodological approach that follows the new approaches in the 2016 assessment for the other SBA dimensions (as described below).

Overall, the aggregated levels for each dimension are calculated by allocating weights to each indicator according to its relative importance. Core indicators are given a weight of 3; secondary indicators are weighted 2 or 1.

Scoring methodology for the other dimensions

For all other dimensions, the indicators and assessment grids used in 2012 (see OECD, 2012) have been replaced by detailed questionnaires comprising approximately 450 questions, filled out by national governments and independent experts. These questionnaires allow more precise information to be obtained and cross-checked, in particular on the actual implementation of policies and measures. The questionnaires have been carefully designed to ensure comparability with the 2012 indicators and assessment grids.

Box A.1. What's new in the 2016 methodology?

In 2014, following consultation with the SBA co-ordinators in the Western Balkans and Turkey, the partner organisations agreed to introduce certain improvements to the 2016 SME Policy Index. The objective of these changes was twofold:

1. To better capture the intensity, quality and effect of policies and reforms. To this end, detailed policy assessment questionnaires have been developed with detailed questions to assess performance throughout the entire policy cycle, from policy design to actual implementation and monitoring and evaluation.
2. To complement the information used for the scores with other sources of data that better capture the context and "broader picture" of SME development policies in the Western Balkans and Turkey, such as national statistics and firm-level survey data.

The modifications introduced in 2014 have preserved the fundamental features of the SME Policy Index and the core elements of the original methodology, including the multi-dimensional approach based on the ten SBA principles, the intra-regional benchmarking focus, the participative assessment method, and the five-level scoring framework, so as to ensure comparability over time.

Although, like the 2012 assessment, the questionnaires have been structured by dimensions and sub-dimensions, the sub-dimensions have now been divided into thematic blocks, each with their own set of questions (Table A.1). These thematic blocks are typically broken down into the three components or stages of the policy process (design, implementation, monitoring and evaluation), with some deviations in certain dimensions. This approach is aimed at allowing governments to identify and target specific weaknesses within their policy processes, and to increase the emphasis on implementation and monitoring and evaluation of policies.

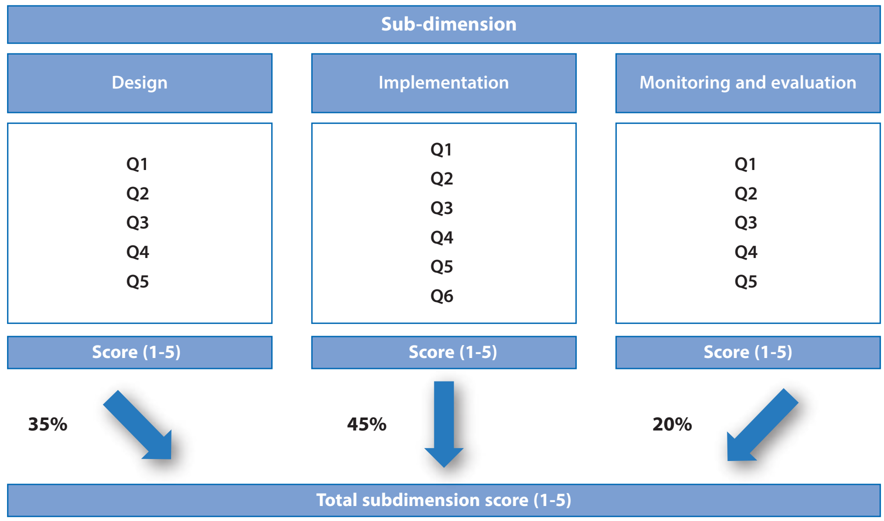
Table A.1. **Example of thematic blocks for the Institutional framework sub-dimension**

Design	Implementation	Monitoring & evaluation
Is there a multi-year SME strategy in place?	Has budget been mobilised for the action plan?	Are there any monitoring mechanisms in place for the implementation of the strategy?

Each questionnaire contains two types of questions: 1) core questions to determine the assessment score; and 2) open questions to acquire further descriptive evidence.[1] Each of the core questions (Q1, Q2, Q3, etc.) is scored equally within the thematic block. For binary questions, a "Yes" response is awarded full points and a "No" response 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 core questions are scored individually and then added to provide a score for each thematic component. Scores are initially derived as percentages (0-100) and then converted into the 1-5 scale (Figure A.1). Scores for the thematic blocks are then aggregated to attain a score for the sub-dimension, with each component being weighted based on expert consultation. In general terms, a 35-45-20% split has been used to emphasise the importance of policy implementation. The sub-dimensions are then aggregated using expert-determined weightings based on the relative significance of each policy area to reach an overall 1-5 level per dimension (see below).

Figure A.1. **Questionnaire scoring**



Changes to the SBA assessment dimensions since the 2012 SBA assessment

Since 2012, several dimensions in the assessment have been revised in order to assess a broader range of SME policies (e.g. integration of SMEs into global value chains) and address potential gaps in measurement (e.g. performance of bank financing in terms of actual levels of financial inclusion) as well as to undertake a minor reorganisation and streamlining of sub-dimensions. The weightings of the sub-dimensions have been adjusted to allow for these additions whilst maintaining as much comparability with the 2012 assessment as possible.

The SBA Assessment 2016 further included the monitoring of the Technical Assistance (TA) pillar of the Western Balkan Enterprise Development and Innovation Facility (EDIF). This pillar aims to enhance the regulatory environment for both innovative high-potential SMEs (IHPSMEs) and investors through the implementation of a set of specific policy reforms. Four regional policy priorities (the EDIF TA Pillar's reform priorities) were identified:

1. increase the investment readiness of entrepreneurs
2. improve the regulatory framework for venture capital schemes and provide support for business angels
3. dedicate sufficient funds to the implementation of innovation related policies and programmes and/ or implement policies to increase the capacity and readiness for innovation in companies
4. improve business licensing systems.

The beneficiary economies (Albania, Croatia, Kosovo, the Former Yugoslav Republic of Macedonia, Montenegro and Serbia) formally committed to the EDIF TA Pillar's reform priorities at the EDIF launch event on 5 December 2012 in Paris, thereby agreeing to implement these policy measures, with some support of the EDIF technical assistance funds.

The monitoring has been integrated in the regional Small Business Act for Europe assessment. For each EDIF TA priority, a dimension or sub-dimension has been created. An overview of the changes to the dimensions is provided in Table A.2 (for more details see the thematic chapters in Part I of this report).

Table A.2. **Overview of changes to SBA assessment dimensions**

Dimension	Changes introduced since the 2012 assessment
Entrepreneurial learning and women's entrepreneurship (Dimension 1)	Eight new indicators have been added under the entrepreneurial learning sub-dimension. The indicators reinforce 1) the policy environment, in particular through interfacing entrepreneurial learning policy with a country's wider entrepreneurship policy drive; and 2) policy implementation, with more specific attention given to entrepreneurship promotion in vocational and tertiary education. For the women's entrepreneurship sub-dimension, the questionnaire methodology was used in line with the three thematic blocks.
Bankruptcy and second chance for SMEs (Dimension 2)	All questions relating to laws and procedures have been grouped under the first sub-dimension (Laws and procedures), leaving only discharge procedures and targeted government programmes to promote second chances under the Promoting second chance sub-dimension.
Operational environment for SMEs (Dimension 4)	A third sub-dimension on business licensing has been added in order to monitor the EDIF TA priority on business licensing
Support services for SMEs and start-ups (Dimension 5a)	This dimension has been streamlined into two sub-dimensions covering the public provision of SME support infrastructure and services and measures to stimulate private sector provision of business support services to SMEs. Previously, the dimension was broken down into various sub-dimensions based on the type of support instrument and the promotion of private markets was not explicitly considered. The restructured dimension provides for the monitoring of the EDIF TA pillar on investment readiness.
Public procurement (Dimension 5b)	The public procurement dimension was kept as a single dimension with the same indicators as in the previous assessment. However, the dimension was restructured in line with the thematic blocks (regulatory framework, implementation and monitoring and evaluation).
Access to finance for SMEs (Dimension 6)	The dimension has been expanded with the addition of sub-dimensions on bank financing and financial literacy. BEEPS results, macro statistics (e.g. credit registry coverage, leasing penetration rate and factoring penetration rate), and indicators from international benchmarks (e.g. the World Bank *Doing Business* report), have been integrated to better capture policy outputs and outcomes. Several questions on venture capital ecosystem have been added to monitor this EDIF TA priority. The extent of the changes means the scores are not directly comparable with the 2012 scores for this dimension.
Standards and technical regulations (Dimension 7)	The dimension on standards and technical regulations was kept as a single dimension with the same indicators as in the previous assessment. However, the dimension was restructured in line with the thematic blocks (regulatory framework, implementation and monitoring and evaluation).
Enterprise skills (Dimension 8a)	Two new indicators have replaced the Access to training indicator: E-training for SMEs and Training for internationalisation of enterprises.
Innovation policy for SMEs (Dimension 8b)	The dimension has been restructured from two sub-dimensions to three by dividing Support services for innovation into financial and non-financial support and incorporating the EDIF TA pillar monitoring.
SMEs in a green economy (Dimension 9)	The dimension has been substantially revised based on the *OECD Greening Toolkit for Eastern Partnership Countries*. Two sub-dimensions have been created, measuring the strategic framework and existing tools to promote SME greening. The 2012 scores for Dimension 9 have been recalculated based on the updated methodology to allow for direct comparison between 2016 and 2012 scores.
Internationalisation of SMEs (Dimension 10)	The existing export promotion sub-dimension has been expanded to assess the role and performance of the export promotion agency/body in the implementation of SME internationalisation strategies. Two more sub-dimensions have been introduced: one measures the integration of SMEs into global value chains and the other looks at trading performance by using World Bank data.

Supplementary data

The 2016 SME Policy Index has also tried to supplement the formal assessment framework described above with additional data and statistics. With a few exceptions (e.g. for Dimensions 6 and 10), this additional data has not been incorporated into the scores. Instead this information is used to support the policy narrative with additional details on policy outcomes and SME perceptions. Two types of additional data have been collected:

1. Structural business statistics and business demography data (on enterprise birth, death and survival rates) were requested from the seven national statistics offices, along with statistics on policy outputs related to the SBA policy dimensions based on the EU SBA fact sheets, which benchmark EU countries based on the principles of the SBA. Data gathering is improving in the Western Balkans and Turkey, with structural business statistics broken down by size class being to some extent available in all economies. Gaps remain however in data collection and harmonisation and limit the regional comparison of statistics to certain statistics and certain economies. Individual overviews of the structural and business demography statistics available are included in the country profiles (see Part II). In addition, this effort was useful as a mapping exercise to highlight statistical data gaps across WBT economies as a significant constraint on policy making (see Part I, Chapter 3).
2. The Business Environment and Enterprise Performance Survey (BEEPS) conducted by the EBRD and the World Bank (Box A.2) has been used to feed into the narrative assessment of countries and dimensions. The BEEPS results have also been integrated into Dimension 6 scores (see above and Part I, Chapter 6) and analysed in the relevant thematic chapters (e.g. access to finance for SMEs, enterprise skills and innovation, SME internationalisation) to provide insights into the potential impact of policy measures on firms. Finally, BEEPS results (including perceptions regarding constraints to business in each WBT economy) have also been analysed in the profiles included in Part II of this report.

In addition, the economy profiles (Chapters 11 to 16) now include a more in-depth analysis of the key challenges facing the SME sector, as well as more detailed recommendations to help the Western Balkans and Turkey monitor reforms. The Way forward section of the profiles now includes detailed reform recommendations.

Box A.2. **BEEPS**

The Business Environment and Enterprise Performance Survey (BEEPS) is a joint initiative of the European Bank for Reconstruction and Development (EBRD) and the World Bank Group (the World Bank). It is a firm-level survey based on face-to-face interviews with managers. The survey was first undertaken on behalf of the EBRD and the World Bank in 1999-2000, when it was administered to approximately 4 100 enterprises in 25 countries in Eastern Europe and Central Asia (including Turkey) to assess the environment for private enterprise and business development. Since then, five rounds of the survey have been carried out.

The fifth round of BEEPS in 2011-14 (BEEPS V) covered almost 16 000 enterprises in 30 countries, including an Innovation Module covering product, process, organisational and marketing innovation, as well as management practices in manufacturing enterprises with at least 20 employees. All seven WBT economies were surveyed in 2013 (Table A.3).

Box A.2. **BEEPS** *(continued)*

Table A.3. **BEEPS V in the WBT economies**

Economy	Sample size	Sectorial breakdown
Albania	360 (274 small, 64 medium, 22 large)	Manufacturing (111), retail (117), other services (132)
Bosnia and Herzegovina	360 (210 small, 109 medium, 41 large)	Manufacturing (117), retail (115), other services (128)
Kosovo	202 (116 small, 73 medium, 13 large)	Manufacturing (71), retail (34), other services (92)
Former Yugoslav Republic of Macedonia	360 (246 small, 94 medium, 20 large)	Manufacturing (125), retail (98), other services (137)
Montenegro	150 (99 small, 35 medium, 16 large)	Manufacturing (50), retail (46), other services (54)
Serbia	360 (196 small, 112 medium, 52 large)	Manufacturing (118), retail (112), other services (130)
Turkey	1 344 (549 small, 484 medium, 311 large)	Manufacturing (1085), retail (120), other services (139)

Note: Firm size levels are based on 5-19 employees (small), 20-99 (medium), and 100+ (large).

Source: EBRD (2014), "BEEPS V 2012-2014", http://ebrd-beeps.com.

Note

1. Core questions include: 1) binary or yes-no questions (e.g. "Does a legal definition of SMEs exist in your country?"); and 2) multiple choice questions (e.g. "Does a multi-year SME strategy exist?" for which various responses are available (e.g. strategy is in the process of development, draft strategy exists but yet not approved by the government, strategy exists, has been approved by the government and is in the process of implementation, or there is no strategy in development). In either case, countries are requested to provide evidence (source and/or explanation) for the answers. Open questions (e.g. "What is the budget for the SME implementation agency?"; "How many people work in the agency?" or "How many ministries are represented in the governance board?") are used to provide further details on the responses to the core questions, but are not directly scored.

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Annex B

The Small Business Act assessment's scoring model for Bosnia and Herzegovina

The governance structure of Bosnia and Herzegovina

Bosnia and Herzegovina (BIH) consists of a state-level government and two territorial and administrative entities: the Federation of Bosnia and Herzegovina (FBIH) and the Republic of Srpska (RS), as well as Brčko District (BD). At entity level, both the Federation and the Republika Srpska have significant autonomy. 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 Prime Minister and 16 ministries. The Federation is furthermore divided into ten cantons, each with its own administrative government and relative autonomy on local issues such as education and health care.

The 2016 SBA Assessment of Bosnia and Herzegovina

Bosnia and Herzegovina submitted for the first time since the SBA Assessment started four assessment questionnaires, one for the state-level and individual ones for each entity and Brčko District. While information from all four questionnaires has been taken into account in the text narrative, the scoring has given no consideration to Brčko District for the sake of simplicity and transparency of the scoring system, given that Brčko District only represents approximately 1% of BIH.

SME policy in Bosnia Herzegovina is characterised by a high level of decentralisation compared with the other economies covered by the SBA assessment, with the two entities playing a leading role in many policy dimensions. Therefore, information from the two entities has been taken into account in the calculation of the country scores. However, even within a highly decentralised system the state should play a central role in as policy co-ordination and regulator. In addition, it is vital that local policy measures do not infringe the principle of a single domestic market and distort competition among enterprises based in different entities. Based on these considerations and availability of data, a scoring system with three models has been developed (Table B.1)

Table B.1. **Overview of the three scoring models**

Model 1	Model 2	Model 3
2/3 (state) 1/3 (entity)	1/3 (state) 1/3 (FBIH) 1/3 (RS)	State-level only

For most of the dimensions, a score has been derived by giving two-thirds of the weight to the state and one-third to the entities. This scoring recognises the importance of the state-level in these SBA dimensions, while also appreciating progress at the entity level. For three of the dimensions, namely Dimension 5a (Business support services), Dimension 8b (Innovation) and Dimension 10 (internationalisation), the second model was chosen, giving one-third of the weight to the state and two-thirds to the entities. These dimensions cover targeted policies which can be introduced at both the state and the local level. Lastly, Dimension 5b (Public procurement) and Dimension 7 (Technical standards) only take the state-level information into consideration. Table B.2 provides an overview of all the SBA dimensions.

Table B.2. **Application of the scoring models to the SBA dimensions**

SBA Dimension		Model
Dimension 2	Bankruptcy	Model 1
Dimension 3	Institutional framework	Model 1
Dimension 4	Business environment for SMEs	Model 1
Dimension 5a	Business support services	Model 2
Dimension 5b	Public procurement	Model 3
Dimension 6	Access to finance for SMEs	Model 1
Dimension 7	Technical standards and regulations	Model 3
Dimension 8b	Innovation policy for SMEs	Model 2
Dimension 9	Greening	Model 1
Dimension 10	Internationalisation of SMEs	Model 2

Annex C

Organisation profiles

Organisation for Economic Co-operation and Development (OECD), South East Europe (SEE) Regional Programme

Since 2000, the OECD South East Europe (SEE) Regional Programme has assisted the economies from the region with policy advice to improve their broader economic reform agenda and foster private sector development. Using the OECD methods of policy benchmarking and peer learning, the Programme brings together the partners from the SEE region to exchange good practices and to use OECD tools and instruments in a way that is tailored to the needs of the SEE economies and helps them move closer to internationally recognised standards.

The Programme is co-ordinated by the Division for South East Europe in the Global Relations Secretariat, which supports the Secretary-General in advancing the Organisation's global reach.

European Commission, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW)

The Directorate-General (DG) for Internal Market, Industry, Entrepreneurship and SMEs is the European Commission service responsible for:

- Completing the internal market for goods and services.
- Helping turn the EU into a smart, sustainable and inclusive economy by implementing the industrial and sectorial policies of the flagship Europe 2020 initiative
- Fostering entrepreneurship and growth by reducing the administrative burden on small businesses; facilitating access to funding for small and medium-sized enterprises (SMEs); and supporting access to global markets for EU companies. All of these actions are encapsulated in the Small Business Act.
- Generating policy on the protection and enforcement of industrial property rights, co-ordinating the EU position and negotiations in the international intellectual property rights (IPRs) system, and assisting innovators on how to use IPRs effectively.
- Delivering the EU's space policy via the two large-scale programmes Copernicus (European Earth observation satellite system) and Galileo (European global navigation satellite system), as well as research actions to spur technological innovation and economic growth.

European Bank for Reconstruction and Development

The European Bank for Reconstruction and Development (EBRD) is an international financial institution that supports projects in Central and Eastern Europe, Central Asia and, since September 2012, the Southern and Eastern Mediterranean. Investing primarily in private-sector clients whose needs cannot be fully met by the market, the bank fosters the transition towards open and democratic market economies. In all its operations the EBRD follows the highest standards of corporate governance and sustainable development. Owned by 64 countries and 2 intergovernmental institutions, the EBRD maintains a close political dialogue with governments, authorities and representatives of civil society to promote its goals.

European Training Foundation

The European Training Foundation (ETF) is a specialised EU agency that supports 30 partner countries to harness the potential of their human capital through the reform of education, training and labour market systems in the context of the EU's external relations policy. The ETF's vision is to make vocational education and training in the partner countries a driver for lifelong learning and sustainable development, with a special focus on competitiveness and social cohesion.

The ETF's added value comes from its neutral, non-commercial and unique established knowledge base – consisting of expertise in human capital development – and its links to employment. This includes expertise in adapting the approaches to human capital development in the EU to the partner countries' contexts, thereby supporting the development of home-grown solutions.

South East European Centre for Entrepreneurial Learning

The South East European Centre for Entrepreneurial Learning (SEECEL) has supported all economies in the region of South East Europe and Turkey since 2009 in building entrepreneurially literate societies, with a focus on entrepreneurial learning, SME skills and women's entrepreneurship. Through structured regional co-operation, SEECEL works directly with practitioners (including educational institutions, teachers, experts and business associations), with direct support from relevant ministries and agencies. SEECEL's inclusive working model has resulted in a unique combination of national ownership, regional co-operation and policy learning.

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